



UEG

联合能源

UNITED ENERGY GROUP LIMITED

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

(Stock Code: 0467)



Interim Report 2010

The Board of Directors of United Energy Group Limited (the “Company”) hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 together with unaudited comparative figures for the six months ended 30 September 2009 as follows:–

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2010

		For the six months ended 30 June 2010 (unaudited) HK\$'000	For the six months ended 30 September 2009 (unaudited) HK\$'000
	<i>Note</i>		
Turnover	4	10,379	11,592
Cost of sales and services rendered		(10,159)	(8,481)
Gross profit		220	3,111
Other income	5	36,386	52,129
Oil exploitation expenses		(28,271)	(25,453)
Administrative expenses		(66,450)	(56,712)
Loss from operations	5	(58,115)	(26,925)
Share of profits of associates		–	88,676
Loss on disposals of associates		–	(91,454)
Loss before tax		(58,115)	(29,703)
Income tax expense	6	–	–
Loss for the period		(58,115)	(29,703)
Attributable to:			
Shareholders of the Company		(53,985)	(30,640)
Non-controlling interests		(4,130)	937
		(58,115)	(29,703)
Loss per share			
Basic	7	(0.42 cents)	(0.24 cents)
Diluted	7	N/A	N/A

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2010

	For the six months ended 30 June 2010 (unaudited) HK\$'000	For the six months ended 30 September 2009 (unaudited) HK\$'000
Loss for the period	(58,115)	(29,703)
Other comprehensive income:		
Exchange differences on translating foreign operations	10,345	888
Other comprehensive income for the period	10,345	888
Total comprehensive income for the period	(47,770)	(28,815)
Attributable to:		
Shareholders of the Company	(47,180)	(29,752)
Non-controlling interests	(590)	937
	(47,770)	(28,815)

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2010

		As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	9	67,312	67,699
Investment properties		149,500	147,654
Intangible assets		532,822	549,969
		749,634	765,322
Current assets			
Inventories		8,969	7,227
Trade and other receivables	10	71,256	35,017
Financial assets at fair value through profit or loss		3,088	3,800
Pledged bank deposits		472,680	4,680
Bank and cash balances		1,615,914	2,117,992
		2,171,907	2,168,716
Current liabilities			
Trade and other payables	11	39,088	26,700
Due to directors		6,744	7,446
Current tax liabilities		–	1,087
		45,832	35,233
Net current assets		2,126,075	2,133,483
Total assets less current liabilities		2,875,709	2,898,805
Non-current liabilities			
Deferred tax liabilities		107,410	106,084
NET ASSETS		2,768,299	2,792,721
Capital and reserves			
Share capital	12	127,771	127,771
Reserves		2,345,534	2,369,366
Equity attributable to shareholders of the Company		2,473,305	2,497,137
Non-controlling interests		294,994	295,584
TOTAL EQUITY		2,768,299	2,792,721

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2010

Attributable to shareholders of the Company

	Share		Merger reserve	Capital reserve	Foreign	Statutory reserve	Share-	Acc-	Total	Non-	Total
	Share capital	premium account			currency		based			umulated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	translation reserve	HK\$'000	payments reserve	HK\$'000	HK\$'000	interests	HK\$'000
At 1 April 2009 (audited)	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
Total comprehensive income for the period	-	-	-	-	888	-	-	(30,640)	(29,752)	937	(28,815)
Recognition of share-based payments	-	-	-	-	-	-	33,354	-	33,354	-	33,354
Capital injection from minority shareholders	-	-	-	-	-	-	-	-	-	28,424	28,424
Acquisition of a subsidiary	-	-	-	(74)	-	-	-	-	(74)	-	(74)
Share option forfeited during the period	-	-	-	-	-	-	(2,205)	2,205	-	-	-
Changes in equity for the period	-	-	-	(74)	888	-	31,149	(28,435)	3,528	29,361	32,889
At 30 September 2009 (unaudited)	127,771	13,027,326	(10,346,845)	287,471	48,615	576	179,788	(824,243)	2,500,459	216,385	2,716,844
At 1 January 2010 (audited)	127,771	13,027,326	(10,346,845)	287,545	47,986	576	200,685	(847,907)	2,497,137	295,584	2,792,721
Total comprehensive income for the period	-	-	-	-	6,805	-	-	(53,985)	(47,180)	(590)	(47,770)
Recognition of share-based payments	-	-	-	-	-	-	23,348	-	23,348	-	23,348
Changes in equity for the period	-	-	-	-	6,805	-	23,348	(53,985)	(23,832)	(590)	(24,422)
At 30 June 2010 (unaudited)	127,771	13,027,326	(10,346,845)	287,545	54,791	576	224,033	(901,892)	2,473,305	294,994	2,768,299

