# 聯合能源集團有限公司
# UNITED ENERGY GROUP LIMITED

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 0467)



# Contents

# Corporate Information

## DIRECTORS

### EXECUTIVE DIRECTORS

Zhang Hongwei *(Chairman)*
Zhu Jun
Zhang Meiying

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Chau Siu Wai
San Fung
Zhu Chengwu

## COMPANY SECRETARY

Ho Yuk Ming Hugo

## PRINCIPAL PLACE OF BUSINESS

Unit 2112, 21st Floor
Two Pacific Place
88 Queensway
Hong Kong

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Ltd.
Wing Hang Bank Limited
Hong Kong and Shanghai Banking Corporation Ltd.

## LEGAL ADVISER IN HONG KONG

Slaughter and May
Stephen Mok & Co

## AUDITOR

RSM Nelson Wheeler
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## WEBSITE

http://www.uegl.com.hk



# Key Financial Highlights

| | **2009** *HK$'000* | 2008 *HK$'000* | **Change** |
|---|---|---|---|
| **RESULTS** | | | |
| Turnover | **5,178** | 4,893 | 6% |
| Loss before tax | **(569,099)** | (108,302) | 425% |
| Income tax credit | **10,174** | 3,823 | 166% |
| Less: Loss attributable to minority interests | **(8,487)** | (2,982) | 185% |
| Loss attributable to equity holders of the Company | **(550,438)** | (101,497) | 442% |
| Basic loss per share | **(4.31 HK cents)** | (0.84 HK cents) | 413% |

| | **2009** *HK$'000* | 2008 *HK$'000* | **Change** |
|---|---|---|---|
| **KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION** | | | |
| Equity attributable to equity holders of the Company | **2,496,931** | 2,941,737 | (15%) |
| Total assets | **2,737,006** | 3,203,681 | (15%) |
| Net assets per share | **HK$0.21** | HK$0.26 | (16%) |

# Chairman's Statement

On behalf of the Board of Directors, I am pleased to submit the Annual Report of United Energy Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2009.

## RESULTS

During the year ended 31 March 2009, the Group turnover increased 6% to approximately HK$5.18 million. Loss attributable shareholders was approximately HK$550 million, representing a 442% increase over the approximately HK$101 million for the year ended 31 March 2008. This result is reflected in the basic loss per share which were 4.31 HK cents compared with 0.84 HK cents for the year ended 31 March 2008.

## BUSINESS REVIEW

During the year under review, the Group was mainly engaged in property investment and management and oil and gas business in the PRC with focus on oil and gas.

### PROPERTY DEVELOPMENT BUSINESS

To focus on the oil and gas business, the Board decided to disposal of the property development business. The completion of the disposal in January 2009 and realized a gain of approximately HK$36 million. The disposal could further improve the Group's financial position and the working capital condition.

### PROPERTY LETTING AND MANAGEMENT BUSINESS

During the year under review, half year of rent free granted to the tenant to repair work which had to be carried out on the property in relation to a defective fire protection system. However, the property letting and management business still contributed an income of approximately HK$5.18 million to the Group.

### OIL PRODUCTION BUSINESS

In the financial year of 2009, even though being faced with snow storm, severe earthquake, and global financial crisis, the company is still developing steadily. With the effort of the Company, the pilot tests have pushed forward as planned and achieved the anticipated results.

We have completed one overhaul well; completed the final phases of Gao 3 gas injection station and #17 metering station; completed the construction of the gas injection, water supply, and waste water pipeline for the 48 t/h coal boiler; purchased 9 air compressors and installed 5 of them with associated construction; steam injection of the year for the steam flood process was 151.3 thousand cubic feet; and lit 6 wells for the fire flood process. Each item in the overall budget has been implemented, and accounting for the addition of fire flood pilot testing, RMB44.39 million has been saved in the overall annual budget.



# Chairman's Statement

The rising cost of oil presented a challenge for the cost control of our steam flood pilot test. In response, we have on the one hand, improved the composition of fuel in our steam flood pilot tests by employing coal boilers to conserve fuel costs; and implemented the new oil displacement technique of CO2 plus steam section plug. On the other hand, we have begun experimenting with the new fire flood oil extraction technology, expanding from 3 wells in the beginning of the year to 6 wells in total.

Pilot test results indicate that both steam flood and fire flood are effective in enhancing oil recovery. From the perspective of costs, despite various attempts, we were only able to make small reductions in the cost of fuel for the steam flood process. In comparison, the fire flood process exhibits much advantage in this regard. Due to the limited time of fire flood pilot tests, we have applied for a half year extension of testing time to obtain more sufficient and comprehensive testing data. However, without a doubt, the fire flood method will be the prevailing choice for overall development plan in the future.

## PROSPECTS

The global financial crisis amid increased uncertainties in the global economic environment, the Directors still hold a positive view regarding the prospect of the oil and gas market in the world within the next few decades, therefore, the Group will continue and enhance its existing oil resources business.

Leveraging our relationships with major Chinese E&P players, the Group will continue to expand into new markets internationally, targeting areas such as Central Asia and Southeast Asia. We will also maintain our aggressive growth strategy of acquiring reserves and increasing production through both organic and merger and acquisition initiatives.

In 2009, the Group will continue to explore new investment opportunities around the world, hoping to further expand the Group's scale, widen its asset base and increase its profitability through merger and acquisitions, with the aim to bring stable, long-term high returns to our shareholders.

## APPRECIATION

In closing, I would like to express my sincere gratitude to our shareholders and business partners for their continuous support and confidence in the Group. I must also thank our staff for their efforts and dedication. Our people are the backbone of our Company and the architects of our future.

As a Group, we remain committed to building China's largest independent E&P business for the benefit of our shareholders, staff and business associates.

**Zhang Hongwei**
*Chairman*

3 July 2009

# Management Discussion and Analysis

## FINANCIAL REVIEW

During the year under review, the Group's turnover was approximately HK$5.18 million, which represented a slight increase of approximately 6% as compared to the turnover of approximately HK$4.89 million for the year of 2008. The turnover represented rental income and property management services fees income derived from a commercial building located in the PRC.

Other income decreased by 9% to approximately HK$51 million from 2008, mainly comprising an interest income of approximately HK$50 million and a provision of administrative services income of approximately HK$1 million.

Gain on disposal of an associate represents benefit from disposal of an associate company. In January 2009, the Group has successfully completed the disposal of an associate company which engaged in the business of property development for a consideration of approximately HK$102 million. This has resulted in a gain of approximately HK$36 million.

Administrative expenses increased by HK$509 million or 520% over the year of 2008 to HK$606 million. The increases in 2009 included the non-cash expense of approximately HK$78 million due to the share options granted per the share option scheme, and the non-cash loss of approximately HK$8 million as a result of fair value adjustment of the call and put options entered into on its investment in one of its associate companies. This non-cash loss was entirely offset by the non-cash gain of approximately HK$19 million attributable to the Group's equitable results of the same associate company. In addition, the increased in administrative expenses were also comprised an increase of HK$24 million in legal and professional fees, representing an increase of 227% as compared to last year was mainly due to certain professional advisory fees related to its proposed investment in Transmeridian Exploration Incorporated ("Transmeridian"), an increase of HK$197 million in the amount of provision for reduction in the value of its holding of the Senior Notes of Transmeridian, an increase of HK$94 million in the amount of provision for reduction in the value of oil production related equipment purchased from Transmeridian, an increase in the amount of the Group made provision for exchange loss of HK$62 million during the year.

In addition, the Group's investment properties were revalued as at 31 March 2009 on an open market value existing use basis. The net decrease in fair value of investment properties, which has been debited directly to income statement, amounted to approximately HK$45 million.

In summary, loss attributable to equity holders of the Company was approximately HK$550 million for the year ended 31 March 2009 (2008: HK$101 million). The substantial increase in loss by approximately 442% was principally due to the increase in administrative expenses.

The Group's Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 March 2009. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, as well as internal control and financial reporting matters, and found them to be satisfactory.



# Management Discussion and Analysis

## ACQUISITIONS

The Group continued its aggressive acquisition strategy throughout the year under review.

During the year, pursuant to investment agreement dated 6 June 2008, the Company acquired a 26.3% equity interest in Glimmer Stone Investments Limited ("Glimmer") for a cash consideration of HK$100,092,014. The Glimmer is an investment holding company and incorporated in British Virgin Islands.

Subsequent to the end of the financial year, on 9 April 2009, the Company has committed to acquire from an independent third party 100% equity interest in Merry Year Investments Limited ("Merry Year") for a cash consideration of HK$218,000,000. Merry Year is an investment holding company and incorporated in the British Virgin Islands. The sole assets of Merry Year includes its 70% shareholding interest in Universe Energy International Investments Limited ("Universe Energy") and Universe Energy's 100% shareholding interest in Universe Oil & Gas (China), LLC ("Universe Oil"). Universe Oil is principally engaged in the oilfield services business and incorporated in China. It will help the Company to diversify the business portfolio of the Group. A refundable deposit payment for the consideration of approximately HK$80,000,000 was made in April 2009.

## TERMINATION OF PROPOSED INVESTMENT IN TRANSMERIDIAN

On 11 June 2008 and amended and restated as of 22 September 2008, the Company and Transmeridian Exploration Incorporated entered into an Investment Agreement whereby the Company would invest an aggregate consideration of approximately US$212 million (equivalent to approximately HK$1,654 million) in Transmeridian. The Company's acquisition of majority interest compliments its strategic focus on the upstream oil and natural gas business – diversifying the geographic base of our resources and increasing overall reserves. The approval of the shareholders of the Company for the proposed investment in Transmeridian was obtained at the Special General Meeting of the Company on 16 October 2008.

On 15 November 2008, the Company and Transmeridian mutually agreed to terminate Investment Agreement. No monetary consideration will be paid by either party in connection with the Termination Agreement. In addition, the Company is not owed, nor does it owe, any sums in relation to the Transaction Agreements. The entry by the Company into the Termination Agreement and the related termination of the Transaction Agreements has no material adverse impact on the interests of the Company and the Shareholders.

## ARBITRATION

On 26 June 2008, the Company purchased US$12 million of oil production equipment from Transmeridian. Transmeridian has failed to make delivery of such equipment. The Company has engaged legal advisors and is currently pursuing arbitration proceedings in Singapore under the Rules of Arbitration of the International Chamber of Commerce. Although the Board considers the relevant equipment purchase contract to be valid and binding, consistent with prudent accounting practices, the Company made full provision for this in the financial statements.



# Management Discussion and Analysis

## SEGMENT INFORMATION

Particulars of the Group's segment information are set out in note 8 to the financial statements.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained its strong financial position for the year under review, with cash and cash equivalents amounting to HK$2,241 million as at 31 March 2009 (2008: HK$2,113 million).

The Group had no long-term borrowings, therefore the gearing ratio is not applicable. The current ratio was about 67.85 (2008: 67.02), based on current assets of HK$2,439 million (2008: 2,903 million) and current liabilities of HK$36 million (2008: 43 million).

## CAPITAL STRUCTURE

There had been no material change in the capital structure of the Group since 31 March 2008.

## ORDERS

In line with its business nature, the Group did not have any order records as at 31 March 2009.

## EMPLOYEES

As at 31 March 2009, the Group employed a total of 50 full time employees, located in Hong Kong and the PRC.

