

HYDROGEN ENERGY INTERNATIONAL LIMITED

(Registered No.5972602)

ANNUAL REPORT AND CONSOLIDATED ACCOUNTS 2008

Board of Directors: J Briggs
P L Bryant
M Davies
L A Gillies
D W Jamieson
K Harper

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2008.

Results and dividends

The company profit for the year after taxation was £1,098,902 which, when added to the retained profit brought forward at 1 January 2008 of £130,436, gives a total retained profit carried forward at 31 December 2008 of £1,229,338.

The group profit for the year after taxation was £651,632 which, when added to the retained profit brought forward at 1 January 2008 of £30,076, gives a total retained profit carried forward at 31 December 2008 of £681,708.

The directors do not propose the payment of a final dividend.

Principal activity and review of the business

The company and group are engaged in developing hydrogen-fuelled power projects that use feedstocks, such as coal or gas, but capture and store the carbon dioxide.

Hydrogen Energy International Limited was incorporated on 20 October 2006 and began trading on 15 June 2007.

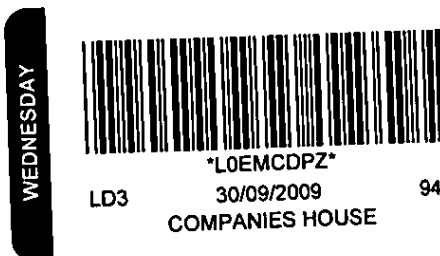
On 18 October 2007 Hydrogen Energy International Limited established one new subsidiary, Hydrogen Energy Australia Pty Limited, consistent with the company's strategy and principal activity.

The key performance indicators at this stage are budget, performance to schedule, and compliance with the Joint Venture Agreement. All have been met in the current year.

Principal risks

The company and group aims to deliver sustainable value by identifying and responding successfully to risks. Risk management is integrated into the process of planning and performance management at a group level. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

Company and group level risks have been identified and classified in four categories: strategic, compliance and ethics, financial risk management and operations.



HYDROGEN ENERGY INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

Strategic risks

The company and group are looking to develop projects for its shareholders in a new business sector: power generation from low carbon hydrogen with carbon dioxide sequestration. The exact shape of the industry is difficult to describe with certainty given its immaturity. In addition, the timing of the development of the industry is unclear.

Compliance and ethics risks

Staff are bound by a code of conduct which defines a commitment to integrity, compliance with all applicable legal requirements, high ethical standards and the behaviours and actions expected of our business and people wherever we operate. Incidents of non-compliance with applicable laws and regulation or ethical misconduct could be damaging to the company and group's reputation.

Financial Risk

The company and group's growth is dependent on creating a portfolio of value creating investments for its shareholders. This requires the rigorous analysis of technical and commercial risks associated with each investment opportunity.

Operations risks – safety and operations

Inability to provide safe environments for our workforce and the public could lead to injuries or loss of life.

People and capability

Employee training, development and successful recruitment of new staff are key to the implementation of our plans. Inability to develop the human capacity and capability across the organisation could jeopardise performance delivery.

Future developments

The company and group have had a satisfactory period and the directors believe that the trend will continue.

The directors aim to maintain the management policies which have resulted in the company's substantial growth in the last year. They believe that the company is in a good position to take advantage of any opportunities which may arise in the future.

It is the intention of the directors that the business of the company will continue for the foreseeable future.

HYDROGEN ENERGY INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

Directors

The present directors are listed on page 1.

J Briggs, P L Bryant, M Davies, L A Gillies and D W Jamieson served as directors throughout the financial year. Changes since 1 January 2008 are as follows:

| | <u>Appointed</u> | <u>Resigned</u> |
|----------------|------------------|-------------------|
| P L Cunningham | | 16 September 2008 |
| S L Kleespie | | 16 September 2008 |
| S Tapley | | 9 September 2008 |
| K Harper | 1 November 2008 | |

Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006.

Auditors

Ernst & Young LLP will continue in office as the company's auditor in accordance with the elective resolution passed by the company under Section 386 of the Companies Act 1985.

Directors' statement as to the disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

By order of the Board

Director

29 SEPTEMBER 2009

Registered Office:

Building One
The Heights
Brooklands
Weybridge
Surrey
KT13 0NY

HYDROGEN ENERGY INTERNATIONAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the accounts in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting practice.

Company law requires the directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company and the profit for the year. In preparing these accounts, the directors are required:

- To select suitable accounting policies and then apply them consistently;
- To make judgements and estimates that are reasonable and prudent;
- To state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- To prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the consolidated accounts.

HYDROGEN ENERGY INTERNATIONAL LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF **HYDROGEN ENERGY INTERNATIONAL LIMITED**

We have audited the group and company's accounts for the period ended 31 December 2008 which comprise the Group Profit and Loss Account, the company Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Company Statement of Total Recognised Gains and Losses, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Cash Flows, the accounting policies and the related notes 1 to 19. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the accounts.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group and company's affairs as at 31 December 2008 and of the group and company's profit for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the accounts.

Ernst & Young LLP
Ernst & Young LLP

Registered auditor
London

30 September 2009

HYDROGEN ENERGY INTERNATIONAL LIMITED

ACCOUNTING POLICIES

Accounting standards

These accounts are prepared in accordance with applicable UK accounting standards.

Accounting convention

The accounts are prepared under the historical cost convention.

Basis of Preparation

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due for the foreseeable future. This assumption is based on the undertaking that the Company's shareholders will provide the expected financial support required for this to be the case.

Basis of consolidation

The group financial statements consolidate the financial statements of Hydrogen Energy International Limited and its subsidiary undertaking drawn up to 31 December each year.

Hydrogen Energy Australia Pty Limited has been included in the group financial statements using the acquisition method of accounting. Accordingly, the group profit and loss and statement of cash flows include the results and cash flows of Hydrogen Energy Australia Pty Limited for the period from its incorporation on 18 October 2007.

Foreign currency transactions

Company

Foreign currency transactions are initially recorded in sterling by applying the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences are included in the profit and loss account.

Group

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on borrowings are also dealt with in reserves.

Intangible assets

Intangible assets are stated at cost, less accumulated depreciation and accumulated impairment losses. Intangible assets with a finite life are depreciated on a straight-line basis over their expected useful lives. The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

HYDROGEN ENERGY INTERNATIONAL LIMITED

ACCOUNTING POLICIES

Impairment of intangible assets and tangible fixed assets

The company and group assess assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the company and group make an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its net realisable value and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments

Company

Fixed asset investments in subsidiaries are held at cost. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

All other fixed asset investments are stated in the accounts at cost less provisions for permanent diminution in value.

Trade and other debtors

Trade and other debtors are carried at the original invoice amount, less allowances made for doubtful receivables. Provision is made when there is objective evidence that the group will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Trade and other creditors

Trade and other creditors are carried at payment or settlement amounts. If the effect of the time value of money is material, trade and other creditors are determined by discounting the expected future cash flows at a pre-tax rate.

HYDROGEN ENERGY INTERNATIONAL LIMITED

ACCOUNTING POLICIES

Leases

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

Turnover

Turnover, stated net of value added tax, is the marked up recovery of costs incurred by the company and group.

Interest

Interest is charged against income in the year in which it is incurred.

HYDROGEN ENERGY INTERNATIONAL LIMITED

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | | <u>2008</u> | <u>2007</u> |
|--|-------------|---------------------|--------------------|
| | Note | £ | £ |
| Turnover | 1 | 20,610,442 | 8,314,576 |
| Administration expenses | | <u>(19,387,773)</u> | <u>(8,150,795)</u> |
| Profit on ordinary activities before interest and tax | 2 | 1,222,669 | 163,781 |
| Interest payable and similar charges | 4 | (156,512) | (88,682) |
| Interest receivable and similar income | 5 | 110,475 | 4,977 |
| Profit before taxation | | <u>1,176,632</u> | <u>80,076</u> |
| Taxation | 6 | <u>(525,000)</u> | <u>(50,000)</u> |
| Profit for the year | | <u>651,632</u> | <u>30,076</u> |

The profit of £651,632 for the year ended 31 December 2008 has derived in its entirety from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2008

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of £651,632 for the year ended 31 December 2008 (2007 profit of £30,076).

HYDROGEN ENERGY INTERNATIONAL LIMITED

COMPANY PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | | <u>2008</u> | <u>2007</u> |
|--|----------|---------------------|--------------------|
| | Note | £ | £ |
| Turnover | 1 | 21,057,712 | 8,414,936 |
| Administration expenses | | <u>(19,387,773)</u> | <u>(8,150,795)</u> |
| Profit on ordinary activities before interest and tax | 2 | 1,669,939 | 264,141 |
| Interest payable and similar charges | 4 | (156,512) | (88,682) |
| Interest receivable and similar income | 5 | 110,475 | 4,977 |
| Profit before taxation | | <u>1,623,902</u> | <u>180,436</u> |
| Taxation | 6 | <u>(525,000)</u> | <u>(50,000)</u> |
| Profit for the year | | <u>1,098,902</u> | <u>130,436</u> |

The profit of £1,098,902 for the year ended 31 December 2008 has derived in its entirety from continuing operations.

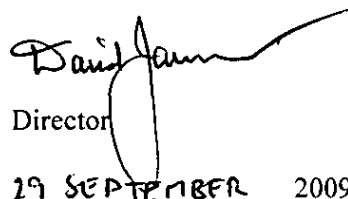
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2008

There are no recognised gains or losses attributable to the shareholders of the company other than the profit of £1,098,902 for the year ended 31 December 2008 (2007 profit of £130,436).

HYDROGEN ENERGY INTERNATIONAL LIMITED**GROUP BALANCE SHEET AT 31 DECEMBER 2008**

| | Note | <u>2008</u> £ | <u>2007</u> £ |
|--|------|--------------------|--------------------|
| Fixed assets | | | |
| Intangible assets | 8 | <u>121,526</u> | <u>204,859</u> |
| | | 121,526 | 204,859 |
| Current assets | | | |
| Debtors | 10 | 4,009,397 | 5,822,570 |
| Cash at bank and in hand | | <u>10,511,849</u> | <u>3,990,281</u> |
| Creditors: amounts falling due within one year | 11 | <u>(9,211,064)</u> | <u>(5,237,634)</u> |
| Net current assets | | <u>5,310,182</u> | <u>4,575,217</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,431,708 | 4,780,076 |
| Creditors: amounts falling due after more than one year | 12 | <u>(2,375,000)</u> | <u>(2,375,000)</u> |
| NET ASSETS | | <u>3,056,708</u> | <u>2,405,076</u> |
| Represented by | | | |
| Capital and reserves | | | |
| Called up share capital | 14 | 2,375,000 | 2,375,000 |
| Profit and loss account | 15 | <u>681,708</u> | <u>30,076</u> |
| SHAREHOLDERS' FUNDS – EQUITY INTERESTS | | <u>3,056,708</u> | <u>2,405,076</u> |

On behalf of the Board

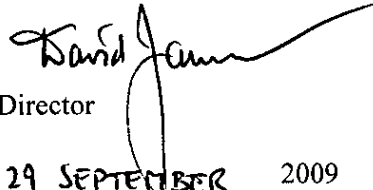

Director

19 SEPTEMBER 2009

HYDROGEN ENERGY INTERNATIONAL LIMITED
COMPANY BALANCE SHEET AT 31 DECEMBER 2008

| | Note | <u>2008</u> £ | <u>2007</u> £ |
|--|------|--------------------|--------------------|
| Fixed assets | | | |
| Intangible assets | 8 | 121,526 | 204,859 |
| Investments | 9 | <u>1</u> | <u>1</u> |
| | | 121,527 | 204,860 |
| Current assets | | | |
| Debtors | 10 | 4,557,027 | 5,922,929 |
| Cash at bank and in hand | | <u>10,511,849</u> | <u>3,990,281</u> |
| Creditors: amounts falling due within one year | 11 | <u>(9,211,065)</u> | <u>(5,237,634)</u> |
| Net current assets | | <u>5,857,811</u> | <u>4,675,576</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,979,338 | 4,880,436 |
| Creditors: amounts falling due after more than one year | 12 | <u>(2,375,000)</u> | <u>(2,375,000)</u> |
| NET ASSETS | | <u>3,604,338</u> | <u>2,505,436</u> |
| Represented by | | | |
| Capital and reserves | | | |
| Called up share capital | 14 | 2,375,000 | 2,375,000 |
| Profit and loss account | 15 | <u>1,229,338</u> | <u>130,436</u> |
| SHAREHOLDERS' FUNDS – EQUITY INTERESTS | | <u>3,604,338</u> | <u>2,505,436</u> |

On behalf of the Board


 Director
 29 SEPTEMBER 2009

HYDROGEN ENERGY INTERNATIONAL LIMITED

GROUP STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2008

| | | 31 December 2008 | 31 December 2007 |
|--|-----------|---------------------|---------------------|
| | | £ | £ |
| Net cash inflow / (outflow) from operating activities | 16 | 6,616,019 | (426,016) |
| Returns on investments and servicing of finance | | | |
| Interest payable | 4 | (156,512) | (88,682) |
| Interest received | 5 | 110,475 | 4,977 |
| | | (46,037) | (83,705) |
| Taxation | | | |
| Corporation tax paid | | (48,414) | - |
| | | (48,414) | - |
| Capital expenditure and financial investment | | | |
| Payments to acquire intangible fixed assets | | - | (249,998) |
| | | - | (249,998) |
| Net cash outflow before financing | | 6,521,568 | (759,719) |
| Financing | | | |
| Issue of ordinary share capital | | - | 2,375,000 |
| New long-term loans | 12 | - | 2,375,000 |
| | | - | 4,750,000 |
| Increase in cash | | 6,521,568 | 3,990,281 |
| Reconciliation of net cash flow to movement in debt | | | |
| Increase in cash | | 6,521,568 | 3,990,281 |
| Cash inflow from increase in loans | | - | (2,375,000) |
| Movement in net debt | | 6,521,568 | 1,615,281 |
| Net debt at 31 December | | 6,521,568 | 1,615,281 |

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

An analysis of turnover by geographical market is given below:

| Group | <u>2008</u> | <u>2007</u> |
|--|-------------------|------------------|
| | £ | £ |
| group turnover by geographical area: | | |
| UK | 19,342,192 | 7,060,079 |
| USA | 1,268,250 | 1,254,497 |
| Total | <u>20,610,442</u> | <u>8,314,576</u> |
| Company | <u>2008</u> | <u>2007</u> |
| | £ | £ |
| company turnover by geographical area: | | |
| UK | 19,342,192 | 7,060,079 |
| USA | 1,268,250 | 1,254,497 |
| Rest of World | 447,270 | 100,360 |
| Total | <u>21,057,712</u> | <u>8,414,936</u> |

2. Profit on ordinary activities before interest and tax

This is stated after charging:

| | | |
|--------------------------------------|---------------|---------------|
| | <u>2008</u> | <u>2007</u> |
| | £ | £ |
| Hire charges under operating leases: | | |
| Land & buildings | 395,175 | 254,391 |
| Amortisation of owned fixed assets | <u>83,333</u> | <u>45,139</u> |

3. Auditor's remuneration

| | | |
|-----------------------------------|---------------|---------------|
| | <u>2008</u> | <u>2007</u> |
| | £ | £ |
| Fees for the audit of the company | 22,500 | 13,500 |
| Fees for the audit of the group | <u>2,500</u> | <u>1,500</u> |
| | <u>25,000</u> | <u>15,000</u> |

No other fees were paid to the company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the company and group.

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

4. Interest payable and similar charges

| | <u>2008</u> | <u>2007</u> |
|--------------------------|----------------|---------------|
| | £ | £ |
| Group and Company | | |
| Interest expense on: | | |
| Other loans | <u>156,512</u> | <u>88,682</u> |

5. Interest receivable and similar income

| | <u>2008</u> | <u>2007</u> |
|--------------------------|----------------|--------------|
| | £ | £ |
| Group and Company | | |
| Other interest | <u>110,475</u> | <u>4,977</u> |

6. Taxation

The tax charge is made up as follows:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------|-------------|-------------|
| | £ | £ |
| Profit before taxation | 1,623,902 | 180,436 |
| Current taxation | 525,000 | 50,000 |
| Effective current tax rate | 32% | 28% |
| | <u>2008</u> | <u>2007</u> |
| | % | % |
| UK statutory corporation tax rate: | 28 | 30 |
| Increase / (decrease) resulting from: | | |
| Permanent differences | 4 | - |
| Small companies rate | - | (2) |
| Tax rate change | | |
| Effective current tax rate | <u>32</u> | <u>28</u> |

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

7. Directors and employees

(a) Remuneration of directors

As secondees from BP and Rio Tinto, the total remuneration, prepared on the same basis as 2007, for their services as Directors of the company and group, amounted to £ 1,473,037 for year ended 31 December 2008.

Four directors were members of the defined benefit section of the BP Pension Fund at 31 December 2008 (2007 - five)

One director was a member of the defined benefit pension scheme of the Rio Tinto Fund at 31 December 2008 (2007 - two)

One director was a member of the defined contribution pension scheme of the Rio Tinto Fund at 31 December 2008 (2007 - one)

The highest paid Director received £ 280,853. The accrued annual pension earned for the highest paid director at 31 December 2008 was £ 78,968.

(b) Employee costs

The company had no employees during the period.

8. Intangible assets

| | Intellectual Property |
|---------------------------------|--------------------------|
| Cost | £ |
| At 1 January 2008 | 249,998 |
| At 31 December 2008 | <u>249,998</u> |
| Amortisation | |
| At 1 January 2008 | 45,139 |
| Charge for the year | 83,333 |
| At 31 December 2008 | <u>128,472</u> |
| Net book value | |
| At 31 December 2008 | <u>121,526</u> |
| At 31 December 2007 | <u>204,859</u> |
| Principal rates of amortisation | 33% |

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

9. Fixed assets – Company investments

| | Subsidiary shares |
|-------------------------|----------------------|
| Cost | £ |
| At 1 January 2008 | 1 |
| At 31 December 2008 | <u>1</u> |
| Amounts provided | - |
| At 1 January 2008 | - |
| Charge for the year | - |
| At 31 December 2008 | <u>-</u> |
| Net book amount | |
| At 31 December 2008 | <u>1</u> |
| At 31 December 2007 | <u>1</u> |

The investment of the parent company in the subsidiary is unlisted. The subsidiary of the parent company at 31 December 2008 and the percentage of equity capital held are set out below. The principal country of operation is indicated by the country of incorporation.

| Subsidiary Undertakings | % | Country of incorporation | Principal activity |
|--|-----|-----------------------------|--|
| Hydrogen Energy Australia Pty Limited | 100 | Australia | Operation of hydrogen energy business |

10. Debtors

Group

| | 2008 | 2007 |
|--------------------------------|------------------|------------------|
| | Within | Within |
| | 1 year | 1 year |
| | £ | £ |
| Trade debtors | 1,779,937 | 3,884,914 |
| Prepayments and accrued income | <u>2,229,460</u> | <u>1,937,656</u> |
| | <u>4,009,397</u> | <u>5,822,570</u> |

Company

| | 2008 | 2007 |
|--------------------------------|------------------|------------------|
| | Within | Within |
| | 1 year | 1 year |
| | £ | £ |
| Trade debtors | 1,779,937 | 3,884,913 |
| Prepayments and accrued income | <u>2,777,090</u> | <u>2,038,016</u> |
| | <u>4,557,027</u> | <u>5,922,929</u> |

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

11. Creditors

Group

| | <u>2008</u> | <u>2007</u> |
|------------------------------|------------------|------------------|
| | Within | Within |
| | 1 year | 1 year |
| | £ | £ |
| Trade creditors | 102,228 | 2,535,208 |
| Taxation (see note 6) | 526,636 | 50,000 |
| Accruals and deferred income | 8,578,221 | 2,617,170 |
| Other | 3,979 | 35,256 |
| | <u>9,211,064</u> | <u>5,237,634</u> |

Company

| | <u>2008</u> | <u>2007</u> |
|------------------------------|------------------|------------------|
| | Within | Within |
| | 1 year | 1 year |
| | £ | £ |
| Trade creditors | 102,228 | 2,535,208 |
| Taxation (see note 6) | 526,636 | 50,000 |
| Accruals and deferred income | 8,578,221 | 2,617,170 |
| Other | 3,980 | 35,256 |
| | <u>9,211,065</u> | <u>5,237,634</u> |

12. Loans

Loans repayable, included within creditors, are analysed as follows:

| | <u>2008</u> | <u>2007</u> |
|------------------|------------------|------------------|
| | Within 5 | Within 5 |
| | years | years |
| | £ | £ |
| Wholly repayable | <u>2,375,000</u> | <u>2,375,000</u> |

13. Obligations under leases

Annual commitments under non-cancellable operating leases are set out below:

| | <u>2008</u> | <u>2007</u> |
|----------------------|----------------|----------------|
| | Land & | Land & |
| | buildings | buildings |
| | £ | £ |
| Expiring: | | |
| Within 1 year | 31,789 | - |
| Between 2 to 5 years | - | - |
| Thereafter | 331,598 | 331,598 |
| | <u>363,387</u> | <u>331,598</u> |

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

14. Called up share capital

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| | £ | £ |
| Authorised share capital: | | |
| 3,000,000 Ordinary A shares of £1 each | 3,000,000 | 3,000,000 |
| 3,000,000 Ordinary B shares of £1 each | <u>3,000,000</u> | <u>3,000,000</u> |
| | <u>6,000,000</u> | <u>6,000,000</u> |
| | | |
| | <u>2008</u> | <u>2007</u> |
| | £ | £ |
| Allotted, called up and fully paid: | | |
| 1,187,500 Ordinary A shares of £1 each | 1,187,500 | 1,187,500 |
| 1,187,500 Ordinary A shares of £1 each | <u>1,187,500</u> | <u>1,187,500</u> |
| | <u>2,375,000</u> | <u>2,375,000</u> |

15. Capital and reserves

Group

| | Equity share capital | Profit and loss account | Total |
|---------------------|----------------------------|-------------------------------|------------------|
| | £ | £ | £ |
| At 1 January 2008 | 2,375,000 | 30,076 | 2,405,076 |
| Profit for the year | - | 651,632 | 651,632 |
| At 31 December 2008 | <u>2,375,000</u> | <u>681,708</u> | <u>3,056,708</u> |

Company

| | Equity share capital | Profit and loss account | Total |
|---------------------|----------------------------|-------------------------------|------------------|
| | £ | £ | £ |
| At 1 January 2008 | 2,375,000 | 130,436 | 2,505,436 |
| Profit for the year | - | 1,098,902 | 1,098,902 |
| At 31 December 2008 | <u>2,375,000</u> | <u>1,229,338</u> | <u>3,604,338</u> |

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

16. Net cash outflow from operating activities

Group

| | | <u>2008</u> | <u>2007</u> |
|---|------|------------------|------------------|
| | Note | £ | |
| Reconciliation of group operating profit to net cash outflow from operating activities | | | |
| Group operating profit | | 1,222,669 | 163,781 |
| Amortisation charges | 8 | 83,333 | 45,139 |
| Decrease / (Increase) in debtors | 10 | 1,813,173 | (5,822,570) |
| Increase in creditors | | 3,496,844 | 5,187,634 |
| Net cash outflow from operating activities | | <u>6,616,019</u> | <u>(426,016)</u> |

17. Reconciliation of movements in shareholders' funds

Group

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| | £ | £ |
| Group profit for the year | 651,632 | 30,076 |
| Issue of ordinary share capital | - | 2,375,000 |
| Net increase in shareholders' interests | 651,632 | 2,405,076 |
| Shareholders' interest at 1 January | 2,405,076 | - |
| Shareholders' interest at 31 December | <u>3,056,708</u> | <u>2,405,076</u> |

Company

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| | £ | £ |
| Company profit for the year | 1,098,902 | 130,436 |
| Issue of ordinary share capital | - | 2,375,000 |
| Net increase in shareholders' interests | 1,098,902 | 2,505,436 |
| Shareholders' interest at 1 January | 2,505,436 | - |
| Shareholders' interest at 31 December | <u>3,604,338</u> | <u>2,505,436</u> |

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

18. Related party transactions

BP Alternative Energy International Limited is a 50% shareholder in the company.

During the period the company purchased secondee employee services to the value of £7,918,674 (2007: £3,505,847) and sold secondee employee services to the value of £9,452,958 (2007: £3,530,039). At 31 December 2008 £1,182,103 was net receivable in respect of these transactions (2007: £1,456,561).

During the year the company also entered into Business Service Agreements for the provision of services to the value of £2,041,815. At 31 December 2008 £1,071,301 was net payable in respect of these transactions.

At the period end, the company owed £1,187,500 by way of a long term loan per Note 12 (2007: £1,187,500).

Rio Tinto Energy Limited is a 50% shareholder in the company.

During the period the company sold secondee employee services to the value of £9,452,958 (2007: £3,530,039). At 31 December 2008 £839,137 was receivable in respect of these sales (2007: £2,119,605).

At the period end, the company owed £1,187,500 by way of a long term loan per Note 12 (2007: £1,187,500).

BP International Limited is the parent of BP Alternative Energy International Limited, a 50% shareholder in the company.

During the period the company purchased lease tenant rents and services to the value of £432,864 (2007: £262,118).

Rio Tinto London Limited is a member of the Rio Tinto group of companies.

During the period the company purchased secondee employee services to the value of £1,158,105 (2007: £616,867). At 31 December 2008, £322,170 was payable in respect of these purchases (2007: £473,790).

Hydrogen Energy International LLC is a separate joint venture between BP Alternative Energy North America Inc. and Rio Tinto Hydrogen Energy LLC.

During the period the company sold secondee employee services to the value of £3,184,181 (2007: £1,254,497). At 31 December 2008, £1,683,201 was receivable in respect of these sales (2007: £1,254,497).

HYDROGEN ENERGY INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

19. Joint Venture

The company and group are owned jointly by BP Alternative Energy International Limited and Rio Tinto Energy Limited being companies incorporated in the UK.

On 1 Feb 2008 BP Alternative Energy Holdings Limited transferred its shareholding to BP Alternative Energy International Limited.