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2010

	For the six months ended 30 June 2010 (unaudited) HK\$'000	For the six months ended 30 September 2009 (unaudited) HK\$'000
Net cash (used in)/generated from operating activities	(26,508)	33,027
Net cash generated from/(used in) investing activities	26,954	(274,608)
Net cash used in financing activities	(507,287)	(28,690)
Net decrease in cash and cash equivalents	(506,841)	(270,271)
Cash and cash equivalents at beginning of the period	2,117,992	2,240,790
Effect of foreign exchange rate changes	4,763	155
Cash and cash equivalents at end of the period	1,615,914	1,970,674

Notes to Interim Financial Statements

For the six months ended 30 June 2010

1. General information

The Company was incorporated in the Cayman Islands and redomiciled to Bermuda as an exempted company with limited liability under the Company 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").

2. Basis of preparation

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated interim financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at their fair values.

On 29 December 2009, the Company announced that its financial year end date was changed from 31 March to 31 December in order to conform to the financial year end date of its subsidiaries. The current period interim financial statements cover a six months period ended 30 June 2010 and the comparative financial statements cover a six months period ended 30 September 2009. The comparative amounts are therefore not entirely comparable.

3. Significant accounting policies

The accounting policies used in the condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the 9 months ended 31 December 2009. The condensed interim financial statements should be read in conjunction with the Company's annual report for the 9 months ended 31 December 2009.

In the current interim period, the Group has adopted all the following revised Standards, Amendments and Interpretations ("New or Revised HKFRSs") issued by the HKICPA have become effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

3. Significant accounting policies *(Continued)*

The adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated interim financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ²
HKAS 32 (Amendment)	Classification of Rights Issues ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁴
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ²
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 January 2011

³ Effective for annual periods beginning on or after 1 February 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

4. Segment information

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocation resources to segments and assessing their performance. As such, information reported to the chief operating decision maker, executive directors of the Company, for the purpose of resources allocation and performance assessment specifically focuses on property investment and oil exploitation in the People’s Republic of China (“the PRC”).

The Group’s reportable segments under HKFRS 8 are therefore as follows:

1. Oil exploitation – engages in activities relating to the production of crude oil and provision of patented technologies supporting services to oilfields.
2. Property investment – invests in commercial properties for their rental income, property management service fees income and value appreciation potential.

The Group’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Information about reportable segment profit or loss:

	Property Investment		Oil Exploitation		Total	
	2010	2009	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Six-months ended						
30 June 2010/ 30 September 2009						
Turnover from external customers	-	-	10,379	11,592	10,379	11,592
Segment profit/ (loss)	3,211	2,642	(41,010)	(28,320)	(37,799)	(25,678)

Information about reportable segment asset and liabilities:

	Property Investment		Oil Exploitation		Total	
	2010	2009	2010	2009	2010	2009
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
As at 30 June 2010/ 31 December 2009						
Segment assets	149,564	147,682	678,489	657,956	828,053	805,638
Segment liabilities	(20,918)	(20,715)	(100,891)	(108,851)	(121,809)	(129,566)

4. Segment information (Continued)

Reconciliation of reportable segment profit or loss:

	For the six months ended 30 June 2010 (unaudited) HK\$'000	For the six months ended 30 September 2009 (unaudited) HK\$'000
Total loss of reportable segments	(37,799)	(25,678)
Unallocated amounts:		
Other income	3,047	1,639
Corporate expenses	(50,268)	(5,664)
Gain on disposal of financial assets at fair value through profit or loss	26,905	–
Consolidated loss for the period	(58,115)	(29,703)

Reconciliation of reportable segment assets and liabilities:

	As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
Assets		
Total assets of reportable segments	828,053	805,638
Unallocated amounts:		
Other assets	1,806	1,928
Financial assets at fair value through profit or loss	3,088	3,800
Pledged bank deposits	472,680	4,680
Bank and cash balances	1,615,914	2,117,992
Consolidated total assets	2,921,541	2,934,038

	As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
Liabilities		
Total liabilities of reportable segments	121,809	129,566
Unallocated amounts:		
Other liabilities	24,689	3,218
Due to directors	6,744	7,446
Current tax liabilities	–	1,087
Consolidated total liabilities	153,242	141,317