Employees' remuneration packages have been reviewed periodically and determined with reference to the performance of the individual and prevailing market practices. Remuneration packages include basic salaries, year end bonus, medical benefits and a contributory provident fund.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 March 2009.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's monetary assets and transactions are mainly denominated in Hong Kong dollars, United States dollars, Renminbi and Euro. The exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the year under review. Euro fluctuated significantly and the Group made provision for exchange loss of HK$62 million during the year. During the year under review, the Group did not use financial instruments for hedging purposes. The Group continues to monitor the exposures to Euro and will take necessary procedures to reduce the fluctuations in exchange rates at reasonable costs.



# Management Discussion and Analysis

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest and five largest customers represented 100% of total turnover, as the Group had only one customer.

Save for the expense of letting business and operating expenses paid, the Group did not make any significant purchases during the year.

Save for the connected transaction disclosed on page 80 of the annual report, none of the Company's directors, their associates or any shareholders of the Company (who, to the knowledge of the Company's directors, hold more than 5% of the Company's shares in issue) had any beneficial interest in the Group's only customer.



# Corporate Governance Report

Sound corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect rights of shareholders and stakeholders, and enhance shareholder value. The Company is committed to maintain good corporate governance standard and procedures to ensure the integrity, transparency, open and accountable to our shareholders. This Corporate Government Report is prepared in material compliance of the reporting requirements as contained in Appendix 23 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the year ended 31 March 2009 except that:

1. The Code A.2.1 – the company does not have the post of chief executive officer;

2. The Code A.4.1 – the independent non-executive Directors have not been appointed for any specific terms as they are subject to retirement by rotation at least once every three years in accordance with the Company's Bye-laws.

During the period from 1 April 2008 to 17 July 2008 and 12 January 2009 to 31 March 2009, no chief executive officer has been appointed. As mention in the Corporate Governance Report (the "CG Report") contained in the 2008 Annual Report that although the Company does not separate the duties between the chairman and chief executive officer, the executive function of the Company is performed by the executive directors and management of the Company. Thus, significant decision of the Company is made by the Board. The Board considers that such structure will not affect the balance of power and authority between the chairman and the executive directors.

Code provision A.4.1 of the Code provides that non-executive Directors should be appointed for a specific term, subject to re-election. As mention in the CG Report contained in the 2008 Annual Report that none of the non-executive Directors has entered into any service contracts with the Company or its subsidiaries. In view of the fact that the non-executive Directors are subject to retirement by rotation at least once every three years though they have no set term of office, the Board considers that the quality of good corporate governance will not be impaired.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the code of conduct with respect to the dealings in securities of the Company by the Directors as set out in Appendix 10 of the Listing Rules (the "Model Code").

Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Model Code during the year ended 31 March 2009.



# Corporate Governance Report

## BOARD OF DIRECTORS

### COMPOSITION

The Board of Directors (the "Board") of the Company comprises six members. Mr. Zhang Hongwei acts as the Chairman of the Board. The other executive Directors are Mr. Zhu Jun and Ms. Zhang Meiying. The Company has three independent non-executive Directors, Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu, one of whom namely, Mr. Zhu Chengwu has appropriate professional accounting experience and expertise.

All directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 23 to 24 of this Annual Report.

Each independent non-executive Director has pursuant to the Rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers that they are independent.

Save as the family relationship between Mr. Zhang Hongwei, chairman of the Board, and Ms. Zhang Meiying, executive director and daughter of the chairman, there are no relationships among members of the board. Except for the above, the Board considers that all directors are free from any relationship that interfere the exercise of individual independent judgment.

### FUNCTION

The Board, led by the Chairman, is responsible for formulation and approval of the Group's development and business strategies, key operational proposals, financial control procedures, material acquisition and disposal of investments, major funding decisions, financial announcements, interim reports, annual reports, share issuance/repurchase, nomination of directors, appointment of key management personnel, related party transactions, remuneration to directors and key management, ensures appropriate human and financial resources are appropriately applied and the performance for the achievement of results is evaluated periodically and other significant transactions in accordance with the rules governing the meeting of the Board, Bye-laws and rules governing the meeting of shareholders.

The executive Directors are responsible for day-to-day management of the Company's operations. These executive Directors conduct regular meetings with the senior management of the Company, its subsidiaries and associated companies, at which operational issues and financial performance are evaluated.

The Bye-laws of the Company contain description of responsibilities and operation procedures of the Board. The Board holds regular meeting to discuss and consider significant matters relating to existing operations and proposals of new operations and projects. Board meetings formally hold at least 4 times a year.

The Chairman ensures that board meetings are being held whenever necessary. Though the Chairman is responsible to set the board meeting agenda, all board members are encouraged to participate to include matters in the agenda. The Board conducts meeting on a regular basis and extra meetings are convened when circumstances require. The Bye-Laws of the Company allow a board meeting to be conducted by way of a tele-conference.

# Corporate Governance Report

There are eleven meetings being held during the financial year ended 31 March 2009 and attendance of individual directors are as follows:

| | Board Meetings |
|---|---|
| Zhang Hongwei | 10/11 |
| Zhu Jun | 11/11 |
| Zhang Meiying | 11/11 |
| Chau Siu Wai | 10/11 |
| San Fung | 10/11 |
| Zhu Chengwu | 10/11 |

## RESPONSIBILITIES

In the course of discharging their duties, the directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include (1) regular board meetings focusing on business strategy, operational issues and financial performance; (2) monitoring the quality, timeliness, relevance and reliability of internal and external reporting; (3) monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in connected transaction; and (4) ensuing processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

## DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements of the Group and ensure that the financial statements are accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group. In preparing the accounts for the year ended 31 March 2009, the Directors have, among other things:

- Selected suitable accounting policies and applied them consistently;
- Approved adoption of all Hong Kong Financial Reporting Standards ("HKFRSs") which are in conformity with the International Financial Reporting Standards ("IFRSs"); and
- Made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

# Corporate Governance Report

## DELEGATION BY THE BOARD

The Board has established Board committees, namely Audit Committee and Remuneration Committee to overseas particular aspects of the Company's affairs and to assist in sharing the Board's responsibilities. All the Board committees have clear written terms of reference and have to report to the Board regularly on their decisions and recommendations. The day-to-day running of the Company, including implementation of the strategies and plans adopted by the Board and its committees, is delegated to the management with divisional heads responsible for different aspects of the business.

## AUDIT COMMITTEE

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of the all independent non-executive Directors, namely Messrs. Chau Siu Wai, San Fung and Zhu Chengwu. It is chaired by Mr. Zhu Chengwu.

The Audit Committee reports directly to the Board and reviews the matters relating to the work of the external auditor, financial statements and internal controls. The Audit Committee meets with the Company's external auditor to ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

There are two audit committee meetings being held during the year ended 31 March 2009. The individual attendance of each member is as follows:

| | **Board Meetings** |
|---|---|
| Chau Siu Wai | 2/2 |
| San Fung | 2/2 |
| Zhu Chengwu | 2/2 |

The members of Audit Committee have full access to and co-operation from the management and they have full discretion to invite any director or executive to attend the meeting. The Audit Committee has performed the following function during the year ended 31 March 2009: (1) reviewed the annual audit plan of external auditors, their audit reports and matters incidental thereto; (2) the appointment of external auditors including the terms of engagement; (3) discussed the internal control issues; (4) examined the application of funds; (5) reviewed the interested party transactions; and (6) reviewed the periodic financial statements of the Company and made commendation to the Board for approval and evaluated the performance and independent of the external auditors.

## REMUNERATION COMMITTEE

With effect from 17 July 2006, a remuneration committee has been set up with written terms of reference to review the remuneration package, performance-based remuneration and termination compensation of directors and senior management of the Group. The remuneration committee comprises Mr. Zhu Chengwu, Mr. Chau Siu Wai and Ms. Zhang Meiying. It is chaired by Mr. Zhu Chengwu.

# Corporate Governance Report

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of Directors and senior management, to determine remuneration packages of all executive Directors and senior management including benefits in kind, pension rights and compensation payments. The Remuneration Committee takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management.

The Remuneration Committee held a meeting on 8 May 2009 at which all committee members were present. At the meeting, the Remuneration Committee reviewed and discussed the remuneration policy for 2009, the remuneration package and bonus arrangements of the Directors and senior management for 2009

### NOMINATION OF DIRECTORS

Although the Board has not established a nomination committee, as mentioned in the CG Report contained in the 2008 Annual Report, the function of nomination committee has been performed by the Board. To maintain high quality of the Board with a balance of skill and experience, the Board identifies individuals who fulfill criteria of the Company. When assessing the quality of the individual, the Board makes reference to his experience, qualification, integrity and other relevant factors.

## RESPONSIBILITIES AND REMUNERATION OF EXTERNAL AUDITOR

The statement of the external auditor of the Company, Messrs. RSM Nelson Wheeler, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 25.

During the year, remuneration paid to the Company's auditors, Messrs. RSM Nelson Wheeler, is as follows:

| | *HK$* |
|---|---|
| Services rendered: | |
| – audit services | 850,000 |
| – non-audit service | 1,400,000 |

## INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal controls within the Group and for reviewing their effectiveness. The system of internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operation systems. As mentioned in the CG Report contained in the 2008 Annual Report that the Company committed to implement a stricter and more regulated internal control procedures in the new financial year.

In the future, the Group will conduct regular review of the Group's internal control system and its effectiveness to ensure the interest of shareholders is safeguarded.



# Corporate Governance Report

## COMMUNICATION WITH SHAREHOLDERS

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meeting, annual report, various notices, announcements, circulars and via the Company's website to provide an electronic means of communication. The poll voting procedures and the rights of shareholders to demand a poll were included in all circulars accompanying notice convening general meeting and the details procedures for conducting a poll has been read out by the chairman at general meeting.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman, Directors, Board Committees' Chairman/Members and external auditor, where appropriate, are available to answer questions at the meeting.



# Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 March 2009.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activity of its subsidiary is set out in note 36 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2009 and the state of affairs of the Group at that date are set out in the financial statements on pages 27 to 82 of the annual report.

## SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Company and the Group during the year are set out in note 27 on page 72 of the financial statements.

## SEGMENT INFORMATION

The segment information of the Group for the year ended 31 March 2009 is set out in note 8 to the financial statements.

## FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 84. This summary is for information only and does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

# Report of the Directors

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### EXECUTIVE DIRECTORS:

Zhang Hongwei – *Chairman*
Zhu Jun
Zhang Meiying

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Chau Siu Wai
San Fung
Zhu Chengwu

Pursuant to Bye-laws 87(1) and 87(2) of the Bye-laws, Mr. Zhang Hongwei and Mr. Chau Siu Wai shall retire by rotation and being eligible, will offer themselves for re-election at the Annual General Meeting.

There is no service contract entered into between the Company and the executive and independent non-executive directors and they are not appointed for a specific term. However, all directors are subject to retirement by rotation at least once every three years pursuant to the Bye-laws of the Company.

## SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 11 May 2006 (the "Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The Scheme is effective for the period from 11 May 2006 to 10 May 2016. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue from time to time.

On 20 May 2008, a total of 330,000,000 shares options were granted to a chief executive officer of the Company and eligible participants. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.902 per share. The options are exercisable during the period from 20 May 2009 to 19 May 2013. During the year, 240,000,000 of these share options were cancelled.