5. Loss from operations

	For the six months ended 30 June 2010 (unaudited) HK\$'000	For the six months ended 30 September 2009 (unaudited) HK\$'000
Loss for the period is arrived at after charging (crediting) the following:		
Other revenue:		
Interest income	(6,754)	(5,472)
Foreign exchange gain	(2,079)	(32,618)
Fair value gain on derivative financial instruments	–	(7,727)
Gain on disposal of financial assets at fair value through profit or loss	(26,905)	(1,647)
Fair value gain on financial assets at fair value through profit or loss	–	(2,002)
Other income	(648)	(2,663)
	(36,386)	(52,129)
Staff costs and retirement benefit scheme contributions	10,501	6,447
Directors' remuneration	1,044	894
Equity-settled share-based payments	23,348	33,354
Depreciation	1,153	654
Amortisation of intangible assets	21,906	–
Auditor's remuneration	218	207

6. Income tax expenses

	For the six months ended 30 June 2010 (unaudited) HK\$'000	For the six months ended 30 September 2009 (unaudited) HK\$'000
PRC Income Tax	–	–

No provision for profits tax in the Bermuda, Bahamas, British Virgin Islands or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the 6 months ended 30 June 2010 and the 6 months ended 30 September 2009.

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.

7. Loss per share

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

	For the six months ended 30 June 2010 (unaudited) HK\$'000	For the six months ended 30 September 2009 (unaudited) HK\$'000
Loss attributable to shareholders of the Company		
Loss attributable to shareholders of the Company for the purpose of calculating basic loss per share	(53,985)	(30,640)
	For the six months ended 30 June 2010	For the six months ended 30 September 2009
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	12,777,091,632	12,777,091,632

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the six months ended 30 June 2010 and six months ended 30 September 2009.

8. Dividend

The directors of the Company do not recommend any interim dividend for the six months ended 30 June 2010 (for the six months ended 30 September 2009: Nil).

9. Movements in property, plant and equipment

During the six months ended 30 June 2010, additions to property, plant and equipment amounted to approximately HK\$4,564,000 (six months ended 30 September 2009: approximately HK\$12,765,000) and disposals amounted to approximately HK\$32,000 (six months ended 30 September 2009: Nil).

10. Trade and other receivables

	As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
Trade receivables (note a)	8,745	13,778
Advances to a joint venture partner	47,580	16,380
Deposits and prepayments	11,947	2,195
Advances to staff	2,984	2,280
Others	–	384
Total trade and other receivables	71,256	35,017

(a) Trade receivable

The Group's trading terms with customers are mainly on credit. The credit term is about 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analyzing of trade receivable, based on the invoice date, is as follows:

	As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
0 to 30 days	8,745	13,778

The trade receivables are neither past due nor impaired as at 30 June 2010 (as at 31 December 2009: Nil).

All trade receivables are denominated in Renminbi.

11. Trade and other payables

	As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
Accrual for operating expenses	15,756	15,643
Salary and welfare payables	509	2,544
Deposits received	423	947
Other tax payables	262	1,194
Others	22,138	6,372
Total trade and other payables	39,088	26,700

12. Share capital

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 April 2009, 30 September 2009, 1 January 2010 and 30 June 2010	60,000,000,000	600,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 April 2009, 30 September 2009, 1 January 2010 and 30 June 2010	12,777,091,632	127,771

13. Commitments

(a) Capital commitments

The Group's capital commitments at the end of reporting periods are as follows:

	As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
Contracted but not provided for:		
Acquisition of property, plant and equipment	24,169	11,492
Research and development expenditures	1,417	–
	25,586	11,492

(b) Operating lease commitments

At the end of reporting periods the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2010 (unaudited) HK\$'000	As at 31 December 2009 (audited) HK\$'000
Within one year	1,880	3,258
In the second to fifth years inclusive	–	209
	1,880	3,467

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.

14. Events after reporting period

On 19 July 2010, the Company entered into the Service Agreements with Tung Tai Asset Management Limited and Joy Wealth International Limited (as Consultants) respectively to engage them as consultants for provision of business development strategies and advisory services including seeking (i) suitable energy projects for the development or diversification of the business of the Company; and (ii) suitable business partners/investors for the Company for fund raising projects.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Consultants and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Under each of the Service Agreements with Tung Tai and Joy Wealth, the Company agreed to issue to each of them unlisted Warrants in the amount of HK\$400,000,000. Upon full exercise of the Warrants to be issued to both Consultants in the aggregate amount of HK\$800,000,000 at the price of HK\$0.8 per Share, a total of 1,000,000,000 new Warrant Shares will be issued by the Company. The Warrants may be exercised during a period from the issue of the Warrants on 26 July 2010 to the day falling 24 months after the date of issue of the Warrants (both dates inclusive). The Warrants Shares will be issued under the General Mandate granted to the Directors pursuant to an ordinary resolution passed at the Company's annual general meeting held on 8 June 2010.

15. Approval of the interim financial statements

The condensed consolidated interim financial information for the 6 months ended 30 June 2010 has been approved for issue by the board of directors on 24 August 2010.

Management Discussion and Analysis

Financial Review

For the six months ended 30 June 2010, the Group's turnover was approximately HK\$10.38 million, which represented a slight decrease of approximately 10.4% as compared to the turnover of approximately HK\$11.59 million for the six months ended 30 September 2009. For the six months ended 30 June 2010 and for the six months ended 30 September 2009, the turnover represented services fees income derived from the new acquired oilfield supporting services business.

For the six months ended 30 June 2010, other income decreased by 30.2% to approximately HK\$36.4 million from the period ended 30 September 2009. The decrease was mainly due to the significant decrease in unrealized foreign exchange gain. Administrative expenses increased from approximately HK\$56.7 million to approximately HK\$66.5 million. These expenses mainly included the non-cash expense of approximately \$23.3 million due to stock options granted per the share option scheme. The increase in administrative expenses was mainly due to increase in impairment of intangible assets. In summary, loss attributable to equity holders of the Company was approximately HK\$54 million for the six months ended 30 June 2010, representing a 76.5% increase over the approximately HK\$30.6 million for the six months ended 30 September 2009. This result is reflected in the basic loss per share which were 0.42 HK cents for the six months ended 30 June 2010 compared with 0.24 HK cents for the six months ended 30 September 2009.

Business Review

For the six months ended 30 June 2010, the Group was mainly engaged in upstream oil and natural gas business, including exploitation, development, production of crude oil and natural gas, also provide patented technologies supporting services to oilfields in the PRC.

Oil Production Business

On 28 July 2010, the Company was informed by China National Petroleum Corporation ("CNPC") that the Enhanced Oil Recovery Development Plan (the "EOR Plan") for the Gaosheng EOR project has been approved by the National Development. As such, the Gaosheng EOR project will proceed to the second phase – Development Period. During the Development Period, operations will be carried out for the realization of enhancing the oil recovery for any reservoir or payzone within the relevant area, including design, drilling, construction, installation, specific EOR operations and the related research work and production activities. The development costs for such operations shall be borne by CNPC and the Group in the proportion of 30% by CNPC and 70% by the Group. The Group believes when the EOR Plan is constantly moving forwards, the Group should achieve the goal in EOR and should acquire an excellent economic benefits.

Oilfield Supporting Services Business

Upon the acquisition of oilfield supporting services business, the Group is able to significantly expand its scope of oil field services technology. Currently, the three contracted service areas are being expanded and new service projects are being explored. During the period under review, the oilfield supporting services business contributed an income of approximately HK\$10.4 million to the Group.

Property Letting and Management Business

During the period under review, half year of rent-free continue granted to the tenant in relation of a defective fire system.

As the property letting and management business has been inactive and is not consistent with the current principal business of the Group in upstream oil and natural gas, the Group is planning to dispose of such business in order to concentrate available resources in the principal business of the Group. As at the date of this report, the management is still negotiating with several independent third parties for the proposed disposal and no definitive terms or sale price of such disposal has been agreed upon. The Company will keep the public informed of such proposed disposal as and when appropriate.

Liquidity and Financial Resources

The Group continued to be in a strong financial position for the period under review with bank and cash balances amounting to HK\$1,616 million as at 30 June 2010 (31 December 2009: approximately HK\$2,118 million). The decrease in bank and cash balances was mainly due to HK\$472.7 million was pledged for banking facilities and reclassified under pledged bank deposits.

As at 30 June 2010, the Group has total banking facilities of approximately HK\$4.68 million in respect of issuance of performance bond for guarantee of our Company's performance of its obligation to commitment to cover seismic survey cost in the first three years of exploration term as contemplated in the Production Sharing Contract for Madura Block, dated 13 November 2008. The Group's pledged bank deposits with carrying value of approximately HK\$4.68 million were pledged for the banking facilities.