# Report of the Directors

Details of share options granted under the scheme are as follows:

| Grant Date | Exercise Price *HK$* | Vesting Period | Exercisable Period | Number of Share Options: As at 1/4/2008 | Granted | Exercised | Lapsed | Cancelled | As at 31/3/2009 |
|---|---|---|---|---|---|---|---|---|---|
| Zhang Meiying | | | | | | | | | |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2008 | 04.12.2008 to 03.12.2009 | 30,000,000 | – | – | – | – | 30,000,000 |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2009 | 04.12.2009 to 03.12.2010 | 20,000,000 | – | – | – | – | 20,000,000 |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2010 | 04.12.2010 to 03.12.2011 | 20,000,000 | – | – | – | – | 20,000,000 |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2011 | 04.12.2011 to 03.12.2012 | 30,000,000 | – | – | – | – | 30,000,000 |
| Jonathan Soon P. Yeap | | | | | | | | | |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2009 | 20.05.2009 to 19.05.2010 | – | 36,000,000 | – | – | 36,000,000 | – |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2010 | 20.05.2010 to 19.05.2011 | – | 24,000,000 | – | – | 24,000,000 | – |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2011 | 20.05.2011 to 19.05.2012 | – | 24,000,000 | – | – | 24,000,000 | – |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2012 | 20.05.2012 to 19.05.2013 | – | 36,000,000 | – | – | 36,000,000 | – |
| Employees and Consultants | | | | | | | | | |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2008 | 04.12.2008 to 03.12.2009 | 52,500,000 | – | – | – | – | 52,500,000 |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2009 | 04.12.2009 to 03.12.2010 | 35,000,000 | – | – | – | – | 35,000,000 |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2010 | 04.12.2010 to 03.12.2011 | 35,000,000 | – | – | – | – | 35,000,000 |
| 04.12.2007 | 1.56 | 04.12.2007 to 03.12.2011 | 04.12.2011 to 03.12.2012 | 52,500,000 | – | – | – | – | 52,500,000 |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2009 | 20.05.2009 to 19.05.2010 | – | 63,000,000 | – | – | 36,000,000 | 27,000,000 |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2010 | 20.05.2010 to 19.05.2011 | – | 42,000,000 | – | – | 24,000,000 | 18,000,000 |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2011 | 20.05.2011 to 19.05.2012 | – | 42,000,000 | – | – | 24,000,000 | 18,000,000 |
| 20.05.2008 | 0.902 | 20.05.2008 to 19.05.2012 | 20.05.2012 to 19.05.2013 | – | 63,000,000 | – | – | 36,000,000 | 27,000,000 |
| Total | | | | 275,000,000 | 330,000,000 | | | 240,000,000 | 365,000,000 |

# Report of the Directors

## DISCLOSURE OF INTERESTS

### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2009, the Directors and their associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

| Name of Director | Name of Company | Nature of interest | Number of Shares | | Approximate% shareholding |
|---|---|---|---|---|---|
| | | | Long Position | Short Position | |
| Zhang Hongwei | The Company | Attributable interest of controlled corporation | 9,001,240,115 | – | 70.45 *(Note 1)* |
| Zhang Meiying | The Company | Beneficial owner | 100,000,000 | – | 0.78 *(Note 2)* |
| Zhu Jun | The Company | Beneficial owner | 1,443,000 | – | 0.01 |

*Note:*

1. Out of the 9,001,240,115 shares, 5,128,169,125 shares were beneficially held by He Fu International Limited, 2,223,726,708 shares were beneficially held by United Petroleum & Natural Gas Holdings Limited, and 1,649,344,282 shares were beneficially held by United Energy Holdings Limited. He Fu International Limited, United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited are companies wholly-owned by Mr. Zhang Hongwei. Therefore, Mr. Zhang Hongwei is deemed to be interested in those 9,001,240,115 shares.

2. Share options which entitle Ms. Zhang Meiying to subscribe for an aggregate 100,000,000 shares were granted to Ms. Zhang Meiying on 4 December 2007 under the share option scheme adopted by the Company on 11 May 2006.

Save as disclosed above, none of the directors, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2009.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2009, the following persons or corporations, other than the Directors or chief executives of the Company as disclosed above, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name | Name of Company | Capacity and nature of interest | Number of Shares | Approximate % shareholding |
|---|---|---|---|---|
| He Fu International Limited *(Note)* | The Company | Beneficial owner | 5,128,169,125 | 40.14 |
| United Petroleum & Natural Gas Holdings Limited *(Note)* | The Company | Beneficial owner | 2,223,726,708 | 17.40 |
| United Energy Holdings Limited *(Note)* | The Company | Beneficial owner | 1,649,344,282 | 12.91 |
| Kowin Limited | The Company | Beneficial owner | 654,037,267 | 5.12 |

*Note:* These companies are wholly-owned by Mr. Zhang Hongwei.

All the interests stated above represent long positions. As at 31 March 2009, no short position were recorded in the register kept by the Company under Section 336 of the SFO.

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 March 2009.

## SHARE CAPITAL

Particulars of the Company's share capital are set out in note 25 to the financial statements.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its subsidiary or holding company, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.



# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its subsidiaries or holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year of at any time during the year, except as announced.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board, having regard to the Company's operating results, individual performance and comparable market statistics.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independent pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive Directors are independent.

## COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 March 2009.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

## CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied throughout the year ended 31 March 2009 with the Code on Corporate Governance Practices, except for code provisions A.2.1 and A.4.1 as set out in the Code of Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Please refer to the Corporate Governance Report on pages 10 to 15 for details.

Details of the audit committee and remuneration committee are set out in the Corporate Governance Report.



# Report of the Directors

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2009.

## PURCHASE, SALE OR REDEMPTION OF SHARES

As at 31 March 2009, the Company has not redeemed any of its shares nor any or its subsidiaries has purchased or sold any of the Company's shares during this year.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the financial statement.

## AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditor, Messrs. RSM Nelson Wheeler as auditor of the Company.

On behalf of the Board

**Zhang Hongwei**
*Chairman*
Hong Kong, 3 July 2009



# Biography of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Zhang Hongwei,** aged 55, joined the Company on 27 February 1998. Mr. Zhang is the Chairman of the Group. Mr. Zhang is also the chairman and president of Orient Group Inc., Mr. Zhang is also the Deputy Chairman of China Minsheng Banking Corporation Ltd., a joint-stock bank listed on the Shanghai Exchange. He has over 20 years of experience in management in the PRC. As at the date of this report, Mr. Zhang is beneficially interested in 9,001,240,115 shares of the Company, representing approximately 70.45% of the existing issued share capital of the Company, and is the controlling shareholder of the Company. Mr. Zhang is the father of Ms. Zhang Meiying, an executive director appointed on 19 June 2006.

**Mr. Zhu Jun**, aged 45, joined the Company on 20 October 2005 as an executive Director. He is currently an executive director of China Infrastructure Holdings Limited, the shares of which are listed on The Singapore Exchange Securities Trading Limited. After graduation from the Peking University with a bachelor degree and a master degree in economics, Mr. Zhu Jun has had over 16 years of experience in corporate finance, investment and management. As at the date of this report, Mr. Zhu Jun directly holds 1,443,000 shares of the Company, representing approximately 0.01% of the existing issued share capital of the Company.

**Ms. Zhang Meiying**, aged 31, joined the Company on 19 June 2006 as an executive Director. Ms. Zhang previously worked in Citigroup Investment Banking Division (Hong Kong), China Minsheng Banking Corporation Limited and America Orient Group, Inc. and has 5 years of experience in banking and financial management. Ms. Zhang Meiying holds a BBA degree in Finance and International Business from the George Washington University, USA. Ms. Zhang has not held any directorship with other listed companies in the last 3 years. Ms. Zhang is the daughter of Mr. Zhang Hongwei, the Chairman, executive Director and controlling shareholder of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. San Fung**, aged 46, joined the Company on 9 November 2004 as an independent non-executive Director. Mr. San Fung is a qualified accountant with China Construction Company Limited specialized in financial analysis in infrastructure project. He completed a course in Master of Business Administration from the International East-western University of the United States and has over 13 years of experience in accounting. Mr. San is currently the chairman of New Century Investment and Development Company.

**Mr. Chau Siu Wai**, aged 40, joined the Company on 9 November 2004 as an independent non-executive Director. Mr. Chau is a university graduate with a bachelor degree in law. He further obtained a master degree in business administration from Murdoch University in Australia. Mr. Chau has more than 10 years of experience in financial reporting and investment analysis and is now a duty president of an investment company.



# Biography of Directors and Senior Management

**Mr. Zhu Chengwu**, aged 40, joined the Company on 5 December 2005 is an independent non-executive Director. He is currently the chief financial officer of the Shanghai head office of Everbright Securities Company Limited. After graduation from the Lanzhou Commercial College with a bachelor degree in finance, Mr. Zhu had held senior financial positions in several PRC companies including Shenzhen Techo Telecom Co., Ltd. ("Shenzhen Techo"), a PRC company whose shares are listed on the Shenzhen Stock Exchange. Mr. Zhu was the director and had assumed the role of the chief financial officer of Shenzhen Techo. Through his past experience, in particular, as the director of Shenzhen Techo, Mr. Zhu has gained much experience in (a) preparing and conducting review and internal audit of financial statements and reports; and (b) internal control and procedures for financial reporting in respect of public companies and possesses such knowledge, experience and expertise of an independent non-executive director as required under Rule 3.10(2) of the Listing Rules. Mr. Zhu Chengwu acquired the intermediate-level accountant certificate jointly issued by the Ministry of Finance and the Ministry of Personnel of the People's Republic of China on 30 May 2000. Mr. Zhu is considered to be an independent non-executive director under Rule 3.13 of the Listing Rules.

## SENIOR MANAGEMENT

**Mr. Wang Chunpeng**, aged 64, Chief Operation Officer of the Company. Prior to his current role, Mr. Wang joined the Company as Senior Advisor in 2006. Mr. Wang has worked at CNPC's Liaohe oilfield for over 30 years. Prior to joining the Company, Mr. Wang served as General Manager of CNPC Liaohe oilfield (2000-2005), Director General of Liaohe Petroleum Exploration Bureau (1999-2000), Vice Director of Liaohe Petroleum Exploration Bureau (1994-1999), Plant Manager of Liaohe oilfield Shenyang Extraction Plant and Huanxiling Extraction Plant, Unit Manager and Supervisor of Liaohe oilfield Xingyou Headquarter (1976-1981). Mr. Wang is an Executive Commissioner of the Political Consultation Committee of Liaoning Province and a member of the national committee of CPPCC.

**Mr. Lin Ning**, aged 53, Vice-President of United Petroleum and Natural Gas Investments Limited ("United Petroleum"), is responsible for the United Petroleum's overall operation, research and strategic planning. Mr. Lin graduated with a bachelor's degree in engineering from Xian Jiaotong University. He also holds a master's degree in business administration from Maastricht School of Management in the Netherlands. He has over 30 years of extensive experience in the petroleum drilling industry. Prior to joining the Group, he had worked at the Equipment Institute of Exploration Bureau of CNPC (中石油勘探局裝備所) as Assistant Engineer, Engineer and Deputy Director. He was Deputy General Manager and General Manager of China Merchants Trade Company Limited and China Merchants Trade & Investment Company Limited from 1988 to 1999. He was General Manager of China Science and Technology High-Tech Company Limited (中國科技高技術有限公司) from 2000 to 2005.

**Mr. Ma Guangyue**, aged 63, Vice-President and Chief Accountant of UP&NGI's finance and accounting management. Mr. Ma has over 40 years of extensive experience in corporate finance and management. Prior to joining the Group, Mr. Ma had worked at the Drilling Company in Jianghan Oilfield (江漢油田鑽井處), the Honggang Oilfield of Jilin (吉林紅崗油田), Huabei Oifield of CNPC (中國石油華北油田), CNPC Huabei Petroleum (中國石油華北油田管理局), China Petroleum Material and Equipment Corporation (中國石油物資裝備(集團)總公司) as Accountant, Chief Accountant and Vice-General Manager.



# INDEPENDENT AUDITOR'S REPORT

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

**TO THE SHAREHOLDERS OF**
**UNITED ENERGY GROUP LIMITED**
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the consolidated financial statements of United Energy Group Limited (the "Company") set out on pages 27 to 82, which comprise the consolidated balance sheet as at 31 March 2009, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.



# INDEPENDENT AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2009 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**RSM Nelson Wheeler**
*Certified Public Accountants*
Hong Kong

3 July 2009

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Turnover** | 6 | **5,178** | 4,893 |
| Cost of sales and service rendered | | **(605)** | (754) |
| **Gross profit** | | **4,573** | 4,139 |
| Other income | 7 | **50,626** | 55,573 |
| Oil exploitation expenses | | **(66,412)** | (76,875) |
| Administrative expenses | | **(606,317)** | (97,776) |
| **Loss from operations** | 9 | **(617,530)** | (114,939) |
| Share of profits/(losses) of associates | 16 | **12,604** | (758) |
| Gain on deemed disposal of a subsidiary | 29 | **–** | 7,395 |
| Gain on disposal of an associate | | **35,827** | – |
| **Loss before tax** | | **(569,099)** | (108,302) |
| Income tax credit | 10 | **10,174** | 3,823 |
| **Loss for the year** | | **(558,925)** | (104,479) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(550,438)** | (101,497) |
| Minority interests | | **(8,487)** | (2,982) |
| | | **(558,925)** | (104,479) |
| **Loss per share** | | | |
| Basic | 12 | **(4.31 cents)** | (0.84 cents) |
| Diluted | 12 | **N/A** | N/A |



# CONSOLIDATED BALANCE SHEET

At 31 March 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **42,988** | 36,703 |
| Investment properties | 15 | **136,054** | 177,600 |
| Investments in associates | 16 | **119,056** | 86,403 |
| | | **298,098** | 300,706 |
| **Current assets** | | | |
| Inventories | 18 | **–** | – |
| Trade and other receivables | 19 | **174,314** | 716,350 |
| Due from an associate | 17 | **–** | 66,552 |
| Financial assets at fair value through profit or loss | 20 | **23,804** | 6,613 |
| Bank and cash balances | 21 | **2,240,790** | 2,113,460 |
| | | **2,438,908** | 2,902,975 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **22,060** | 34,005 |
| Derivative financial instruments | 23 | **7,727** | – |
| Current tax liabilities | | **–** | 4 |
| Due to directors | 35(b) | **6,161** | 5,534 |
| Due to related companies | 35(b) | **–** | 3,774 |
| | | **35,948** | 43,317 |
| **Net current assets** | | **2,402,960** | 2,859,658 |
| **Total assets less current liabilities** | | **2,701,058** | 3,160,364 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 24 | **17,103** | 27,209 |
| **NET ASSETS** | | **2,683,955** | 3,133,155 |



# CONSOLIDATED BALANCE SHEET

At 31 March 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 25 | **127,771** | 127,771 |
| Reserves | 27(a) | **2,369,160** | 2,813,966 |
| Equity attributable to equity holders of the Company | | **2,496,931** | 2,941,737 |
| Minority interests | | **187,024** | 191,418 |
| **TOTAL EQUITY** | | **2,683,955** | 3,133,155 |

Approved by the Board of Directors on 3 July 2009

**Zhang Hongwei**
*Director*

**Zhu Jun**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *(note 25)* *HK$'000* | Share premium account *(note 27(c))* *HK$'000* | Merger reserve *(note 27(c))* *HK$'000* | Capital reserve *(note 27(c))* *HK$'000* | Foreign currency translation reserve *HK$'000* | Statutory reserve *(note 27(c))* *HK$'000* | Share-based payments reserve *(note 27(c))* *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* | Minority interests *HK$'000* | Total *HK$'000* |
| At 1 April 2007 | 114,031 | 10,856,777 | (10,346,845) | 287,545 | 20,429 | 829 | – | (144,126) | 788,640 | 206,700 | 995,340 |
| Share issue expenses paid | – | (27,851) | – | – | – | – | – | – | (27,851) | – | (27,851) |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 35,111 | – | – | – | 35,111 | 19,649 | 54,760 |
| Net income and expenses recognised directly in equity | – | (27,851) | – | – | 35,111 | – | – | – | 7,260 | 19,649 | 26,909 |
| Loss for the year | – | – | – | – | – | – | – | (101,497) | (101,497) | (2,982) | (104,479) |
| Total recognised income and expense for the year | – | (27,851) | – | – | 35,111 | – | – | (101,497) | (94,237) | 16,667 | (77,570) |
| Deemed disposal of a subsidiary | – | – | – | – | – | – | – | – | – | (31,949) | (31,949) |
| Issue of shares on placement | 13,740 | 2,198,400 | – | – | – | – | – | – | 2,212,140 | – | 2,212,140 |
| Recognition of share-based payments | – | – | – | – | – | – | 35,194 | – | 35,194 | – | 35,194 |
| Transfer | – | – | – | – | – | (327) | – | 327 | – | – | – |
| | 13,740 | 2,198,400 | – | – | – | (327) | 35,194 | 327 | 2,247,334 | (31,949) | 2,215,385 |
| At 31 March 2008 | 127,771 | 13,027,326 | (10,346,845) | 287,545 | 55,540 | 502 | 35,194 | (245,296) | 2,941,737 | 191,418 | 3,133,155 |



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *(note 25)* | Share premium account *(note 27(c))* | Merger reserve *(note 27(c))* | Capital reserve *(note 27(c))* | Foreign currency translation reserve | Statutory reserve *(note 27(c))* | Share-based payments reserve *(note 27(c))* | Accumulated losses | Total | Minority interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2008 | 127,771 | 13,027,326 | (10,346,845) | 287,545 | 55,540 | 502 | 35,194 | (245,296) | 2,941,737 | 191,418 | 3,133,155 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 6,469 | – | – | – | 6,469 | 4,093 | 10,562 |
| Net income recognised directly in equity | – | – | – | – | 6,469 | – | – | – | 6,469 | 4,093 | 10,562 |
| Loss for the year | – | – | – | – | – | – | – | (550,438) | (550,438) | (8,487) | (558,925) |
| Total recognised income and expense for the year | – | – | – | – | 6,469 | – | – | (550,438) | (543,969) | (4,394) | (548,363) |
| Recognition of share-based payments | – | – | – | – | – | – | 113,445 | – | 113,445 | – | 113,445 |
| Disposal of an associate | – | – | – | – | (14,282) | – | – | – | (14,282) | – | (14,282) |
| Transfer | – | – | – | – | – | 74 | – | (74) | – | – | – |
| | – | – | – | – | (14,282) | 74 | 113,445 | (74) | 99,163 | – | 99,163 |
| At 31 March 2009 | 127,771 | 13,027,326 | (10,346,845) | 287,545 | 47,727 | 576 | 148,639 | (795,808) | 2,496,931 | 187,024 | 2,683,955 |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before tax | | **(569,099)** | (108,302) |
| Adjustments for: | | | |
| Allowances for inventories | | **93,639** | – |
| Fair value loss on financial assets at fair value through profit or loss | | **202,066** | – |
| Fair value loss on derivative financial instruments | | **7,727** | – |
| Depreciation | | **12,048** | 7,978 |
| Share of (profits)/losses of associates | | **(12,604)** | 758 |
| Interest income | | **(49,544)** | (38,807) |
| Equity-settled share-based payments | | **113,445** | 35,194 |
| Fair value loss on investment properties | | **45,300** | – |
| Gain on disposals of property, plant and equipment | | **–** | (4) |
| Gain on disposal of an associate | | **(35,827)** | – |
| Gain on deemed disposal of a subsidiary | | **–** | (7,395) |
| Net gain on disposals of financial assets at fair value through profit or loss | | **–** | (11,521) |
| Operating loss before working capital changes | | **(192,849)** | (122,099) |
| Additions to properties under development | | **–** | (162,053) |
| Increase in inventories | | **(93,639)** | – |
| Increase in trade and other receivables | | **(6,369)** | (50,809) |
| Decrease in amount due from an associate | | **66,552** | – |
| Decrease in amount due from a director | | **–** | 5 |
| Decrease in amount due from a related company | | **–** | 69 |
| (Decrease)/increase in trade and other payables | | **(12,606)** | 80,738 |
| Increase in amounts due to directors | | **627** | 1,604 |
| (Decrease)/increase in amounts due to related companies | | **(3,774)** | 3,189 |
| Increase in amount due to a minority equity holder | | **–** | 176,503 |
| Cash used in operations | | **(242,058)** | (72,853) |
| Income taxes paid | | **(508)** | (1,898) |
| Net cash used in operating activities | | **(242,566)** | (74,751) |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Decrease in pledged bank deposits | | – | 128,043 |
| Loan receivables granted to unrelated companies | | – | (650,000) |
| Repayments of loan receivables from unrelated companies | | **650,000** | 75,368 |
| Deemed disposal of a subsidiary | 29 | – | (57,426) |
| Purchases of financial assets at fair value through profit or loss | | **(219,255)** | (168,768) |
| Sales of financial assets at fair value through profit or loss | | – | 179,785 |
| Purchases of property, plant and equipment | | **(17,560)** | (46,395) |
| Proceeds from disposals of property, plant and equipment | | – | 24 |
| Advance from a corporate shareholder | | – | 133,724 |
| Capital contribution to an associate | | **(100,092)** | – |
| Interest received | | **49,544** | 22,412 |
| Net cash generated from/(used in) investing activities | | **362,637** | (383,233) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | – | 2,212,140 |
| Share issue expenses paid | | – | (27,851) |
| Net cash generated from financing activities | | – | 2,184,289 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **120,071** | 1,726,305 |
| Effect of foreign exchange rate changes | | **7,259** | 26,141 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **2,113,460** | 361,014 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **2,240,790** | 2,113,460 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Bank and cash balances | | **2,240,790** | 2,113,460 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and redomiciled to Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Unit 2112, 21/F, Two Pacific Place, 88 Queensway, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company is primarily involved in investment holding. The principal activities of its subsidiaries are set out in note 36 to the financial statements.

## 2. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 April 2008. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets at fair value through profit or loss and derivative financial instruments which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The significant accounting policies applied in the preparation of these financial statements are set out below.

### (a) CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) MERGER ACCOUNTING FOR COMMON CONTROL COMBINATIONS

Pursuant to the sale and purchase agreement dated 8 August 2007, the Company issued 4,360,248,448 shares at par value of HK$0.01 each as consideration to acquire 51%, 34% and 15% equity interest in United Petroleum & Natural Gas Investments Limited ("United Petroleum") from United Energy Holdings Limited ("United Energy"), United Petroleum & Natural Gas Holdings Limited ("United Petroleum Holdings") and Kowin Limited respectively (the "Acquisition"). In addition, the Company issued 166,859,809 shares at par value of HK$0.01 each to United Energy for acquiring the loan of HK$268,644,000 due to United Energy by United Petroleum before the completion of the Acquisition. United Energy and United Petroleum Holdings were wholly owned by Mr. Zhang Hongwei. Details of the Acquisition were set out in the Company's circular dated 17 September 2007. The Acquisition was completed on 16 October 2007.

United Petroleum is principally engaged in production of crude oil in the People's Republic of China (the "PRC").

As the Company and United Petroleum were both ultimately controlled by Mr. Zhang Hongwei before and after the Acquisition, the Acquisition was accounted for as a business combination of entities under common control. The financial statements of the Group for the year ended 31 March 2008 were prepared based on the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the Acquisition had occurred from the date when the combining entities first came under the control of Mr. Zhang Hongwei.

The consolidated financial statements for the year ended 31 March 2008 incorporate the financial statements of the combining entities as if they had been combined from the date when they first came under the control of the controlling party.

The consolidated income statement and consolidated cash flow statement include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) ASSOCIATES

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) JOINT VENTURE

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

In respect of interests in jointly controlled operations, the Group recognises in its financial statements, the assets that it controls and the liabilities that it incurs; and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

### (e) FOREIGN CURRENCY TRANSLATION

#### *(i) FUNCTIONAL AND PRESENTATION CURRENCY*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

#### *(ii) TRANSACTIONS AND BALANCES IN EACH ENTITY'S FINANCIAL STATEMENTS*

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the consolidated income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

#### *(iii) TRANSLATION ON CONSOLIDATION*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) FOREIGN CURRENCY TRANSLATION (Continued)

#### *(iii) TRANSLATION ON CONSOLIDATION* (Continued)

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

### (f) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal residual values and annual depreciation rates are as follows:

| | **Residual values** | **Annual depreciation rate** |
|---|---|---|
| Land and buildings | – | 5% |
| Leasehold improvements | – | 5%-33.3% |
| Motor vehicles | – | 25%-30% |
| Furniture, fixtures and equipment | 3%-10% | 20% |
| Plant and machinery | – | 20% |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) PROPERTY, PLANT AND EQUIPMENT (Continued)

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Investment properties under construction represents properties being constructed or developed for future use as investment properties, and is stated at cost less impairment losses.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

### (g) INVESTMENT PROPERTIES

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are included in the consolidated income statement for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

If an investment property becomes owner-occupied or a property held for sale, it is reclassified as property, plant and equipment or properties held for sale as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

Property that is being constructed or developed for future use as investment property is classified as investment properties under construction in property, plant and equipment and stated at cost less impairment losses until construction or development is completed, at which time it is reclassified as an investment property at fair value. The difference between the fair value and the previous carrying amount is recognised in the consolidated income statement.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

#### *(i) THE GROUP AS LESSEE*

Lease payments (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the lease term.

#### *(ii) THE GROUP AS LESSOR*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

### (i) RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### (j) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (k) RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) INVESTMENTS

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the consolidated income statement.

### (m) TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the consolidated income statement.

Impairment losses are reversed in subsequent periods and recognised in the consolidated income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### (n) CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### (p) BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (q) TRADE AND OTHER PAYABLES

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (r) EQUITY INSTRUMENTS

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (s) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative are initially recognised at fair value on the contract date and are subsequently measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the consolidated income statement as they arise.

### (t) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Rental income is recognised on a straight-line basis over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (t) REVENUE RECOGNITION (Continued)

Property management service fees income is recognised when the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

### (u) EMPLOYEE BENEFITS

#### *(i) EMPLOYEE LEAVE ENTITLEMENTS*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(ii) PENSION OBLIGATIONS*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the consolidated income statement represents contributions payable by the Group to the funds.

#### *(iii) TERMINATION BENEFITS*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (v) SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain directors, employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sales, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specified borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

### (x) TAXATION

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (x) TAXATION (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (y) RELATED PARTIES

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (z) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, trade and other receivables and bank and cash balances. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

### (aa) IMPAIRMENT OF ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except investment properties, inventories, receivables and investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (aa) IMPAIRMENT OF ASSETS (Continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (bb) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (cc) EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 4. CRITICAL JUDGEMENT AND KEY ESTIMATES

### CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimation, which are dealt with below).

*(a) SPLIT OF LAND AND BUILDINGS ELEMENTS*

The Group determines that the lease payments cannot be allocated reliably between the land and buildings elements. Accordingly, the entire lease of land and buildings is classified as a finance lease and included under property, plant and equipment.

*(b) LEGAL TITLES OF LAND AND BUILDINGS*

As stated in note 14 to the financial statements, the titles of land and buildings were not transferred to the Group as at 31 March 2009. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those land and buildings as property, plant and equipment on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those land and buildings.

### KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*(a) FAIR VALUES OF INVESTMENT PROPERTIES*

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

*(b) INCOME TAX*

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 4. CRITICAL JUDGEMENT AND KEY ESTIMATES (Continued)

### KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

*(c) SHARE-BASED PAYMENTS EXPENSES*

The fair value of the share options granted determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payments reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

*(d) ALLOWANCES FOR INVENTORIES*

As set out in the Company's announcement dated 2 March 2009, the Company had acquired oil production equipment amounting to approximately HK$93,639,000 (equivalent to US$12,000,000) from Transmeridian Exploration Incorporated ("Transmeridian") for re-sale purpose. The directors considered full allowance was made against the inventories because Transmeridian has failed to make the delivery according to the contract term.

*(e) ESTIMATION OF FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS*

As disclosed in note 20(b) to the financial statements, in the absence of quoted market prices in an active market, the directors estimate the fair value of the Group's investment in debt securities by considering information from a variety of sources, including the latest published financial information of the issuer, the historical data on market volatility as well as the price and industry of the debt securities.

*(f) ESTIMATION OF FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS*

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. In assessing the fair value of the derivative financial instruments, the Binomial Option Pricing Model was used. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative component, the expected volatility and risk free rate. Any changes in these assumptions can significantly affect the estimate of the fair value of the derivative.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: interest rate risk, liquidity risk, credit risk, price risk and foreign currency risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) INTEREST RATE RISK

The Group's exposure to interest-rate risk arises from its bank deposits.

The Group's certain bank deposits mainly bear interest at variable rates varied with the then prevailing market condition.

At 31 March 2009, if interest rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated loss after tax for the year would have been HK$1,393,000 higher/lower, arising mainly as a result of lower/higher interest income on the bank deposits bearing interest at variable rates.

At 31 March 2008, if interests rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated loss after tax for the year would have been HK$9,127,000 higher/lower, arising mainly as a result of lower/higher interest income on the bank deposits bearing interest at variable rates.

The Group's certain bank deposits bear interests at fixed interest rates, and therefore are subject to fair value interest rate risks.

### (b) LIQUIDITY RISK

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The maturity of the Group's financial liabilities at the balance sheet date is less than one year.

### (c) CREDIT RISK

The carrying amount of the bank and cash balances, trade and other receivables and financial assets at fair value through profit or loss included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (c) CREDIT RISK (Continued)

The credit quality of the counterparties in respect of trade and other receivables is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and PRC large state-controlled banks.

### (d) PRICE RISK

The Group's financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

Given that no active market price is available for the debt securities, it is impractical to determine the impact that the changes in stock market price of the debt securities would have on the Group's financial statements.

At 31 March 2009, if the share prices of the equity investments had increased/decreased by 10 per cent, consolidated loss after tax for the year would have been HK$186,000 lower/higher.

At 31 March 2008, if the share prices of the equity investments had increased/decreased by 10 per cent, consolidated loss after tax for the year would have been HK$690,000 lower/higher.

### (e) FOREIGN CURRENCY RISK

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HK$"), United States dollars ("US$") and Renminbi ("RMB") and the functional currencies of the principal operating Group entities are HK$ and RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 March 2009, if the US$ had weakened/strengthened 1 per cent against the HK$ with all other variables held constant, consolidated loss after tax for the year would have been HK$1,795,000 higher/lower, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances denominated in US$.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (e) FOREIGN CURRENCY RISK (Continued)

At 31 March 2009, if the Euro had weakened/strengthened 10 per cent against the HK$ with all other variables held constant, consolidated loss after tax for the year would have been HK$29,350,000 higher/lower, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances denominated in Euro.

At 31 March 2008, if the US$ had weakened/strengthened 1 per cent against the HK$ with all other variables held constant, consolidated loss after tax for the year would have been HK$1,901,000 higher/lower, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances denominated in US$.

### (f) FAIR VALUE

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

## 6. TURNOVER

The Group's turnover which represents rental income and property management service fees income are as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental income | **3,295** | 3,114 |
| Property management service fees income | **1,883** | 1,779 |
| | **5,178** | 4,893 |



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 7. OTHER INCOME

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net gain on disposals of financial assets at fair value through profit or loss | **–** | 11,521 |
| Interest income | **49,544** | 38,807 |
| Gain on disposals of property, plant and equipment | **–** | 4 |
| Management fees income | **998** | – |
| Net foreign exchange gains | **–** | 3,777 |
| Others | **84** | 1,464 |
| | **50,626** | 55,573 |

## 8. SEGMENT INFORMATION

### (a) PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

The Group is organised into four main business segments:

Property development – The property development segment engages in development of commercial properties for sales;

Property investment – The property investment segment invests in commercial properties for their rental income, property management service fees income and value appreciation potential;

Wholesale of household building materials – The wholesale of household building materials segment engages in trading of household building materials on indent basis;

Oil exploitation – The oil exploitation segment engages in activities relating to the production of crude oil.

### (b) SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

More than 90% of the Group's turnover and operating profit is earned within the PRC and all major operating assets of the Group are located in the PRC. Therefore, no geographical segment is presented.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 8. SEGMENT INFORMATION (Continued)

### PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS:

| | Property development HK$'000 | Property investment HK$'000 | Wholesale of household building materials HK$'000 | Oil exploitation HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 March 2009** | | | | | |
| Total revenue | – | 5,178 | – | – | 5,178 |
| Segment results | – | (41,529) | (710) | (176,956) | (219,195) |
| Other income | | | | | 50,626 |
| Unallocated expenses | | | | | (448,961) |
| Loss from operations | | | | | (617,530) |
| Gain on disposal of an associate | 35,827 | | | | 35,827 |
| Loss before share of profits of associates | | | | | (581,703) |
| Share of profits/(losses) of associates | | | | | |
| – Property development | (6,360) | | | | (6,360) |
| – Others | | | | | 18,964 |
| | | | | | 12,604 |
| Loss before tax | | | | | (569,099) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 8. SEGMENT INFORMATION (Continued)

**PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS** (Continued)**:**

| | Property development HK$'000 | Property investment HK$'000 | Wholesale of household building materials HK$'000 | Oil exploitation HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **At 31 March 2009** | | | | | |
| Segment assets | – | 150,674 | 345,344 | 256,380 | 752,398 |
| Investments in associates | – | – | – | – | 119,056 |
| Unallocated assets | | | | | 1,865,552 |
| Total assets | | | | | 2,737,006 |
| Segment liabilities | – | 2,795 | 696 | 13,311 | 16,802 |
| Unallocated liabilities | | | | | 36,249 |
| Total liabilities | | | | | 53,051 |
| Other segment information: | | | | | |
| Capital expenditure | – | – | – | 17,560 | 17,560 |
| Depreciation | – | 32 | 4 | 12,012 | 12,048 |
| Equity-settled share-based payments | – | – | – | – | 113,445 |
| Other non-cash expenses | – | 45,300 | – | 93,639 | 138,939 |
| Unallocated amounts | – | – | – | – | 209,793 |
| | | | | | 348,732 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 8. SEGMENT INFORMATION (Continued)

**PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS** (Continued):

| | Property development *HK$'000* | Property investment *HK$'000* | Wholesale of household building materials *HK$'000* | Oil exploitation *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|
| **Year ended 31 March 2008** | | | | | |
| Total revenue | – | 4,893 | – | – | 4,893 |
| Segment results | (16,201) | 154 | (125) | (95,502) | (111,674) |
| Other income | | | | | 55,573 |
| Unallocated expenses | | | | | (58,838) |
| Loss from operations | | | | | (114,939) |
| Share of losses of associates | (758) | | | | (758) |
| Gain on deemed disposal of a subsidiary | 7,395 | | | | 7,395 |
| Loss before tax | | | | | (108,302) |
| **At 31 March 2008** | | | | | |
| Segment assets | 66,551 | 203,841 | 270,256 | 244,086 | 784,734 |
| Investments in associates | 86,403 | – | – | – | 86,403 |
| Unallocated assets | | | | | 2,332,544 |
| Total assets | | | | | 3,203,681 |
| Segment liabilities | – | 18,897 | 119 | 12,701 | 31,717 |
| Unallocated liabilities | | | | | 38,809 |
| Total liabilities | | | | | 70,526 |
| Other segment information: | | | | | |
| Capital expenditure | 5,184 | – | – | 41,211 | 46,395 |
| Depreciation | 166 | 31 | 3 | 7,778 | 7,978 |
| Equity-settled share-based payments | – | – | – | – | 35,194 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 9. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Auditor's remuneration | | |
| – Current | 891 | 753 |
| – Under-provision in prior year | – | 61 |
| | 891 | 814 |
| Depreciation | 12,048 | 7,978 |
| Directors' emoluments *(note 11)* | 40,481 | 16,448 |
| Operating lease rentals paid in respect of rented premises *(note)* | 4,294 | 3,159 |
| Research and development expenditures | 3,917 | 12,726 |
| Staff costs including directors' emoluments | | |
| Salaries, bonuses and allowances *(note)* | 18,281 | 11,109 |
| Retirement benefits scheme contributions | 238 | 426 |
| Equity-settled share-based payments | 113,445 | 35,194 |
| | 131,964 | 46,729 |
| Direct operating expenses of investment properties that generate rental income | 648 | 3,987 |
| Net foreign exchange losses | 61,705 | – |
| Fair value loss on derivative financial instruments | 7,727 | – |
| Fair value loss on financial assets at fair value through profit or loss | 202,066 | – |
| Fair value loss on investment properties | 45,300 | – |
| Allowances for inventories | 93,639 | – |

*Note:* The amount includes the accommodation benefits provided to a director and staff amounting to HK$1,002,000 (2008: HK$228,000) included in the staff costs.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 10. INCOME TAX CREDIT

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Current tax – PRC enterprise income tax | | |
| Provision for the year | **492** | 680 |
| Under-provision in prior years | **11** | 10 |
| | **503** | 690 |
| Deferred tax *(note 24)* | **(10,677)** | (4,513) |
| | **(10,174)** | (3,823) |

No provision for profits tax in the Bermuda, the British Virgin Islands or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the year ended 31 March 2009 (2008: Nil).

PRC enterprise income tax is calculated at the applicable rates based on estimated taxable income earned by the companies with certain tax preference, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax credit and the product of loss before tax multiplied by the PRC enterprise income tax rate is as follows:

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Loss before tax (excluding share of results of associates) | **(581,703)** | (107,544) |
| Tax at the statutory PRC enterprise income tax rate of 25% (2008: 25%) | **(145,426)** | (26,886) |
| Tax effect of income that is not taxable | **(12,940)** | (5,093) |
| Tax effect of expenses that are not deductible | **29,167** | 10,265 |
| Tax effect of tax losses not recognised | **78,440** | 24,851 |
| Tax effect of utilisation of tax losses not previously recognised | **(897)** | (2,986) |
| Tax effect of temporary differences not recognised | **2,683** | 1,449 |
| Tax effect of change in tax rate in PRC | **–** | (1,607) |
| Tax effect on decrease in tax rate for opening deferred tax balances | **–** | (4,513) |
| Under-provision in prior years | **11** | 10 |
| Effect of different tax rates of the Company and its subsidiaries | **38,788** | 687 |
| Income tax credit | **(10,174)** | (3,823) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

| | Fees | Salaries and other benefits | Share-based payments | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Year ended 31 March 2009** | | | | | |
| Executive directors: | | | | | |
| Mr. Zhang Hongwei | **1,000** | **2,120** | **–** | **–** | **3,120** |
| Mr. Zhu Jun | **540** | **–** | **–** | **–** | **540** |
| Ms. Zhang Meiying | **1,800** | **613** | **34,036** | **12** | **36,461** |
| | **3,340** | **2,733** | **34,036** | **12** | **40,121** |
| Independent non-executive directors: | | | | | |
| Mr. Chau Siuwai | **120** | **–** | **–** | **–** | **120** |
| Mr. San Fung | **120** | **–** | **–** | **–** | **120** |
| Mr. Zhu Chengwu | **120** | **–** | **–** | **–** | **120** |
| | **360** | **–** | **–** | **–** | **360** |
| | **3,700** | **2,733** | **34,036** | **12** | **40,481** |

| | Fees | Salaries and other benefits | Share-based payments | Retirement benefits scheme contributions | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Year ended 31 March 2008** | | | | | |
| Executive directors: | | | | | |
| Mr. Zhang Hongwei | 1,000 | – | – | – | 1,000 |
| Mr. Zhu Jun | 540 | – | – | – | 540 |
| Ms. Zhang Meiying | 1,080 | 658 | 12,798 | 12 | 14,548 |
| | 2,620 | 658 | 12,798 | 12 | 16,088 |
| Independent non-executive directors: | | | | | |
| Mr. Chau Siuwai | 120 | – | – | – | 120 |
| Mr. San Fung | 120 | – | – | – | 120 |
| Mr. Zhu Chengwu | 120 | – | – | – | 120 |
| | 360 | – | – | – | 360 |
| | 2,980 | 658 | 12,798 | 12 | 16,448 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 March 2009 and 2008.

The five highest paid individuals in the Group during the year included 2 (2008: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2008: 2) individuals are set out below:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **5,501** | 2,394 |
| Retirement benefits scheme contributions | **12** | 12 |
| | **5,513** | 2,406 |

The emoluments fell within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2009** | 2008 |
| Nil to HK$1,000,000 | **–** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| | **3** | 2 |

During the years ended 31 March 2009 and 2008, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 12. LOSS PER SHARE

Basic loss per share is calculated based on loss attributable to equity holders of the Company during the year divided by the weighted average number of ordinary shares in issue. The calculation of the basic loss per share is based on the following:

| | 2009<br>*HK$'000* | 2008<br>*HK$'000* |
|---|---|---|
| **Loss attributable to equity holders of the Company** | | |
| Loss attributable to equity holders of the Company for the purpose of calculating basic loss per share | **(550,438)** | (101,497) |

| | 2009 | 2008 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic loss per share | **12,777,091,632** | 12,033,780,157 |

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 31 March 2009.

## 13. DIVIDEND

No dividend has been paid or declared by the Company during the year (2008: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Furniture, fixtures and equipment HK$'000 | Investment properties under construction HK$'000 | Plant and machinery HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 April 2007 | – | 1,441 | 701 | 1,082 | 147,859 | – | 151,083 |
| Additions | 3,466 | 4,582 | 1,644 | 946 | 4,710 | 31,047 | 46,395 |
| Deemed disposal of a subsidiary | – | – | (376) | (720) | (163,684) | – | (164,780) |
| Disposals | – | – | – | (25) | – | – | (25) |
| Exchange differences | 129 | 154 | 121 | 85 | 11,115 | 1,158 | 12,762 |
| At 31 March 2008 | **3,595** | **6,177** | **2,090** | **1,368** | **–** | **32,205** | **45,435** |
| Additions | **184** | **–** | **1,187** | **131** | **–** | **16,058** | **17,560** |
| Exchange differences | **77** | **92** | **46** | **21** | **–** | **712** | **948** |
| At 31 March 2009 | **3,856** | **6,269** | **3,323** | **1,520** | **–** | **48,975** | **63,943** |
| **Accumulated depreciation** | | | | | | | |
| At 1 April 2007 | – | 480 | 15 | 265 | – | – | 760 |
| Charge for the year | 101 | 751 | 546 | 371 | – | 6,209 | 7,978 |
| Deemed disposal of a subsidiary | – | – | (60) | (228) | – | – | (288) |
| Disposals | – | – | – | (5) | – | – | (5) |
| Exchange differences | 3 | 5 | 22 | 25 | – | 232 | 287 |
| At 31 March 2008 | **104** | **1,236** | **523** | **428** | **–** | **6,441** | **8,732** |
| Charge for the year | **260** | **940** | **765** | **301** | **–** | **9,782** | **12,048** |
| Exchange differences | **3** | **3** | **12** | **6** | **–** | **151** | **175** |
| At 31 March 2009 | **367** | **2,179** | **1,300** | **735** | **–** | **16,374** | **20,955** |
| **Carrying amount** | | | | | | | |
| At 31 March 2009 | **3,489** | **4,090** | **2,023** | **785** | **–** | **32,601** | **42,988** |
| At 31 March 2008 | 3,491 | 4,941 | 1,567 | 940 | – | 25,764 | 36,703 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 March 2009, the Group was in the process of applying for the title certificates of its land and buildings with an aggregate net carrying amount of approximately HK$3,489,000 (2008: HK$3,491,000). The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land and buildings. The Directors are also of the opinion that the aforesaid matter does not have any significant impact on the Group's financial position as at 31 March 2009.

## 15. INVESTMENT PROPERTIES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **177,600** | 161,616 |
| Fair value loss | **(45,300)** | – |
| Exchange differences | **3,754** | 15,984 |
| At end of year | **136,054** | 177,600 |

The fair value of the Group's investment properties as at 31 March 2009 has been arrived at on the basis of a valuation carried out on that date by BMI Appraisals Limited, independent qualified professional valuer not connected with the Group. BMI Appraisals Limited is a member of The Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors was arrived at by reference to market evidence of transaction prices for similar properties.

The Group's investment properties at their carrying amounts are analysed as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Investment properties held under medium-term leases in the PRC | **136,054** | 177,600 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 15. INVESTMENT PROPERTIES (Continued)

The Group's investment properties held as at 31 March 2009 are rented to an independent third party for periods up to 20 years. At 31 March 2009, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **6,708** | 6,227 |
| In the second to fifth years inclusive | **27,712** | 25,947 |
| After five years | **79,180** | 81,270 |
| | **113,600** | 113,444 |

## 16. INVESTMENTS IN ASSOCIATES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted investments | | |
| Share of net assets | **119,056** | 86,403 |

Details of the Group's interests in the associates are set out below:

| **Name of entity** | **Place of registration and operation** | **Issued and paid up capital** | **Percentage of ownership interest/ voting power/ profit sharing** | **Principal activity** |
|---|---|---|---|---|
| Glimmer Stone Investments Limited ("Glimmer Stone") *(note a)* | British Virgin Islands | US$20,000 | 26.3% | Investment holding |
| Shenyang Dadongfang Property Development Company Limited ("Dadongfang") *(note b)* | PRC | Registered capital of US$35,925,700 | 30% | Property development |

(a) During the year, the Group invested approximately HK$100,092,000 in Glimmer Stone which represents 26.3% of the registered capital of Glimmer Stone.

(b) During the year, the Group disposed of its 30% equity interest in Dadongfang for a cash consideration of approximately HK$101,589,000. The disposal was completed in January 2009.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 16. INVESTMENTS IN ASSOCIATES (Continued)

Details of the principal subsidiary of Glimmer Stone as at 31 March 2009 are as follows:

| Name of entity | Place of registration and operation | Issued and paid up capital | Percentage of ownership interest/ voting power/ profit sharing | | Principal activity |
|---|---|---|---|---|---|
| | | | Group's effective interest | Held by the associate | |
| Grand Pacific Source Limited | British Virgin Islands | US$50,000 | 26.3% | 100% | Investment holding |

Summarised consolidated financial information in respect of the Group's associates is set out below:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **At 31 March** | | |
| Total assets | **493,952** | 804,413 |
| Total liabilities | **(41,268)** | (516,402) |
| Net assets | **452,684** | 288,011 |
| Group's share of associate's net assets | **119,056** | 86,403 |
| **Year ended 31 March** | | |
| Total revenue | **286** | 1,200 |
| Total profits/(losses) for the year | **50,907** | (17,425) |
| Group's share of associates' profits/(losses) for the year | **12,604** | (758) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 17. DUE FROM AN ASSOCIATE

The amount due from an associate is unsecured, interest-free and has no fixed repayment terms. The 2008 amount represents the amount due from Dadongfong which was classified as amount due from a disposed associate in trade and other receivables in 2009 as disclosed in note 19 to the financial statements.

## 18. INVENTORIES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Finished goods | **93,639** | – |
| Less: Allowances for inventories | **(93,639)** | – |
| | **–** | – |

## 19. TRADE AND OTHER RECEIVABLES

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loan receivables *(note a)* | **–** | 666,395 |
| Consideration receivable *(note b)* | **101,589** | – |
| Receivables arising from dealing in listed securities | **–** | 48,638 |
| Deposits and prepayments | **4,376** | 1,267 |
| Amount due from a disposed associate | **68,026** | – |
| Others | **323** | 50 |
| Total trade and other receivables | **174,314** | 716,350 |

(a) The loan receivables in 2008 represent advances to an independent third party, carrying interest at 8% per annum and secured by the borrower's investment in 70% equity interests of a sino-foreign equity joint venture established in the PRC and principally engaged in operation of hotel and related business. The loan receivables have been fully repaid during the year.

(b) The consideration receivable represents an amount due from an independent third party derived from the disposal of Dadongfang. The details are set out in note 16(b) to the financial statements. The amount is unsecured, interest-free and repayable on or before 20 July 2009.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Held for trading: | | |
| Equity securities, listed in Hong Kong | | |
| at market value *(note a)* | **2,062** | 6,613 |
| Debt securities, unlisted | | |
| at fair value *(note b)* | **21,742** | – |
| | **23,804** | 6,613 |

(a) The investments represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of the listed securities are based on current bid prices. In order to minimise credit risk, the Directors have delegated a team to be responsible for formulated a credit policy governing the control of credit risk. In this regard, the Directors consider that the credit risk is significantly reduced.

(b) Investment in debt securities represents senior note which bear interest at 12% per annum and will mature on 15 December 2010.

The issuer of the senior note had underwent voluntary petitions for reorganisation under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court during the year. The fair value of the debt securities was determined by using valuation technique. These include considering information from a variety of sources, such as the latest published financial information of the issuer, the historical data on market volatility as well as the price and industry of the debt securities.

## 21. BANK AND CASH BALANCES

At 31 March 2009, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$368,569,000 (2008: HK$313,100,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 22. TRADE AND OTHER PAYABLES

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Receipts in advance | – | 16,175 |
| Accrual for operating expenses | **18,580** | 15,939 |
| Salary and welfare payables | **1,576** | 95 |
| Deposits received | **1,706** | 1,119 |
| Other tax payables | **177** | 652 |
| Others | **21** | 25 |
| Total trade and other payables | **22,060** | 34,005 |

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Call options granted, at fair value | **7,727** | – |

On 6 June 2008, the Company entered into option deeds pursuant to which the Company is granted a put option to sell and the shareholders of Glimmer Stone (the "Purchasers") is granted a call option to acquire the remaining 26.3% of equity interests of Glimmer Stone within a specified period according to the relevant terms of the agreements.

The derivative is measured at fair value valued by a firm of independent professional valuers in Hong Kong by using the Binomial Option Pricing Model. The significant inputs into the model were as follows:

| | 2009 |
|---|---|
| Spot price | **HK$123,957,000** |
| Exercise price | **HK$116,256,000** |
| Risk-free rate | **0.110%** |
| Expected life of the options | **74 days** |
| Expected price volatility | **4.57%** |

Expected price volatility was based on the expected price volatility of the two convertible bonds of Kaisun Energy Group Limited (formerly known as Challenger Group Holdings Limited) that are held by Glimmer Stone and its subsidiary and are their major assets in accounts. The expected life of the options represents the remaining exercise period of the options.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 24. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group.

| | **Investment properties** *HK$'000* |
|---|---|
| At 1 April 2007 | 29,020 |
| Credit to income statement for the year *(note 10)* | (4,513) |
| Exchange differences | 2,702 |
| At 31 March 2008 | 27,209 |
| Credit to income statement for the year *(note 10)* | (10,677) |
| Exchange differences | 571 |
| At 31 March 2009 | 17,103 |

At the balance sheet date the Group has unused tax losses and other deductible temporary differences of approximately HK$480,743,000 and HK$87,000 respectively (2008: HK$86,785,000 and HK$885,000 respectively) that are available for offsetting against future taxable profits. No deferred tax assets have been recognised due to unpredictability of future profit streams. The unrecognised tax losses and other deductible temporary differences may be carried forward indefinitely.

## 25. SHARE CAPITAL

| | **Number of shares** | **Amount** *HK$'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.01 each | | |
| At 31 March 2008 and 2009 | 60,000,000,000 | 600,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each | | |
| At 31 March 2008 and 2009 | 12,777,091,632 | 127,771 |

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 25. SHARE CAPITAL (Continued)

The Group monitors capital by maintaining a net cash position throughout the year. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the Group may adjust the payment of dividends, new share issues and raise new debts.

The Group's strategy is to maintain a solid base to support the operations and develop of its business in the long term. No changes were made in the objectives, policies or processes during the years ended 31 March 2008 and 31 March 2009.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars periodically on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 March 2009, 30% (2008: 43%) of the shares were in public hands.

## 26. BALANCE SHEET OF THE COMPANY

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Investments in subsidiaries | | **4,769,873** | 8,450,616 |
| Investments in associates | | **100,092** | – |
| Trade and other receivables | | **1,699** | 715,828 |
| Financial assets at fair value through profit or loss | | **23,804** | 6,613 |
| Due from a subsidiary | | **421,193** | 313,597 |
| Bank and cash balances | | **1,723,687** | 1,606,368 |
| Trade and other payables | | **(5,209)** | (2,206) |
| Derivative financial instruments | | **(7,727)** | – |
| Due to directors | | **(6,161)** | (5,534) |
| Due to a subsidiary | | **–** | (1,456) |
| NET ASSETS | | **7,021,251** | 11,083,826 |
| Capital and reserves | | | |
| Share capital | | **127,771** | 127,771 |
| Reserves | 27(b) | **6,893,480** | 10,956,055 |
| TOTAL EQUITY | | **7,021,251** | 11,083,826 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 27. RESERVES

### (a) GROUP

The amounts of Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

### (b) COMPANY

| | Share premium HK$'000 | Share-based payments reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2007 | 2,572,169 | – | (194,556) | 2,377,613 |
| Issue of shares on acquisition of a subsidiary | 8,284,608 | – | – | 8,284,608 |
| Issue of shares on placement | 2,198,400 | – | – | 2,198,400 |
| Share issue expenses paid | (27,851) | – | – | (27,851) |
| Recognition of share-based payments | – | 35,194 | – | 35,194 |
| Loss for the year | – | – | (1,911,909) | (1,911,909) |
| At 31 March 2008 | 13,027,326 | 35,194 | (2,106,465) | 10,956,055 |
| At 1 April 2008 | **13,027,326** | **35,194** | **(2,106,465)** | **10,956,055** |
| Recognition of share-based payments | **–** | **113,445** | **–** | **113,445** |
| Loss for the year | **–** | **–** | **(4,176,020)** | **(4,176,020)** |
| At 31 March 2009 | **13,027,326** | **148,639** | **(6,282,485)** | **6,893,480** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 27. RESERVES (Continued)

### (c) NATURE AND PURPOSE OF RESERVES

#### (i) *SHARE PREMIUM ACCOUNT*

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

#### (ii) *MERGER RESERVE*

Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the market value of the shares issued by the Company as consideration for the acquisition.

#### (iii) *CAPITAL RESERVE*

Capital reserve represents the aggregate of:

- the Group's share of an additional equity contribution made from minority shareholder of a subsidiary, Shenyang Shengtaiyuan Logistic Company Limited, on 19 April 2005; and

- the loan wavier made by the ultimate holding company, He Fu International Limited, to a subsidiary, Grand Hope Group Limited.

#### (iv) *STATUTORY RESERVE*

Statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Company's PRC subsidiaries under the applicable laws and regulations in the PRC.

#### (v) *SHARE-BASED PAYMENTS RESERVE*

The share-based payments reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors, employees and consultants of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(v) to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 28. SHARE-BASED PAYMENTS

### EQUITY-SETTLED SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to the shareholders' resolution passed on 11 May 2006 for the primary purpose of providing opportunity to directors, employees and consultants to acquire proprietary interests of the Group and will expire on 10 May 2016. Under the Scheme, the Board of Directors of the Company may grant options to eligible person (including all directors, employees of the Group, consultants, advisors, agents, customers, service providers, contractors and business partners of any members of the Group).

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue from time to time.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the share for the five business dates immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Share options granted to any director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to substantial shareholders or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within 12 month period, are subject to shareholders' approval in advance in general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 28. SHARE-BASED PAYMENTS (Continued)

### EQUITY-SETTLED SHARE OPTION SCHEME (Continued)

Details of the specific categories of options are as follows:

| Grantee | Date of grant | Vesting period | Exercise period | Exercise price | Number of share options |
|---|---|---|---|---|---|
| | | | | *HK$* | |
| **2008** | | | | | |
| Directors and employees | 04.12.2007 | 04.12.2007 to 03.12.2008 | 04.12.2008 to 03.12.2009 | 1.56 | 82,500,000 |
| | 04.12.2007 | 04.12.2007 to 03.12.2009 | 04.12.2009 to 03.12.2010 | 1.56 | 55,000,000 |
| | 04.12.2007 | 04.12.2007 to 03.12.2010 | 04.12.2010 to 03.12.2011 | 1.56 | 55,000,000 |
| | 04.12.2007 | 04.12.2007 to 03.12.2011 | 04.12.2011 to 03.12.2012 | 1.56 | 82,500,000 |
| | | | | | 275,000,000 |
| **2009** | | | | | |
| Employees and consultants | 20.05.2008 | 20.05.2008 to 19.05.2009 | 20.05.2009 to 19.05.2010 | 0.902 | 99,000,000 |
| | 20.05.2008 | 20.05.2008 to 19.05.2010 | 20.05.2010 to 19.05.2011 | 0.902 | 66,000,000 |
| | 20.05.2008 | 20.05.2008 to 19.05.2011 | 20.05.2011 to 19.05.2012 | 0.902 | 66,000,000 |
| | 20.05.2008 | 20.05.2008 to 19.05.2012 | 20.05.2012 to 19.05.2013 | 0.902 | 99,000,000 |
| | | | | | 330,000,000 |

If the options remain unexercised after a period of 5 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 28. SHARE-BASED PAYMENTS (Continued)

### EQUITY-SETTLED SHARE OPTION SCHEME (Continued)

Details of the share options outstanding during the year are as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price *HK$*** | Number of share options | Weighted average exercise price *HK$* |
| Outstanding at the beginning of the year | **275,000,000** | **1.56** | – | – |
| Granted during the year | **330,000,000** | **0.902** | 275,000,000 | 1.56 |
| Forfeited during the year | **(240,000,000)** | **(0.902)** | – | – |
| Outstanding at the end of the year | **365,000,000** | **1.398** | 275,000,000 | 1.56 |
| Exercisable at the end of the year | **82,500,000** | **1.56** | – | – |

The options outstanding at the end of the year have a weighted average remaining contractual life of 3.79 years (2008: 4.68 years) and the exercise prices is ranging from HK$0.902 to HK$1.56 (2008: HK$1.56). In 2009, options were granted on 20 May 2008 (2008: on 4 December 2007). The estimated fair value of these share options at grant date are HK$176,913,000 (2008: HK$231,400,077).

These fair values were calculated using the Black-Scholes Model. The inputs into the model were as follows:

| | **2009** | 2008 |
|---|---|---|
| Grant date share price | **HK$0.900** | HK$1.49 |
| Exercise price | **HK$0.902** | HK$1.56 |
| Expected volatility | **110.71%** | 105.04% |
| Risk free rate | **1.181%-2.420%** | 1.160%-2.403% |
| Expected life | **1-4 years** | 1-4 years |

Expected volatility was based on the historical volatility of the Company's share price over the previous 5 years (2008: 1 year). The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 29. DEEMED DISPOSAL OF A SUBSIDIARY

Dadongfang was accounted for as indirectly held subsidiary as at 31 March 2007. In January 2008, another equity holder of Dadongfang increased its share of equity interest in Dadongfang by contributing additional US$20,745,800 (equivalent to HK$161,817,240) to the registered capital of Dadongfang. As a result, the Group's effective equity interests in Dadongfong was diluted from 71% to 30% and Dadongfang ceased to be a subsidiary and became an associate of the Group thereafter.

The details of the net assets of Dadongfang as at date of deemed disposal were as follows:

| | *HK$'000* |
|---|---|
| Property, plant and equipment | 164,492 |
| Properties under development | 558,330 |
| Deposits paid for prepaid land lease payments | 14,401 |
| Trade and other receivables | 3,518 |
| Bank and cash balances | 57,426 |
| Trade and other payables | (72,166) |
| Due to a related company | (13,750) |
| Due to a minority equity holder | (211,637) |
| Due to a fellow subsidiary | (65,099) |
| Bank loan | (325,733) |
| Minority interests | (31,949) |
| | 77,833 |
| Gain on deemed disposal | 7,395 |
| Satisfied by: | |
| Transfer to investment in an associate | 85,228 |
| An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiary is as follows: | |
| Cash and cash equivalents disposed of | (57,426) |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a sale and purchase agreement in connection with the disposal of its 30% equity interest in an associate, Dadongfang, for a cash consideration of approximately HK$101,589,000. According to the agreement, the cash consideration will be settled on or before 20 July 2009. The amount has not yet been settled at the balance sheet date and is included in trade and other receivables as disclosed in note 19 to the financial statements.

## 31. PENDING LITIGATION

The Group is pursuing legal proceedings with Transmeridian in respect of the acquisition of oil production equipment for which Transmeridian had failed to make the delivery according to the contract terms as disclosed in note 4(d) to the financial statements. The Company had engaged legal advisors and is currently pursuing arbitration proceedings in Singapore under the Rules of Arbitration of the International Chamber of Commerce. The Directors believe that the relevant equipments purchase contract to be valid and binding and full allowances had been made in the financial statements of the Group. The Directors consider that this pending outstanding litigation would not have any material impact on the Group.

## 32. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet dates are as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for: | | |
| Acquisition of property, plant and equipment | **481** | 180 |
| Research and development expenditures | **83** | 3,754 |
| | **564** | 3,934 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 33. OPERATING LEASE COMMITMENTS

At the balance sheet dates the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2009** | 2008 |
|---|---:|---:|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **3,079** | 1,319 |
| In the second to fifth years inclusive | **2,476** | 6 |
| | **5,555** | 1,325 |

Operating lease payments represent rental payable by the Group for certain of its offices, staff and director's quarters. Leases are negotiated for an average term of 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

## 34. RETIREMENT BENEFITS SCHEME

### HONG KONG

The Group participates in the Mandatory provident fund scheme (the "MPF Scheme") established under the MPF Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce contributions payable in future years.

The Group's contribution under the MPF Scheme for the year amounted to HK$80,000 (2008: HK$84,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 34. RETIREMENT BENEFITS SCHEME (Continued)

### PRC

According to the relevant laws and regulations in the PRC, the Group's subsidiaries in the PRC are required to contribute a specified percentage of the payroll of their employees to the retirement benefits schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes.

The Group's contribution under the respective schemes for the year amounted to HK$158,000 (2008: HK$342,000).

## 35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with its related parties during the year:

### (a) TRANSACTIONS WITH RELATED PARTIES:

| | **2009**<br>***HK$'000*** | 2008<br>*HK$'000* |
|---|---|---|
| 東方集團能源投資控股有限公司 | | |
| – Research and development expenses paid | – | 3,852 |
| – Operating lease rental received | – | 139 |

A director of the Company, Mr. Zhang Hongwei, has significant influence over the above related company.

### (b) BALANCES WITH RELATED PARTIES:

The amounts due to related companies and directors are unsecured, interest-free and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 36. SUBSIDIARIES

Particulars of the subsidiaries as at 31 March 2009 are as follows:

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid share capital/ registration capital | Proportion of ownership interest | | | Principal activities |
|---|---|---|---|---|---|---|
| | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| Fine Profit Corporation Limited | Hong Kong | HK$10,000 | 100% | 100% | – | Provision of administrative services |
| Grand Hope Group Limited | British Virgin Islands | US$1 | 100% | 100% | – | Investment holding |
| Shenyang Shengtaicheng Property Development Company Limited ("Shengtaicheng") | PRC | US$13,021,800 | 71% | – | 71% | Property investment |
| Shenyang Shengtaiyuan Logistics Company Limited ("Shengtaiyuan") | PRC | RMB60,000,000 | 56.8% | – | 80% | Dormant during the year |
| United Petroleum | British Virgin Islands | US$50,000 | 100% | 100% | – | Production of crude oil in the PRC |

Shengtaicheng is a sino-foreign equity joint venture and Shengtaiyuan is a domestic enterprise established in the PRC.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

## 37. EVENTS AFTER BALANCE SHEET DATE

(a) On 9 April 2009, the Company entered into a sale and purchase agreement with an independent third party to acquire the entire issued share capital of Merry Year Investments Limited and its subsidiaries ("Merry Year Group") for a cash consideration of HK$218,000,000. Merry Year Group is principally engaged in oilfield services business in PRC. As the acquisition has not yet been completed as at the date of issue of these financial statements, it is impracticable to disclose further information on the acquisition.

(b) On 17 June 2009, United Energy International Holdings Limited, a newly incorporated subsidiary of the Company, Ferry Lirungan ("FL") and Madura Petroleum Ltd ("Madura Petroleum") entered into a share purchase agreement for which the Group had agreed to acquire the entire issued share capital of PC (NAD) International Ltd ("PCI") from Madura Petroleum for a cash consideration of HK$167,739,000 (equivalent to US$21,505,000). PCI is a company incorporated under the laws of the Commonwealth of the Bahamas. PCI holds a 10% participating interest in the Madura PSC contract relating to the right to join and assist BPMIGAS in accelerating the exploration for and development of the potential resources within the Madura Contract Area. Details of the transaction are set out in the Company's announcement dated 19 June 2009.

## 38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 3 July 2009.



# Particulars of Properties

Details of the Group's properties held for investment purposes and under medium-term leases as at 31 March 2009 are as follows:

| Address | Usage |
|---|---|
| Levels 2 and 3 of a commercial building Located at No. 388-1 Shen Liao Road, Shenyang Economic and Technology Development Region, Shenyang City, Liaoning Province, the PRC. | Commercial |

# Financial Summary

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2009** **HK$'000** | 2008 *HK$'000* *(note iii)* | 2007 *HK$'000* *(note ii)* | 2006 *HK$'000* | 2005 *HK$'000* *(restated)* *(note i)* |
| Turnover | **5,178** | 4,893 | 15,933 | 3,700 | 3,884 |
| Profit/(loss) before tax | **(569,099)** | (108,302) | 23,247 | (5,252) | (30,267) |
| Income tax credit/(expense) | **10,174** | 3,823 | (2,571) | – | – |
| Profit/(loss) for the year | **(558,925)** | (104,479) | 20,676 | (5,252) | (30,267) |
| Attributable to: | | | | | |
| Equity holders of the Company | **(550,438)** | (101,497) | 18,508 | (5,252) | (30,267) |
| Minority interests | **(8,487)** | (2,982) | 2,168 | – | – |
| | **(558,925)** | (104,479) | 20,676 | (5,252) | (30,267) |

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2009** **HK$'000** | 2008 *HK$'000* *(note iii)* | 2007 *HK$'000* *(note ii)* | 2006 *HK$'000* | 2005 *HK$'000* *(restated)* *(note i)* |
| Total assets | **2,737,006** | 3,203,681 | 1,130,395 | 25,400 | 19,224 |
| Total liabilities | **(53,051)** | (70,526) | (402,401) | (41,639) | (30,211) |
| Net assets/(liabilities) | **2,683,955** | 3,133,155 | 727,994 | (16,239) | (10,987) |
| Equity attributable to equity holders of the Company | **2,496,931** | 2,941,737 | 521,294 | (16,239) | (10,987) |
| Minority interests | **187,024** | 191,418 | 206,700 | – | – |
| Total equity | **2,683,955** | 3,133,155 | 727,994 | (16,239) | (10,987) |

*Note:*

(i) Figures for year 2005 have been adjusted to reflect the changes in accounting policies in relation to the first adoption of HKAS 40 "Investment property" and HKAS 16 "Property, Plant and Equipment".

(ii) Figures for years 2007 have been prepared based on the principles of merger accounting resulted from the Acquisition of Grand Hope Group Limited.

(iii) Figures for years 2008 have been prepared based on the principles of merger accounting resulted from the Acquisition of United Petroleum & Natural Gas Investments Limited as describe in note 3(b) to the financial statements.