As at 30 June 2010, the Group has another banking facilities of approximately HK\$468 million (equivalent to approximately US\$60 million) in respect of issuance of another performance bond for guarantee of United Petroleum & Natural Gas Investments Limited, a wholly-owned subsidiary of the Company, performance of its obligation in the development period of the EOR Contract in Gaosheng project dated 15 September 2006. The Group's pledged bank deposits with carrying value of approximately HK\$468 million (equivalent to approximately US\$60 million) were pledged for the banking facilities.

The Group had no long-term borrowings, therefore the gearing ratio is not applicable. The current ratio was 47.42 (31 December 2009: approximately 61.61), based on current assets of approximately HK\$2,171.9 million (31 December 2009: approximately HK\$2,168.7 million) and current liabilities of approximately HK\$45.8 million (31 December 2009: approximately HK\$35.2 million).

Prospects

The global economic conditions are stabilizing, especially the PRC economy has showed obviously rebound, and improvements in economies have begun around the world. While the global energy demand increases, the Group is well positioned financially and strongly supported by its shareholders to take advantage of it to develop its upstream oil and natural gas business.

In order to support our business expansion, the Group has acquired an oilfield supporting services business which can provide patented technologies supporting services to oil fields. The oilfield supporting services business will gradually contribute income to the Group in the future.

Leveraging our relationships with major Chinese Energy & Petroleum (“E&P”) players and actively pursuing appropriate mergers and acquisitions opportunities, the Group’s management strives to create higher value to its shareholders.

Employees

At as 30 June 2010, the Group employed a total of 137 full time employees in Hong Kong and PRC. Employees’ remuneration package was reviewed periodically and determined with reference to the performance of the individual and the prevailing market practices. Remuneration package included basis salaries, year end bonus, medical and contributory provident fund.

Contingent Liabilities

The Group had no significant contingent liabilities during this period.

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 and Renminbi. The exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the period under review. During the period under review, the Group did not use financial instruments for hedging purposes.

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.

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 30.6.2010
				As at					
				1.1.2010	Granted	Exercised	Lapsed	Cancelled	
Zhang Meiyang									
04.12.2007	1.56	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	30,000,000	-	-	-	-	30,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	20,000,000	-	-	-	-	20,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	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
Employees and Consultants									
04.12.2007	1.56	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	52,500,000	-	-	-	-	52,500,000
04.12.2007	1.56	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	35,000,000	-	-	-	-	35,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	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 19.05.2013	24,000,000	-	-	-	-	24,000,000
20.05.2008	0.902	20.05.2008 to 19.05.2010	20.05.2010 to 19.05.2013	16,000,000	-	-	-	-	16,000,000
20.05.2008	0.902	20.05.2008 to 19.05.2011	20.05.2011 to 19.05.2013	16,000,000	-	-	-	-	16,000,000
20.05.2008	0.902	20.05.2008 to 19.05.2012	20.05.2012 to 19.05.2013	24,000,000	-	-	-	-	24,000,000
Total				355,000,000	-	-	-	-	355,000,000

Disclosure of Interest

Directors' Interests in Shares and Underlying Shares of the Company

As at 30 June 2010, 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	8,701,240,115	–	68.1 <i>(Note 1)</i>
Zhang Meiyong	The Company	Beneficial owner	100,000,000	–	0.78 <i>(Note 2)</i>
Zhu Jun	The Company	Beneficial owner	1,443,000	–	0.01

Note:

1. Out of the 8,701,240,115 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 1,349,344,282 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 8,701,240,115 shares.
2. Share options which entitle Ms. Zhang Meiyong to subscribe for an aggregate 100,000,000 shares were granted to Ms. Zhang Meiyong 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 and chief executives, 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 30 June 2010.

Substantial Shareholders

As at 30 June 2010, the following persons or corporations, other than the Directors or chief executive 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	1,349,344,282	10.56

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

All the interests stated above represent long positions. As at 30 June 2010, 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 30 June 2010.

Arrangement to Purchase Shares or Debentures

At no time during the period 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.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout for the period ended 30 June 2010.

Corporate Governance

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the period ended 30 June 2010 except that:

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

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. 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.

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 this period.

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.

Audit Committee

The Audit Committee of the Company is comprised of three independent non-executive directors, Messrs. Chau Siu Wai, San Fung and Zhu Chengwu. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the period ended 30 June 2010 and has also discussed the internal control, the accounting principles and practices adopted by the Group.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 June 2010.

On behalf of the Board

Zhang Hongwei

Chairman

Hong Kong, 24 August 2010

As at the date of this report, the executive Directors are Mr. Zhang Hongwei (Chairman), Mr. Zhu Jun and Ms. Zhang Meiyang, and the independent non-executive Directors are Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu.