联合能源

年報 Annual Report 2010

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

(於開曼群島注册成立及於百慕達存續之有限公司)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(股份代號 Stock Code : 0467)

CONTENTS

Corporate Information

Directors

Executive Directors

Zhang Hong Wei (Chairman)
Zhu Jun
Zhang Meiying

Independent Non-Executive Directors

Chau Siu Wai
San Fung
Zhu Chengwu

Company Secretary

Hung Lap Kay

Principal Place of Business

Unit 2505, 25th 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

Richards Butler in association with
Reed Smith LLP
Angela Ho & Associates in association with
Lang Michener LLP

Auditors

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

Bermuda Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House,
2 Church Street,
Hamilton HM 11, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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Hong Kong

Website

http://www.uegl.com.hk

Key Financial Highlights

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)	Change
RESULTS			
Continuing operations			
Turnover	**22,373**	25,357	(11.8)%
Profit before tax	**289,267**	327,819	(11.8)%
Income tax expense	**(146,003)**	(98,791)	47.8%
Profit for the year/period from continuing operations	**143,264**	229,028	(37.5)%
Discontinued operations			
(Loss)/profit for the year/period from discontinued operations	**(41,196)**	10,948	(476.3)%
Profit for the year/period	**102,068**	239,976	(57.5)%
Less: (Loss)/gain attributable to non-controlling interests	**(10,188)**	2,916	(449.4)%
Profit attributable to owners of the Company	**112,256**	237,060	(52.7)%
Basic earnings per share	**0.88 HK cents**	1.86 HK cents	(52.7)%

	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	Change
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Equity attributable to owners of the Company	**5,125,420**	5,047,845	1.54%
Total assets	**6,861,514**	6,334,982	8.31%
Net assets	**5,523,076**	5,343,429	3.36%
Net assets per share	**HK$0.43**	HK$0.42	2.38%

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 December 2010 (the "Period").

RESULTS

For the year ended 31 December 2010, profit attributable to owners was approximately HK$112,256,000. Due to a change in accounting policy, the Group's reported loss attributable to owners of HK$61,536,000 in last year annual report has also been restated as profit attributable to shareholders of approximately HK$237,060,000 for the 9 months ended 31 December 2009. These results for the Period were reflected in the basic earnings per share of 0.88 HK cents compared with the restated basic earnings per share of 1.86 HK cents for the 9 months ended 31 December 2009. The net assets as at 31 December 2010 were approximately HK$5,523,076,000 and the net assets per share were approximately HK$0.43. The net assets as at 31 December 2009 (restated) were approximately HK$5,343,429,000 and the net assets per share were approximately HK$0.42.

BUSINESS REVIEW

The Group was mainly engaged in the development of strategy energy reserves, focusing on the investment and operation of oil, natural gas and other energy related businesses. This is accomplished by the merger and acquisition of oil and natural gas assets; the exploitation, development and production of crude oil and natural gas; and the provision of patented technologies supporting services to oilfields. The approach of the Group is to implement the "reliable operation + rapid expansion" market strategy, which is supported by the unique technology and core competitiveness. The Group's operating strategy utilizes resources as the foundation, built on its human capital and guaranteed by its technology.

The year 2010 was a milestone for the Group's business development. During the Period, the Enhancing Oil Recovery Project ("EOR Project") in Liaohe Oilfields, which is the Group's major assets, has obtained the approval by the National Development and Reform Commission ("NDRC") to commence the Development Period and, in February 2011, has reached the cumulative production quantity requirement to enter the Production Period with commencement of commercial production and sales to follow.

In addition, in order to attain strategic expansion, the Group entered into a very substantial acquisition with British Petroleum ("BP") to take over their upstream business in Pakistan. It enhances the Group's position as an international upstream producing oil and natural gas player and lays the foundation as the first non-state owned enterprise of China to acquire an upstream oil business from an international oil major.

Oil Production Business

EOR Project, Liaohe Oilfields, Bohai Bay, Liaoning, China

Leveraging on the major fireflood technology combined with other related techniques, the Group conducted a large-scale industrialized EOR development testing in enhancing oil recovery in Liaohe Oilfields. This project was approved unanimously at the technical confirmation meeting in July 2009, receiving high commendation from oil experts. The results also received full recognition from the National Energy Board. In July 2010, upon approval of the EOR Project by the NDRC, the Development Period of the EOR Project has commenced, enabling it to become the first sino-foreign cooperation project in oil industry of China that has adopted fireflood technology to enhance oil recovery rate. This EOR Plan is jointly developed by the Group and CNPC.

In February 2011, the EOR Project satisfied the requirements for the commencement of the Production Period, i.e. having an accumulated commercial incremental oil exceeding 20,000 metric tons. Upon confirmation of the Production Period, the Company will be allowed to sell its share of the oil produced with reference to international oil benchmarks. As the recovery rate increases the Group's share of incremental oil will rise accordingly, contributing to the Group's future turnover. The Group's share of incremental oil, approximately 12,000 metric tons of oil produced as at February 2011, will be sold based on the prevailing international oil price and quality, and the net income shall be reflected in the financial statements for the year 2011.

Acquisition of BP's upstream oil and gas assets in Pakistan

In December 2010, in line with the its strategy of international expansion, the Group announced that it has signed an acquisition agreement with BP to acquire its upstream oil and gas assets in Pakistan for the consideration of US$775,000,000 (equivalent to approximately HK$6,006,250,000). The assets being acquired has been in a leading position in the oil and gas sector for the last 10 years supplying 14% of Pakistan's total oil production and 6% of its domestic gas production. In addition, BP has been the leading driller, drilling 146 exploration and development wells with an 80% success rate during the same period.

As at September 2010, the acquired assets comprised 120 producing crude oil and natural gas wells with a current average net production of 35,000 barrels of oil equivalent per day. The unaudited net profit before taxation and extraordinary items amounted to US$217,000,000 and US$117,000,000 for the year ended 31 December 2008 and for the year ended 31 December 2009 respectively. The production consists of 163.8 mmcf per day of natural gas (77%), 7,900 barrels per day of crude oil (22%) and 400 barrels per day of natural gas liquids (1%). The Group plans to retain the BP's Pakistani workforce of approximately 560 employees. The management is self-sufficient and these employees are highly experienced, BP-trained with average company experience of 11 years. BP has also committed to a transition service period to assist in the smooth transition of the business to the Group.

This acquisition is consistent with the Group's stated strategy of international expansion and to become an influential energy company with unique competitiveness through mergers and acquisitions of quality assets.

Other Oilfields Production Supporting Services Business with Utilizing Fireflood Technology

The Group is currently providing oilfields production supporting services utilizing its patented fireflood technology. The service areas of the three current contracts are being expanded and new service projects are being explored. For instance, CNPC has agreed to expand the services area in Project Du 66. The Group's objective is to develop its business in the international market. Through the acquisitions of abolished or retiring oilfields, the Group targets to improve the recovery rate of the remaining 70% oil reserve underground by 30%, thereby producing economic benefits similar to finding a new oilfield. The fireflood technology is a revolution among oil extraction technologies. As a pioneer in applying fireflood technology in China, the Group will continue to seek cooperation opportunities with operators of old oilfields. By utilizing this advanced technology which features low production cost and high efficiency, the residual value of old oilfields with high potential will be significantly enhanced.

PROSPECTS

The year 2011 will be a year of Breakthrough for the Group, with expectations of achieving the following milestones:

– commencement of the Production Period of the EOR Project at Liaohe Oilfields and beginning to generate operating cashflow;

– increasing revenues from oilfield supporting services; and

– the completion of the acquisition of BP's upstream business in Pakistan.

While the global economy is slowly recovering, it is also suffering from a lot of uncertainties, including the occurrence of a series of natural disasters and man-made calamities, such as political instability in the Middle East and North Africa and major earthquakes in New Zealand, Yunnan and Japan. Estimation of the global demand for fuel will continue to increase and boost up oil prices. In addition, due to recent nuclear crisis in Japan, many countries are reconsidering the use of nuclear power generation and its safety, and so the future global demand for oil may increase. The Group plans to grasp the opportunities afforded by the growing worldwide demand in oil and gas, identify suitable acquisition opportunities and build up its momentum in the acquisition of quality oil and natural resources in key regions. The build-up of quality energy assets will enable the Group to achieve sustainable group in the future, in line with its long-term strategic objective.

The Group's 5 year plan is "to own and to operate a reserve of oil, gas and natural resources". The business plans are as follows:

1. Expand the scale of oil production of current projects by utilizing fireflood technology to increase the oil recovery rate and the cash flow.

2. Utilize the patented fireflood technology to obtain new oil reserves

3. Increase the output from existing oilfields by increasing capital investment, thereby improving the cash flow and profitability.

4. Develop the Group's business of profiting from the sale of oil and gas assets by utilizing its competitive advantage in international acquisitions, on the basis that an adequate reserve is maintained for the core businesses as stipulated above.

Furthermore, the Group has significantly enhanced its ability to fund its development after signing a five-year development finance cooperation agreement with the Hong Kong Branch of the China Development Bank with limited US$ 5 billion for oil and gas and mineral resources projects. The Group will continue the momentum of expansion in overseas investment projects, and hope to acquire high quality assets and achieve of outstanding economic benefits.

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 employees for their efforts and dedication. After acquisition of BP oil assets, the Group plans to retain the BP's Pakistani workforce of approximately 560 employees and believes they will make a significant contribution to the Group's business in creating superior shareholder value. As a Group, we remain committed to building China's largest non-state owned oil resources reserve operating company for the benefit of our shareholders, employee and business partners.

Zhang Hong Wei
Chairman
31 March 2011

Management Discussion and Analysis

Financial Review

For the year ended 31 December 2010, the Group's turnover was approximately HK$22,373,000, which represented a significant decrease of approximately 11.8% as compared to the turnover of approximately HK$25,357,000 for the 9 months ended 31 December 2009. The turnover during the period under review represented services fees income derived from the oilfield supporting service business. The decrease in turnover was mainly due to heavy rainfall and flooding during the year in Northern China which suspendes business operation for a period of time.

In previous years, the Group adopted the merger accounting method to account for business combinations involving entities under common control of Mr. Zhang Hong Wei, the ultimate controlling party of the Group. During the year, the directors reviewed the appropriateness and practicality of the change of accounting method for business combinations taking into account acquisition method as allowed under the HKFRS 3 (Revised) "Business Combinations" ("HKFRS 3") issued by the HKICPA. The directors consider that acquisition method is more appropriate and would provide reliable and more relevant information regarding the conditions on the Group's financial position, financial performance or cash flows in connection with certain business combinations in prior years. Accordingly, the Group changed its accounting policy to apply the acquisition method in accordance with HKFRS 3 to account for the acquisition of entire equity interest in United Petroleum & Natural Gas Investments Limited ("United Petroleum") on 16 October 2007 which was previously accounted for under the merger accounting method.

The change in accounting policy has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

Effect of change in accounting policy on the consolidated income statement:	**For the twelve months ended 31 December 2010 HK$'000**	For the nine months ended 31 December 2009 HK$'000
Increase in other income	**753,056**	496,758
Increase in oil exploitation expenses	**154,000**	98,630
Increase in income tax expense	**149,764**	99,532
Increase in earnings per share (HK cents)	**3.52**	2.34

Effect of change in accounting policy on the consolidated statement of financial position:	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000	At 1 April 2009 HK$'000
Increase in intangible assets	**4,000,000**	3,400,944	3,002,816
Increase in deferred tax liabilities	**1,000,000**	850,236	750,704
Increase in reserves	**3,000,000**	2,550,708	2,252,112

Financial Review (Continued)

For the year ended 31 December 2010, other income increased by approximately 38.9% to approximately HK$813,201,000 (For the 9 months ended 31 December 2009 (restated): approximately HK$585,265,000). The increase in other income was mainly due to increase in reversal of impairment losses on intangible assets after change in accounting policy with adoption of acquisition accounting for business combination.

Administrative expenses increased from approximately HK$109,695,000 for the 9 months ended 31 December 2009 (restated) to approximately HK$259,368,000 for the year ended 31 December 2010. These expenses for the year ended 31 December 2010 mainly included the non-cash expense of approximately $116,902,000 due to equity-settled share-based payment transactions from share options granted to the employees per the share option scheme and unlisted warrants granted to the consultants on 19 July 2010 and the impairment losses on advances to an oil exploitation project of approximately HK$47,580,000.

In July 2010, the enhancing oil recovery plan ("EOR Plan") under Liaohe Oilfields Project of the Group has been approved by the National Development and Reform Commission ("NDRC") and the Liaohe Oilfields Project will proceed to Development Period. The Liaohe Oilfields Project was operated by United Petroleum, a wholly-owned subsidiary of the Group, with the cooperation of China National Petroleum Corporation ("CNPC"). Development includes design, drilling, construction, installation of specific Liaohe Oilfields 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. As at 31 December 2010, the value of the oil exploitation rights under the Liaohe Oilfields Project owned by United Petroleum was of approximately HK$4,000,000,000 (31 December 2009 (restated): approximately HK$3,400,944,000) which was reflected in the consolidated statement of financial position as intangible assets and reversal of impairment losses on intangible assets of approximately HK$753,056,000 for the year ended 31 December 2010 (for the 9 months ended 31 December 2009 (restated): approximately HK$496,758,000) reflected in the consolidated income statement.

Oil exploitation expenses increased from approximately HK$157,443,000 for the 9 months ended 31 December 2009 (restated) to approximately HK$258,761,000 for the year ended 31 December 2010. The increase was mainly due to increase in amortisation charges on intangible assets of approximately HK$154,000,000 after change in accounting policy with adoption of acquisition accounting for business combination (for the 9 months ended 31 December 2009 (restated): approximately HK$98,630,000) and newly incurred development fee due to commencement of the Development Period of Liaohe Oilfields Project during the year.

On 19 July 2010, the Company entered into the service agreements with two 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. Under the Service Agreements, 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. As at the date of this report, the two consultants have not exercised the unlisted warrants.

Financial Review (Continued)

On 13 September 2010, the Group entered into the disposal agreement with an independent third party for the disposal of its 71% owned subsidiary, Shenyang Shengtaicheng Property Development Co., Ltd. ("Shengtaicheng"), which is principally engaged in property letting and management business. Consideration for the disposal is RMB32,750,000 (equivalent to approximately HK$37,924,000). For the year ended 31 December 2010, loss from discontinued operation of Shengtaicheng was approximately HK$41,196,000. For the 9 months ended 31 December 2009, profit from discontinued operations of Shengtaicheng was approximately HK$10,948,000. The Group will concentrate its available resources on its core energy business after the disposal.

In summary, profit attributable to owners of the Company was approximately HK$112,256,000 for the year ended 31 December 2010, representing a 52.65% decrease over the profit attributable to shareholders of the Company of approximately HK$237,060,000 for the 9 months ended 31 December 2009. This result is reflected in the basic earnings per share which was 0.88 HK cents as compared with the basic earnings per share of 1.86 HK cents for the 9 months ended 31 December 2009 (restated).

The Group's Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2010. 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.

Material Acquisition and Disposal

In December 2010, the Group entered into an agreement with BP to acquire its oil and gas business in Pakistan for the consideration of US$775,000,000 (equivalent to approximately HK$6,006,250,000). The Group is the first non-state owned Hong Kong listed company to acquire upstream oil and gas assets in of an oil major. As of September 2010, the acquired assets by the Group comprise 120 producing crude oil and natural gas wells with a current average net production of 35,000 barrels of oil equivalent per day. The acquired assets by the Group comprise 120 producing crude oil and natural gas wells with reserves approximately 79 mmboe and a current average net production of 35,000 barrels of oil equivalent per day.

In addition, on 5 March 2010, Shengtaicheng was demergered into two companies, Shengtaicheng and United Energy Technology (China) Limited ("UET"). Before the demerger, Shengtaicheng was principally engaged in property letting and management business and was a joint venture company 71% owned by United Energy International Investments Limited ("UEII"), a wholly-owned subsidiary of the Company, and 29% owned by Guangzhou Yinchuang Investment Co., Ltd. ("Guangzhou Yinchuang"), a third party. After the demerger, the shareholdings ratio of these two companies remains unchanged. Shengtaicheng and UET were still 71% owned by UEII and 29% owned by Guangzhou Yinchuang. UET will be principally engaged in the business of introduction, development and application of energy-saving development technology, resources regeneration and consolidated application technology. Shengtaicheng was still engaged in property letting and management business.

Material Acquisition and Disposal (Continued)

On 13 September 2010, the Group entered into the disposal agreement with an independent third party for the consideration of RMB32,750,000 (equivalent to approximately HK$37,924,000) for the disposal of 71% shareholdings in Shengtaicheng. Assets of Shengtaicheng mainly consist of a commercial property in Shenyang City, Liaoning Province, the PRC. Since the business of Shengtaicheng had been inactive due to the defective fire protection system and problematic quality of the property and the business of Shengtaicheng was not consistent with the current principal business of the Group in upstream oil and natural gas, the Group decided to dispose of Shengtaicheng in order to concentrate its available resources on the principal business of the Group and with a view to streamlining the business structure of the Group.

As Guangzhou Yinchuang wished to withdraw its investment from UET, on 29 October 2010, UET, UEII and Guangzhou Yinchuang signed an shareholdings agreement in which UET proposes to repurchase the 29% interest held by Guangzhou Yinchuang at a consideration of approximately RMB17,876,000 (equivalent to approximately HK$21,161,000). The consideration is the exact amount contributed by Guangzhou Yinchuang for its 29% interest in UET and such contribution was recorded as registered capital of UET. Upon completion of the proposed withdrawal, UET will cancel such registered capital contributed by Guangzhou Yinchuang and, in turn, the Group's interest in UET will increase to 100%. On 13 December 2010, the proposed withdrawal has been completed.

Segment Information

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

Liquidity and Financial Resources

The Group maintained its strong financial position for the period under review, with cash and cash equivalents amounting to approximately HK$845,000,000 as at 31 December 2010 (as at 31 December 2009: approximately HK$2,118,000,000). The decrease was mainly due to payment of initial deposit of US$100,000,000 (equivalent to approximately HK$780,000,000) for acquisition of BP Pakistan assets and increase in performance bond pledge for banking facilities of HK$380,417,000.

As at 30 September 2009, the Group has banking facilities of approximately HK$4,680,000 in respect of issuance of performance bond for guarantee of our Group's performance of its obligation to commit to cover its share of 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. As at 31 December 2010, the Group's cash at banks with carrying value of approximately HK$4,680,000 were pledged for the banking facilities.

As at 26 January 2010, the Group has other banking facilities of approximately HK$468,000,000 (equivalent to approximately US$60,000,000) in respect of issuance of another performance bond for guarantee of United Petroleum's performance of its obligation in the development period of the EOR Contract in Liaohe Oilfields project dated 15 September 2006. As at 13 December 2010, as United Petroleum has completed part of its obligation, CNPC confirmed and agreed to release part of the performance in the amount of HK$88,390,000 (equivalent to approximately US$11,332,000). As at 31 December 2010, the Group's cash at banks with carrying value of approximately HK$379,610,000 (equivalent to approximately US$48,668,000) were pledged for the banking facilities.

Liquidity and Financial Resources (Continued)

On 18 December 2010, the Company entered into a cooperation agreement with China Development Bank Corporation Hong Kong Branch (the "Bank") for a period of five years from the date of such cooperation agreement with the target size of US$5 billion in respect of the Group's oil and gas and natural mineral resources projects. During such period, the Company agrees to take the Bank as its preferred financing partner and the Bank agrees to provide the Group's projects with financing supporting services including consultancy and planning. Any financing to be provided under such cooperation agreement may be by way of bilateral or syndicated loans arranged by the Bank. The Bank also agrees to give preferential consideration to financing applications in respect of the Group's projects. No commitment to lend had been made by the Bank under such cooperation agreement and the actual financing terms and amount are subject to further approvals and loan documentations.

The Group had no long-term borrowings, therefore the gearing ratio is not applicable. As at 31 December 2010, the current ratio was approximately 5.43 (as at 31 December 2009: approximately 61.55), based on current assets of approximately HK$1,380,748,000 (31 March 2009: approximately HK$2,168,716,000) and current liabilities of approximately HK$254,282,000 (as at 31 December 2009: approximately HK$35,233,000).

Capital Structure

There had been no material change in the capital structure of the Group since 31 December 2009.

Orders

In line with its business nature, the Group did not have any order records as at 31 December 2010.

Employees

As at 31 December 2010, the Group employed a total of 171 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 base salaries, year-end bonuses, medical benefits and a contributory provident fund.

Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2010.

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.

Major Customers and Suppliers

The Group's largest and five largest customers represented 100% of total turnover, as the Group had one customer only. Save for the expense of oilfield supporting business and operating expenses paid, the Group did not make any significant purchases during the period under review.

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 December 2010 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 12 January 2009 to 31 December 2010, no chief executive officer has been appointed. As mention in the Corporate Governance Report (the "CG Report") contained in the last 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 last 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 December 2010.

Board of Directors

Composition

The Board of Directors (the "Board") of the Company comprises six members. Mr. Zhang Hong Wei 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 24 to 25 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 Hong Wei, 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 report, 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.

There are fourteen meetings being held during the financial year for the year ended 31 December 2010 and attendance of individual directors are as follows:

	Board Meetings
Zhang Hong Wei	12/14
Zhu Jun	14/14
Zhang Meiying	14/14
Chau Siu Wai	12/14
San Fung	12/14
Zhu Chengwu	12/14

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 December 2010, 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.

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. San Fung.

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 financial year for the year ended 31 December 2010. The individual attendance of each member is as follows:

	Audit Committee 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 financial year for the year ended 31 December 2010: (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. San Fung, Mr. Chau Siu Wai and Ms Zhang Meiying. It is chaired by Mr. San Fung.

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 meetings on 29 July 2010 and 31 March 2011 at which all committee members were present. At the meeting held on 31 March 2011, the Remuneration Committee reviewed and discussed the remuneration policy for 2011, the remuneration package and bonus arrangements of the Directors and senior management for 2011.

Nomination of Directors

Although the Board has not established a nomination committee, as mentioned in the CG Report contained in the last 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 Auditors

The statement of the external auditors 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 26 to 27.

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

Services rendered:	HK$
– audit services	1,050,000
– non-audit service	10,000

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 last 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.

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 December 2010.

Principal Activities

The Company acts as an investment holding company. The principal activity of its subsidiary is set out in note 38 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Group at that date are set out in the financial statements on pages 28 to 96 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 under review are set out in note 30 and page 84 to the financial statements.

Segment Information

The segment information of the Group for the year ended 31 December 2010 is set out in note 8 to the financial statements.

Financial Summary

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 97 to 98. 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 16 to the financial statements.

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 Hong Wei – *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, Ms. Zhang Meiying and Mr. Zhu Chengwu 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.

During the year under review, 327,500,000 of these options granted to eligible participants were cancelled and additional 12,000,000 options were granted to new eligible participants.

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

				Number of Share Options					
Grant Date	Exercise Price HK$	Vesting Period	Exercisable Period	As at 1.1.2010	Granted	Exercised	Lapsed	Cancelled	As at 31.12.2010
Zhang Meiying									
04.12.2007	1.56	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	30,000,000	–	–	–	(27,000,000)	3,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	20,000,000	–	–	–	(18,000,000)	2,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	20,000,000	–	–	–	(18,000,000)	2,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2011	04.12.2011 to 03.12.2012	30,000,000	–	–	–	(27,000,000)	3,000,000
Employees									
04.12.2007	1.56	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	52,500,000	–	–	–	(47,250,000)	5,250,000
04.12.2007	1.56	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	35,000,000	–	–	–	(31,500,000)	3,500,000
04.12.2007	1.56	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	35,000,000	–	–	–	(31,500,000)	3,500,000
04.12.2007	1.56	04.12.2007 to 03.12.2011	04.12.2011 to 03.12.2012	52,500,000	–	–	–	(47,250,000)	5,250,000
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)	–
03.11.2010	0.90	03.11.2010 to 02.11.2011	03.11.2011 to 02.11.2015	–	3,000,000	–	–	–	3,000,000
03.11.2010	0.90	03.11.2010 to 02.11.2012	03.11.2012 to 02.11.2015	–	2,000,000	–	–	–	2,000,000
03.11.2010	0.90	03.11.2010 to 02.11.2013	03.11.2013 to 02.11.2015	–	2,000,000	–	–	–	2,000,000
03.11.2010	0.90	03.11.2010 to 02.11.2014	03.11.2014 to 02.11.2015	–	3,000,000	–	–	–	3,000,000
31.12.2010	1.55	31.12.2010 to 30.12.2011	31.12.2011 to 30.12.2015	–	600,000	–	–	–	600,000
31.12.2010	1.55	31.12.2010 to 30.12.2012	31.12.2012 to 30.12.2015	–	400,000	–	–	–	400,000
31.12.2010	1.55	31.12.2010 to 30.12.2013	31.12.2013 to 30.12.2015	–	400,000	–	–	–	400,000
31.12.2010	1.55	31.12.2010 to 30.12.2014	31.12.2014 to 30.12.2015	–	600,000	–	–	–	600,000
Total				355,000,000	12,000,000	–	–	(327,500,000)	39,500,000

Disclosure of Interests

Directors' Interests in Shares and Underlying Shares of the Company

As at 31 December 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"):

			Number of Shares		
Name of Director	**Name of Company**	**Nature of interest**	**Long Position**	**Short Position**	**Approximate% shareholding**
Zhang Hong Wei	The Company	Attributable interest of controlled corporation	8,701,240,115	–	68.1 (Note 1)
Zhang Meiying	The Company	Beneficial owner	10,000,000	–	0.078 (Note 2)
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 Hong Wei. Therefore, Mr. Zhang Hong Wei is deemed to be interested in those 8,701,240,115 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. On 30 September 2010, 90,000,000 of these options granted to Ms. Zhang Meiying were cancelled.

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 December 2010.

Substantial Shareholders

As at 31 December 2010, 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	1,349,344,282	10.56

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

All the interests stated above represent long positions. As at 31 December 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 31 December 2010.

Share Capital

Particulars of the Company's share capital are set out in note 28 to the financial statements.

Arrangements 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.

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 period of at any time during the period, 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 financial year for the year ended 31 December 2010.

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 financial year for the year ended 31 December 2010 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 13 to 17 for details.

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the financial year ended for the year ended 31 December 2010.

Purchase, Sale or Redemption of Shares

As at 31 December 2010, 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 the year.

Events After Reporting Period

Details of significant events occurring after the end of the reporting period date are set out in note 39 to the financial statement.

Auditors

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

By Order of the Board
United Energy Group Limited

Zhang Hong Wei
Chairman
Hong Kong, 31 March 2011

Biography of Directors and Senior Management

Executive Directors

Mr. Zhang Hong Wei, aged 56, 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 and on the Stock Exchange of Hong Kong Limited. He has over 30 years of experience in management in the PRC. As at the date of this report, Mr. Zhang is beneficially interested in 8,701,240,115 shares of the Company, representing approximately 68.1% 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 32, 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 7 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 Hong Wei, 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 41, 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.

Mr. Zhu Chengwu, aged 41, 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 Chengwu 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 Chengwu 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 Chengwu 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 Chengwu is considered to be an independent non-executive director under Rule 3.13 of the Listing Rules.

Senior Management

Mr. Pang Pui Yin, Thomas, aged 49, joined the Company in September 2010 as Chief Financial Officer. Before joining the Company, Mr. Pang was the Managing Director and Chief Executive of a Dubai based fund management company. Mr. Pang's other professional employments include Director (Finance) of The Link Management Limited (Manager of The Link REIT), Chief Financial Officer of Regent Pacific Group Limited, Assistant Director of Hong Kong Exchanges and Clearing Limited and Senior Manager of Securities and Futures Commission in Hong Kong. Mr. Pang is a graduate of University of Oxford and obtained a master degree in Italy. He qualified as a Chartered Accountant in 1988.

Mr. Wang Chunpeng, aged 65, 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 54, 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 64, 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") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 96, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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 December 2010, 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

31 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
Continuing operations			
Turnover	6	**22,373**	25,357
Cost of sales and services rendered		**(27,656)**	(12,887)
Gross (loss)/profit		**(5,283)**	12,470
Other income	7	**813,201**	585,265
Oil exploitation expenses		**(258,761)**	(157,443)
Administrative expenses		**(259,368)**	(109,695)
Profit from operations		**289,789**	330,597
Finance costs	9	**(522)**	–
Share of profits of associates		**–**	88,676
Loss on disposals of associates		**–**	(91,454)
Profit before tax		**289,267**	327,819
Income tax expense	11	**(146,003)**	(98,791)
Profit for the year/period from continuing operations		**143,264**	229,028
Discontinued operations			
(Loss)/profit for the year/period from discontinued operations	12	**(41,196)**	10,948
Profit for the year/period	10	**102,068**	239,976

	Note	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
Attributable to:			
Owners of the Company			
Profit from continuing operations		**154,152**	229,287
(Loss)/profit from discontinued operations		**(41,896)**	7,773
Profit attributable to owners of the Company		**112,256**	237,060
Non-controlling interests			
Loss from continuing operations		**(10,888)**	(259)
Profit from discontinued operations		**700**	3,175
(Loss)/profit attributable to non-controlling interests		**(10,188)**	2,916
		102,068	239,976
Earnings per share			
From continuing and discontinued operations			
Basic	14(a)	**0.88 cents**	1.86 cents
Diluted	14	**N/A**	N/A
From continuing operations			
Basic	14(b)	**1.21 cents**	1.79 cents
Diluted	14	**N/A**	N/A

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
Profit for the year/period	**102,068**	239,976
Other comprehensive income:		
Exchange differences on translating foreign operations	**31,887**	480
Exchange differences on releasing foreign currency translation reserve to income statement upon the disposal of a subsidiary	**(11,890)**	–
Other comprehensive income for the year/period, net of tax	**19,997**	480
Total comprehensive income for the year/period	**122,065**	240,456
Attributable to:		
Owners of the Company	**122,507**	237,319
Non-controlling interests	**(442)**	3,137
	122,065	240,456

Consolidated Statement of Financial Position

At 31 December 2010

	Note	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (Restated)	At 1 April 2009 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	16	**182,048**	67,699	42,988
Investment properties	17	**–**	147,654	136,054
Intangible assets	18	**4,518,718**	3,950,913	3,002,816
Investment in associates		**–**	–	119,056
Other assets	19	**780,000**	–	–
		5,480,766	4,166,266	3,300,914
Current assets				
Inventories	20	**1,455**	7,227	–
Trade and other receivables	21	**145,637**	35,017	174,314
Financial assets at fair value through profit or loss	22	**3,387**	3,800	23,804
Pledged bank deposits	23	**385,097**	4,680	–
Bank and cash balances	23	**845,172**	2,117,992	2,240,790
		1,380,748	2,168,716	2,438,908
Current liabilities				
Trade and other payables	24	**223,384**	26,700	22,060
Due to directors	25	**6,501**	7,446	6,161
Derivative financial instruments		**–**	–	7,727
Bank loan	26	**23,676**	–	–
Current tax liabilities		**721**	1,087	–
		254,282	35,233	35,948
Net current assets		**1,126,466**	2,133,483	2,402,960
Total assets less current liabilities		**6,607,232**	6,299,749	5,703,874
Non-current liabilities				
Deferred tax liabilities	27	**1,084,156**	956,320	767,807
NET ASSETS		**5,523,076**	5,343,429	4,936,067

Consolidated Statement of Financial Position (Continued)

	Note	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000 (Restated)	At 1 April 2009 HK$'000 (Restated)
Capital and reserves				
Share capital	28	**127,771**	127,771	127,771
Reserves	30(a)	**4,997,649**	4,920,074	4,621,272
Equity attributable to owners of the Company		**5,125,420**	5,047,845	4,749,043
Non-controlling interests		**397,656**	295,584	187,024
TOTAL EQUITY		**5,523,076**	5,343,429	4,936,067

Approved by the Board of Directors on 31 March 2011

Zhang Hong Wei
Director

Zhu Jun
Director

Consolidated Statement of Change in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company										
	Share capital (note 28) HK$'000	Share premium account (note 30(c)) HK$'000	Merger reserve (note 30(c)) HK$'000	Capital reserve (note 30(c)) HK$'000	Foreign currency translation reserve (note 30(c)) HK$'000	Statutory reserve (note 30(c)) HK$'000	Share-based capital reserve (note 30(c)) HK$'000	Accu-mulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2009, as previously reported	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
Effect of change in accounting policy (note 3)	–	–	8,060,845	–	–	–	–	(5,808,733)	2,252,112	–	2,252,112
At 1 April 2009, as restated	127,771	13,027,326	(2,286,000)	287,545	47,727	576	148,639	(6,604,541)	4,749,043	187,024	4,936,067
Total comprehensive income for the period	–	–	–	–	259	–	–	237,060	237,319	3,137	240,456
Recognition of equity-settled share-based payments	–	–	–	–	–	–	54,251	–	54,251	–	54,251
Capital injection from non-controlling shareholders	–	–	–	–	–	–	–	7,232	7,232	11,991	19,223
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	93,432	93,432
Forfeiture of equity-settled share-based payments	–	–	–	–	–	–	(2,205)	2,205	–	–	–
Changes in equity for the period	–	–	–	–	259	–	52,046	246,497	298,802	108,560	407,362
At 31 December 2009, as restated	127,771	13,027,326	(2,286,000)	287,545	47,986	576	200,685	(6,358,044)	5,047,845	295,584	5,343,429

	Attributable to owners of the Company										
	Share capital (note 28) HK$'000	Share premium account (note 30(c)) HK$'000	Merger reserve (note 30(c)) HK$'000	Capital reserve (note 30(c)) HK$'000	Foreign currency translation reserve (note 30(c)) HK$'000	Statutory reserve (note 30(c)) HK$'000	Share-based capital reserve (note 30(c)) HK$'000	Accu-mulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010, as previously reported	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
Effect of change in accounting policy (note 3)	–	–	8,060,845	–	–	–	–	(5,510,137)	2,550,708	–	2,550,708
At 1 January 2010, as restated	127,771	13,027,326	(2,286,000)	287,545	47,986	576	200,685	(6,358,044)	5,047,845	295,584	5,343,429
Total comprehensive income for the year	–	–	–	–	10,251	–	–	112,256	122,507	(442)	122,065
Recognition of equity-settled share-based payments	–	–	–	–	–	–	116,902	–	116,902	–	116,902
Purchase of non-controlling interests (note 33(b))	–	–	–	–	–	–	–	65,456	65,456	(86,617)	(21,161)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(38,159)	(38,159)
Forfeiture of equity-settled share-based payments	–	–	–	–	–	–	(215,580)	215,580	–	–	–
Reclassification	–	–	–	(131,965)	–	(205)	–	(95,120)	(227,290)	227,290	–
Changes in equity for the year	–	–	–	(131,965)	10,251	(205)	(98,678)	298,172	77,575	102,072	179,647
At 31 December 2010	127,771	13,027,326	(2,286,000)	155,580	58,237	371	102,007	(6,059,872)	5,125,420	397,656	5,523,076

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax			
– Continuing operations		**289,267**	327,819
– Discontinued operations		**(41,193)**	14,274
		248,074	342,093
Adjustments for:			
Finance costs		**522**	–
Fair value loss/(gain) on financial assets at fair value through profit or loss		**413**	(1,981)
Fair value gain on derivative financial instruments		**–**	(7,727)
Depreciation		**25,962**	11,564
Amortisation of intangible assets		**197,393**	116,640
Share of profits of associates		**–**	(88,676)
Interest income		**(14,017)**	(7,704)
Impairment losses on intangible assets		**4,131**	8,895
Reversal of impairment losses on intangible assets		**(753,056)**	(496,758)
Other payables written back		**–**	(4,047)
Equity-settled share-based payments		**116,902**	54,251
Fair value gain on investment properties		**–**	(11,355)
Impairment losses on advances to oil exploitation project		**47,580**	–
Loss on disposals of property, plant and equipment		**9**	10
Loss on disposals of associates		**–**	91,454
Loss on disposal of a subsidiary		**43,608**	–
Net gain on disposals of financial assets at fair value through profit or loss		**–**	(42,179)
Proceeds from disposals of financial assets at fair value through profit or loss		**–**	64,514
Operating (loss)/profit before working capital changes		**(82,479)**	28,994
Decrease/(increase) in inventories		**6,023**	(7,189)
(Increase)/decrease in trade and other receivables		**(118,774)**	144,900
Increase/(decrease) in trade and other payables		**244,035**	(77,347)
(Decrease)/increase in amounts due to directors		**(945)**	1,285
Cash generated from operations		**47,860**	90,643
Interest paid		**(522)**	–
Income taxes paid		**(1,691)**	–
Net cash generated from operating activities		**45,647**	90,643

Consolidated Statement of Cash Flows (Continued)

	Note	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits paid for acquisition of an upstream oil and gas business in Pakistan		**(780,000)**	–
Increase in pledged bank deposits		**(380,417)**	(4,680)
Acquisition of subsidiaries		**–**	(345,528)
Disposal of a subsidiary	33(a)	**(72,527)**	–
Purchases of financial assets at fair value through profit or loss		**–**	(350)
Purchases of property, plant and equipment		**(136,478)**	(6,327)
Proceeds from disposals of associates		**–**	116,278
Interest received		**14,017**	7,704
Net cash used in investing activities		**(1,355,405)**	(232,903)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loan raised		**23,464**	–
Capital injection from non-controlling shareholders		**–**	19,223
Net cash generated from financing activities		**23,464**	19,223
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,286,294)**	(123,037)
Effect of foreign exchange rate changes		**13,474**	239
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD		**2,117,992**	2,240,790
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		**845,172**	2,117,992
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**845,172**	2,117,992

Notes to the Financial Statements

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 2505, 25/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.

During the year, the Company was primarily involved in investment holding. The principal activities of its subsidiaries are set out in note 38 to financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant 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 of Hong Kong Limited 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 and financial assets at fair value through profit or loss which are carried at their fair values.

Pursuant to a resolution of the board of directors of the Company passed on 29 December 2009, the Company's financial year end date was changed from 31 March to 31 December. Accordingly, the comparative amounts shown in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and related notes covering the Group's nine months of operation from 1 April 2009 to 31 December 2009 are not entirely comparable with the amounts for the current financial year which covered the Group's twelve months of operation.

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 where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in accounting policy

In previous years, the Group adopted the merger accounting method to account for business combinations involving entities under common control of Mr. Zhang Hong Wei, the ultimate controlling party of the Group. During the year, the directors reviewed the appropriateness and practicality of the change of accounting method for business combinations taking into account acquisition method as allowed under the HKFRS 3 (Revised) "Business Combinations" ("HKFRS 3") issued by the HKICPA. The directors consider that acquisition method is more appropriate and would provide reliable and more relevant information regarding the conditions on the Group's financial position, financial performance or cash flows in connection with certain business combinations in prior years. Accordingly, the Group changed its accounting policy to apply the acquisition method in accordance with HKFRS 3 to account for the acquisition of entire equity interest in United Petroleum & Natural Gas Investments Limited ("United Petroleum") on 16 October 2007 which was previously accounted for under the merger accounting method. Details of the accounting policy for business combination under the acquisition method are set out in note 3(b).

The change in accounting policy has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

Effect of change in accounting policy on the consolidated income statement:	**For the twelve months ended 31 December 2010 HK$'000**	For the nine months ended 31 December 2009 HK$'000
Increase in other income	**753,056**	496,758
Increase in oil exploitation expenses	**154,000**	98,630
Increase in income tax expense	**149,764**	99,532
Increase in earnings per share (HK cents)	**3.52**	2.34

Effect of change in accounting policy on the consolidated statement of financial position:	**At 31 December 2010 HK$'000**	At 31 December 2009 HK$'000	At 1 April 2009 HK$'000
Increase in intangible assets	**4,000,000**	3,400,944	3,002,816
Increase in deferred tax liabilities	**1,000,000**	850,236	750,704
Increase in reserves	**3,000,000**	2,550,708	2,252,112

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 December. 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 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 that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits 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.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (bb) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

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 and is initially recognised at cost. Identifiable assets and 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 and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, 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 that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and 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.

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 on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in consolidated profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in consolidated profit or loss, any exchange component of that gain or loss is recognised in consolidated profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Foreign currency translation (Continued)

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– 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 profit or loss as part of the gain or loss on disposal.

(f) Property, plant and equipment (other than oil and gas properties)

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 recognised in consolidated profit or loss during the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (other than oil and gas properties) (Continued)

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%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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 consolidated profit or loss.

(g) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploitation and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved oil reserves. Proved oil reserves are the estimated quantities of crude oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Oil and gas properties (Continued)

The cost of oil and gas properties is amortised at the field level based on the unit of production method. Unit of production rates are based on oil and gas proved developed producing reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements.

(h) 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 recognised in consolidated profit or loss 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 between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

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.

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 consolidated profit or loss.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the lessee are classified as operating leases.

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases.

Rental income from operating leases is recognised in the consolidated profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Research and development expenditure

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

(k) Intangible assets

Intangible assets that are acquired from business combinations are recognised at fair value on initial recognition. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation of intangible assets with finite useful lives is charged to consolidated profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful lives
Technical know-how	15 years
Contractual rights in oil exploitation projects	8 years
Participating interest in oil exploitation project	30 years
Oil exploitation rights	25 years

Both the period and method of amortisation are reviewed annually.

(l) 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.

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 the cumulative gain or loss that had been recognised in other comprehensive income is recognised in the consolidated profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) *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 classified as 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 profit or loss.

(o) *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 profit or loss.

Impairment losses are reversed in subsequent periods and recognised in the consolidated profit or loss 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.

(p) *Cash and cash equivalents*

For the purpose of the statement of cash flows, 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.

(q) *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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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 reporting period.

(s) 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.

(t) Equity instruments

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

(u) Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the consolidated profit or loss as they arise.

(v) 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.

Revenue from the production of crude oil and provision of patented technology supporting services in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts and on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the crude oil is delivered and the title has passed to the customers. This generally occurs when crude oil is physically transferred into an oil tanker, pipe or other delivery mechanism.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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 end of the reporting period.

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 benefits scheme cost charged to consolidated profit or loss 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.

(x) Share-based payments

The Group issues equity-settled share-based payments to certain employees and consultants.

Equity-settled share-based payments to employees 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.

Equity-settled share-based payments to consultants are measured at the fair value of the services received or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and recognised as expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) 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 sale, 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 specific 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 consolidated profit or loss in the period in which they are incurred.

(z) 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 recognised in consolidated profit or loss 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 end of the reporting period.

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. 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 end of the reporting period. Deferred tax is recognised in consolidated profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly 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.

(aa) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Impairment of assets

At the end of each reporting period, 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.

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 consolidated profit or loss, 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 profit or loss, 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.

(cc) Discontinued operations

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(dd) 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.

(ee) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Material events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(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.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(c) Intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful lives of intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives. The amortisation period and the amortisation method for the intangible assets with finite useful lives are reviewed by the management at least at the end of each reporting period.

(d) Impairment of intangible assets

The Group conducts impairment reviews of intangible assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the relevant accounting standards. The recoverable amounts of intangible assets have been determined using fair value less costs to sell or value-in-use calculations as appropriate. These calculations require the use of estimates. Management has evaluated the recoverability of the intangible assets based on such estimates.

(e) 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 capital reserve. In assessing the fair value of the share options, the generally accepted option pricing models were used to calculate the fair value of the share options. The option pricing models require 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.

(f) Impairment loss of trade and other receivables

The Group makes impairment loss of trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

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 and bank loan.

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

The Group's certain bank deposits bear interests at variable rates varied with the then prevailing market condition and therefore are subject to interest-rate risk.

At 31 December 2010, if interest rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$1,374,000 lower/higher, arising mainly as a result of lower/higher interest income on the bank deposits bearing interest at variable rates.

At 31 December 2009, if interests rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated profit after tax (as restated) for the period would have been approximately HK$1,898,000 lower/higher, arising mainly as a result of lower/higher interest income on the bank deposits bearing interest at variable rates.

(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.

As at 31 December 2010 and 2009, the maturity of the Group's financial liabilities 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 statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has significant concentration of credit risk as the trade receivables as at 31 December 2010 and 2009 were due from a single customer. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The Group has no significant concentrations of credit risks on other receivables. The credit quality of the counterparties in respect of 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

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.

The credit risk on financial assets at fair value through profit or loss is limited because the counterparty is a well-established securities broker firm in Hong Kong.

(d) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. 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.

At 31 December 2010, if the share prices of the equity investments had increased/decreased by 10 per cent, consolidated profit after tax for the year would have been approximately HK$339,000 higher/lower, arising as a result of the fair value gain/loss on financial assets at fair value through profit or loss.

At 31 December 2009, if the share prices of the equity investments had increased/decreased by 10 per cent, consolidated profit after tax (as restated) for the period would have been approximately HK$380,000 higher/lower, arising as a result of the fair value gain/loss on financial assets at fair value through profit or loss.

(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 December 2010, if the US$ had weakened/strengthened 1 per cent against the HK$ with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$10,367,000 lower/higher, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances and other assets denominated in US$.

At 31 December 2009, if the US$ had weakened/strengthened 1 per cent against the HK$ with all other variables held constant, consolidated profit after tax for the period (as restated) would have been approximately HK$5,433,000 lower/higher, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances denominated in US$.

5. FINANCIAL RISK MANAGEMENT (Continued)

(f) Categories of financial instruments at 31 December

	2010	2009
	HK$'000	HK$'000
Financial assets:		
Financial assets at fair value through profit or loss	**3,387**	3,800
Loans and receivables (including cash and cash equivalents)	**1,356,110**	2,155,494
Financial liabilities:		
Financial liabilities at amortised cost	**253,561**	34,146

(g) Fair value

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

The fair value of the financial assets at fair value through profit or loss is measured based on quoted prices in active markets.

6. TURNOVER

The Group's turnover represents revenue from provision of patented technology supporting services to oilfields which generated from the continuing operations.

7. OTHER INCOME

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
Fair value gain on financial assets at fair value through profit or loss	**–**	1,981
Fair value gain on derivative financial instruments	**–**	7,727
Fair value gain on investment properties	**–**	11,355
Interest income	**14,017**	7,704
Management fees income	**1,086**	–
Net foreign exchange gains	**12,654**	28,560
Net gain on disposals of financial assets at fair value through profit or loss	**–**	42,179
Other payables written back	**–**	4,047
Rental income	**88**	–
Reversal of allowance on inventories	**26,905**	–
Reversal of impairment losses on other receivables	**3,653**	–
Reversal of impairment losses on intangible assets	**753,056**	496,758
Others	**5,230**	84
	816,689	600,395
Representing:		
Continuing operations	**813,201**	585,265
Discontinued operations (note 12)	**3,488**	15,130
	816,689	600,395

8. SEGMENT INFORMATION

In prior years, the Group's reportable segments were divided into oil exploitation and property investment.

During the year, the directors reviewed the nature and financial effects of the Group's business activities and the internal reportable conditions and considered that it is more appropriate to separate the business activities relating to the provision of patented technology supporting services to oilfields from the oil exploitation segment to form a single segment. Comparative figures have been restated to conform with the current year's presentation.

The Group's reportable segments are therefore as follows:

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

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.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements.

Segment profit or loss do not include the following items:

- other income (except for the fair value gain on investment properties and certain other income included in the oil exploitation segment)
- corporate expenses
- share of profits of associates
- loss on disposals of associates
- loss on disposal of a subsidiary
- finance costs

Segment assets do not include the following items:

- other assets
- intangible assets – participating interest in oil exploitation project
- financial assets at fair value through profit or loss
- pledged bank deposits
- bank and cash balances

8. SEGMENT INFORMATION (Continued)

Segment liabilities do not include the following items:

- other liabilities
- due to directors
- bank loan
- current tax liabilities (except for current tax liabilities included in the oil exploitation and oilfields supporting services segments)

Information about reportable segment profit or loss, assets and liabilities:

	(Discontinued operations) Property investment HK$'000	Oil exploitation HK$'000	Oilfields supporting services HK$'000	Total HK$'000
Year ended 31 December 2010				
Turnover from external customers	–	–	22,373	22,373
Segment (loss)/profit	(1,076)	365,821	(40,744)	324,001
Depreciation and amortisation	–	172,640	44,609	217,249
Other material item of income and expense:				
Income tax expense/(credit)	3	149,764	(3,926)	145,841
Other material non-cash items:				
Impairment losses on intangible assets	–	–	4,131	4,131
Reversal of impairment losses on intangible assets	–	753,056	–	753,056
Additions to segment non-current assets	–	119,597	16,240	135,837
At 31 December 2010				
Segment assets	–	4,225,375	431,303	4,656,678
Segment liabilities	–	1,172,545	88,624	1,261,169

8. SEGMENT INFORMATION (Continued)

	(Discontinued operations) Property investment HK$'000	Oil exploitation HK$'000 (Restated)	Oilfields supporting services HK$'000 (Restated)	Total HK$'000 (Restated)
Period ended 31 December 2009				
Turnover from external customers	–	–	25,357	25,357
Segment profit/(loss)	7,174	238,795	(1,422)	244,547
Depreciation and amortisation	11	107,340	17,826	125,177
Other material items of income and expense:				
Income tax expense/(credit)	3,326	99,532	(937)	101,921
Other material non-cash items:				
Fair value gain on investment properties	11,355	–	–	11,355
Reversal of impairment losses on intangible assets	–	496,758	–	496,758
Additions to segment non-current assets	–	2,987	442,926	445,913
At 31 December 2009				
Segment assets	147,682	3,437,850	448,670	4,034,202
Segment liabilities	20,715	858,411	101,567	980,693

8. SEGMENT INFORMATION (Continued)

Reconciliations of reportable segment profit or loss, assets and liabilities:

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
Profit or loss		
Total profit of reportable segments	**324,001**	244,547
Unallocated amounts:		
Other income (except for the fair value gain on investment properties and certain other income included in the oil exploitation segment)	**60,560**	92,281
Corporate expenses	**(238,363)**	(94,074)
Finance costs	**(522)**	–
Share of profits of associates	**–**	88,676
Loss on disposals of associates	**–**	(91,454)
Loss on disposal of a subsidiary	**(43,608)**	–
Elimination of discontinued operations	**41,196**	(10,948)
Consolidated profit for the year /period from continuing operations	**143,264**	229,028
Assets		
Total assets of reportable segments	**4,656,678**	4,034,202
Unallocated amounts:		
Other assets	**820,964**	18,308
Intangible assets – participating interest in oil exploitation project	**150,216**	156,000
Financial assets at fair value through profit or loss	**3,387**	3,800
Pledged bank deposits	**385,097**	4,680
Bank and cash balances	**845,172**	2,117,992
Consolidated total assets	**6,861,514**	6,334,982
Liabilities		
Total liabilities of reportable segments	**1,261,169**	980,693
Unallocated amounts:		
Other liabilities	**46,925**	3,218
Due to directors	**6,501**	7,446
Bank loan	**23,676**	–
Current tax liabilities (except for current tax liabilities included in the oil exploitation and oilfields supporting services segments)	**167**	196
Consolidated total liabilities	**1,338,438**	991,553

8. SEGMENT INFORMATION (Continued)

Geographical information

The turnover and operating profit generated by the Group for the year ended 31 December 2010 and period ended 31 December 2009 were entirely attributable to the customers based in the PRC. In addition, majority of the Group's non-current assets are located in the PRC. Accordingly, no geographical analysis is presented.

Turnover from major customers:

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000
Oilfields supporting services segment		
Customer A	**22,373**	25,357

9. FINANCE COSTS

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000
From continuing operations		
– Interest on bank loan	**522**	–

10. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period is arrived at after charging the following:

	Continuing operations		Discontinued operations		Total	
	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)	**For the twelve months ended 31 December 2010 HK$'000**	For the nine months ended 31 December 2009 HK$'000	**For the twelve months ended 31 December 2010 HK$'000**	For the nine months ended 31 December 2009 HK$'000 (Restated)
Amortisation of intangible assets (note a)	**197,393**	116,640	**–**	–	**197,393**	116,640
Auditor's remuneration						
– Current	**1,050**	1,066	**–**	–	**1,050**	1,066
– Under-provision in prior year	**–**	40	**–**	–	**–**	40
	1,050	1,106	**–**	–	**1,050**	1,106
Depreciation	**25,962**	11,553	**–**	11	**25,962**	11,564
Directors' emoluments (note 13)	**19,158**	20,162	**–**	–	**19,158**	20,162
Loss on disposals of property, plant and equipment	**9**	10	**–**	–	**9**	10
Operating lease charges						
– Hire of office equipments and motor vehicles	**110**	–	**–**	–	**110**	–
– Land and buildings (note b)	**3,389**	2,605	**–**	–	**3,389**	2,605
	3,499	2,605	**–**	–	**3,499**	2,605
Research and development expenditures	**5,371**	2,223	**–**	–	**5,371**	2,223
Staff costs including directors' emoluments						
Salaries, bonuses and allowances (note b)	**21,876**	12,751	**–**	–	**21,876**	12,751
Retirement benefits scheme contributions	**672**	317	**–**	–	**672**	317
Equity-settled share-based payments	**36,017**	54,251	**–**	–	**36,017**	54,251
	58,565	67,319	**–**	–	**58,565**	67,319
Other equity-settled share-based payments	**80,885**	–	**–**	–	**80,885**	–
Direct operating expenses of investment properties that did not generate rental income	**–**	–	**739**	734	**739**	734
Fair value loss on financial assets at fair value through profit or loss	**413**	–	**–**	–	**413**	–
Impairment losses on advances to oil exploitation project	**47,580**	–	**–**	–	**47,580**	–
Impairment losses on intangible assets (note c)	**4,131**	8,895	**–**	–	**4,131**	8,895

10. PROFIT FOR THE YEAR/PERIOD (Continued)

Note a: The amortisation charges of approximately HK$188,521,000 (for the period ended 31 December 2009: HK$113,062,000 (as restated)) and HK$8,872,000 (for the period ended 31 December 2009: HK$3,578,000) are included in the oil exploitation expenses and costs of sales and services rendered respectively.

Note b: The amounts include the accommodation benefits provided to directors amounting to approximately HK$280,000 (for the period ended 31 December 2009: HK$1,200,000).

Note c: The impairment losses on intangible assets of approximately HK$4,131,000 (for the period ended 31 December 2009: Nil) and Nil (for the period ended 31 December 2009: HK$8,895,000) are included in the oil exploitation expenses and administrative expenses respectively.

11. INCOME TAX EXPENSE

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
Current tax – PRC enterprise income tax		
Provision for the year/period	**952**	1,087
Under-provision in prior periods	**331**	–
	1,283	1,087
Deferred tax (note 27)	**144,723**	101,030
	146,006	102,117
Representing:		
Continuing operations	**146,003**	98,791
Discontinued operations (note 12)	**3**	3,326
	146,006	102,117

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 year ended 31 December 2010 and the period ended 31 December 2009.

11. INCOME TAX EXPENSE (Continued)

PRC enterprise income tax ("EIT") 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.

Universe Oil & Gas (China) LLC ("Universe"), being a foreign investment enterprise is entitled to an exemption from EIT for two years starting from its first profit-making year, followed by a 50% tax relief for the following three years. Universe was entitled to and enjoyed the first exemption year in 2007 and a 50% tax relief for the three years ended 31 December 2011. Accordingly, the applicable income tax rate of Universe for the year ended 31 December 2010 is 12.5%.

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

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)
(Loss)/profit before tax		
Continuing operations (excluding share of results of associates)	**289,267**	239,143
Discontinued operations	**(41,193)**	14,274
	248,074	253,417
Tax at the statutory PRC enterprise income tax rate of 25%	**62,018**	63,354
Tax effect of income that is not taxable	**(10,331)**	(18,852)
Tax effect of expenses that are not deductible	**49,602**	39,552
Tax effect of tax losses not recognised	**17,989**	18,545
Tax effect of utilisation of tax losses not previously recognised	**(604)**	(931)
Tax effect of temporary differences not recognised	**5,334**	2,224
Tax effect of tax preferential period	**5,093**	303
Under-provision in prior periods	**331**	–
Effect of different tax rates of the Company and its subsidiaries	**16,574**	(2,078)
Income tax expense	**146,006**	102,117

12. DISCONTINUED OPERATIONS

Pursuant to a disposal agreement dated 13 September 2010 entered into between United Energy International Investments Limited ("UEIIL"), a subsidiary of the Company, and an independent third party (the "Purchaser"), UEIIL disposed of the entire equity interest in a 71% owned subsidiary, Shenyang Shengtaicheng Property Development Company Limited ("Shengtaicheng") at a consideration of approximately HK$37,924,000 (equivalent to RMB32,750,000).

Shengtaicheng was engaged in the property investment business during the year ended 31 December 2010. The disposal was completed on 20 September 2010 and the Group discontinued its property investment business in PRC thereafter.

The (loss)/profit for the year/period from the discontinued operations is analysed as follows:

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000
Profit from discontinued operations	**2,412**	10,948
Loss on disposal of discontinued operations (note 33(a))	**(43,608)**	–
	(41,196)	10,948

12. DISCONTINUED OPERATIONS (Continued)

The results of the discontinued operations for the period from 1 January 2010 to 20 September 2010, which have been included in consolidated profit or loss, are as follows:

	Period from 1 January 2010 to 20 September 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000
Turnover	**–**	–
Cost of sales and services rendered	**(739)**	(734)
Gross loss	**(739)**	(734)
Other income	**3,488**	15,130
Administrative expenses	**(334)**	(122)
Profit before tax	**2,415**	14,274
Income tax expense	**(3)**	(3,326)
Profit for the period	**2,412**	10,948

During the period, the disposed subsidiary paid approximately HK$33,547,000 (for the period ended 31 December 2009: HK$100,317,000) in respect of operating activities and received approximately HK$3,317,000 (for the period ended 31 December 2009: HK$1,162,000) in respect of investing activities.

No tax charge or credit arose on loss on disposal of the discontinued operations.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Equity-settled share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2010					
Executive directors:					
Mr. Zhang Hong Wei	1,000	4,431	–	–	5,431
Mr. Zhu Jun	415	–	–	–	415
Ms. Zhang Meiying	1,950	304	10,686	12	12,952
	3,365	4,735	10,686	12	18,798
Independent non-executive directors:					
Mr. Chau Siu Wai	120	–	–	–	120
Mr. San Fung	120	–	–	–	120
Mr. Zhu Chengwu	120	–	–	–	120
	360	–	–	–	360
	3,725	4,735	10,686	12	19,158

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

	Fees HK$'000	Salaries and other benefits HK$'000	Equity-settled share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Period ended 31 December 2009					
Executive directors:					
Mr. Zhang Hong Wei	750	1,017	–	–	1,767
Mr. Zhu Jun	405	–	–	–	405
Ms. Zhang Meiying	1,341	184	16,186	9	17,720
	2,496	1,201	16,186	9	19,892
Independent non-executive directors:					
Mr. Chau Siu Wai	90	–	–	–	90
Mr. San Fung	90	–	–	–	90
Mr. Zhu Chengwu	90	–	–	–	90
	270	–	–	–	270
	2,766	1,201	16,186	9	20,162

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (for the period ended 31 December 2009: Nil).

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals in the Group during the year included two (for the period ended 31 December 2009: one) directors whose emolument is reflected in the analysis presented above. The emoluments of the remaining three (for the period ended 31 December 2009: four) individuals are set out below:

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000
Salaries and other benefits	**1,067**	1,869
Equity-settled share-based payments	**9,795**	18,635
	10,862	20,504

The emoluments fell within the following bands:

	Number of individuals	
	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000
Nil to HK$1,000,000	**–**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	2
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**–**	1
HK$7,000,001 to HK$7,500,000	**–**	1
	3	4

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 during the year (for the period ended 31 December 2009: Nil).

14. EARNINGS PER SHARE

(a) From continuing and discontinued operations

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$112,256,000 (for the period ended 31 December 2009: HK$237,060,000 (as restated)) and the weighted average number of ordinary shares of 12,777,091,632 (2009: 12,777,091,632) in issue during the year/period.

(b) From continuing operations

Basic earnings per share

The calculation of basic earnings per share from continuing operations attributable to owners of the Company is based on the profit for the year from continuing operations attributable to owners of the Company of approximately HK$154,152,000 (for the period ended 31 December 2009: HK$229,287,000 (as restated)) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

(c) (Loss)/earnings per share from discontinued operations

Basic loss per share from the discontinued operations for the year ended 31 December 2010 is HK0.33 cents per share (for the period ended 31 December 2009: earnings per share of HK0.06 cents (as restated)) based on the loss for the year from discontinued operations attributable to the owners of the Company of approximately HK$41,896,000 (for the period ended 31 December 2009: profit of HK$7,773,000 (as restated)) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary sharing during the year ended 31 December 2010 and period ended 31 December 2009.

15. DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2010 (for the period ended 31 December 2009: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 April 2009	3,856	6,269	3,323	1,520	48,975	–	63,943
Additions	12	–	–	61	3,446	2,808	6,327
Acquisition of subsidiaries	562	349	578	178	12,290	16,293	30,250
Disposals	–	–	(515)	–	–	–	(515)
Exchange differences	7	8	4	2	80	(7)	94
At 31 December 2009 and 1 January 2010	4,437	6,626	3,390	1,761	64,791	19,094	100,099
Additions	2,757	–	1,641	232	36,213	95,635	136,478
Disposal of a subsidiary	–	–	–	(150)	–	–	(150)
Disposals	–	–	(33)	(6)	–	–	(39)
Transfers	–	–	–	–	4,664	(4,664)	–
Exchange differences	213	200	153	49	3,108	1,628	5,351
At 31 December 2010	7,407	6,826	5,151	1,886	108,776	111,693	241,739
Accumulated depreciation							
At 1 April 2009	367	2,179	1,300	735	16,374	–	20,955
Charge for the period	227	379	720	253	9,985	–	11,564
Disposals	–	–	(155)	–	–	–	(155)
Exchange differences	1	1	2	1	31	–	36
At 31 December 2009 and 1 January 2010	595	2,559	1,867	989	26,390	–	32,400
Charge for the year	510	484	1,267	381	23,320	–	25,962
Disposal of a subsidiary	–	–	–	(146)	–	–	(146)
Disposals	–	–	(28)	(2)	–	–	(30)
Exchange differences	30	34	89	25	1,327	–	1,505
At 31 December 2010	1,135	3,077	3,195	1,247	51,037	–	59,691
Carrying amount							
At 31 December 2010	6,272	3,749	1,956	639	57,739	111,693	182,048
At 31 December 2009	3,842	4,067	1,523	772	38,401	19,094	67,699

17. INVESTMENT PROPERTIES

	2010 HK$'000	2009 HK$'000
At beginning of year/period	**147,654**	136,054
Fair value gain	**–**	11,355
Disposal of a subsidiary	**(150,774)**	–
Exchange differences	**3,120**	245
At end of year/period	**–**	147,654

The fair value of the Group's investment properties as at 31 December 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 as follows:

	2010 HK$'000	2009 HK$'000
Investment properties held under medium-term leases in the PRC	**–**	147,654

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

	HK$'000
Within one year	5,204
In the second to fifth years inclusive	27,782
After five years	77,770
	110,756

Pursuant to the supplementary tenancy agreement entered between the Group and the tenant on 1 April 2009, a rent free period from 1 April 2009 to 31 March 2010 was granted to the tenant due to temporary suspension of the investment properties for fire safety improvement works.

18. INTANGIBLE ASSETS

	Technical know-how HK$'000	Contractual rights in oil exploitation projects HK$'000	Participating interest in oil exploitation project HK$'000	Oil exploitation rights HK$'000 (Restated)	Total HK$'000 (Restated)
Cost					
At 1 April 2009, as previously reported	–	–	–	–	–
Effect of change in accounting policy (note 3)	–	–	–	8,180,000	8,180,000
At 1 April 2009, as restated	–	–	–	8,180,000	8,180,000
Acquisition of subsidiaries	345,608	63,735	167,738	–	577,081
Exchange differences	(171)	(32)	–	–	(203)
At 31 December 2009, as restated	345,437	63,703	167,738	8,180,000	8,756,878
At 1 January 2010, as previously reported	345,437	63,703	167,738	–	576,878
Effect of change in accounting policy (note 3)	–	–	–	8,180,000	8,180,000
At 1 January 2010, as restated	345,437	63,703	167,738	8,180,000	8,756,878
Exchange differences	14,598	2,692	–	–	17,290
At 31 December 2010	360,035	66,395	167,738	8,180,000	8,774,168
Accumulated amortisation and impairment losses					
At 1 April 2009, as previously reported	–	–	–	–	–
Effect of change in accounting policy (note 3)	–	–	–	5,177,184	5,177,184
At 1 April 2009, as restated	–	–	–	5,177,184	5,177,184
Amortisation for the period	11,589	3,578	2,843	98,630	116,640
Impairment losses	–	–	8,895	–	8,895
Reversal of impairment losses	–	–	–	(496,758)	(496,758)
Exchange differences	3	1	–	–	4
At 31 December 2009, as restated	11,592	3,579	11,738	4,779,056	4,805,965

18. INTANGIBLE ASSETS (Continued)

	Technical know-how HK$'000	Contractual rights in oil exploitation projects HK$'000	Participating interest in oil exploitation project HK$'000	Oil exploitation rights HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2010, as previously reported	11,592	3,579	11,738	–	26,909
Effect of change in accounting policy (note 3)	–	–	–	4,779,056	4,779,056
At 1 January 2010, as restated	11,592	3,579	11,738	4,779,056	4,805,965
Amortisation for the year	28,737	8,872	5,784	154,000	197,393
Impairment losses	4,131	–	–	–	4,131
Reversal of impairment losses	–	–	–	(753,056)	(753,056)
Exchange differences	786	231	–	–	1,017
At 31 December 2010	45,246	12,682	17,522	4,180,000	4,255,450
Carrying amount					
At 31 December 2010	314,789	53,713	150,216	4,000,000	4,518,718
At 31 December 2009, as restated	333,845	60,124	156,000	3,400,944	3,950,913

Technical know-how represents the oil exploitation patented techniques for the Group's production of crude oil and provision of patented technology supporting services business. The remaining amortisation period of the technical know-how is 11 years (2009: 12 years).

Contractual rights in oil exploitation projects represent the contractual arrangement in relation to the production of crude oil and provision of patented technology supporting services to the oilfields in PRC. The remaining amortisation period of contractual rights in oil exploitation projects is 6 years (2009: 7 years).

Participating interest in oil exploitation project represents a 10% participating interest in the Madura production sharing contract relating to the right to join and assist Badan Pelaksana Kegiatan Usaha Hulu Minyak Dan Gas Bumi ("BPMIGAS"), a state-owned legal entity established under the Government of the Republic of Indonesia in accelerating the exploration for and development of the potential resources within the Madura Contract Area in Indonesia. The remaining amortisation period of the participating interest in oil exploitation project is 28 years (2009: 29 years).

18. INTANGIBLE ASSETS (Continued)

Oil exploitation rights represent right for oil exploitation in the location of Gaosheng Block, Bohai Bay Basin of the PRC. Pursuant to the enhancing oil recovery ("EOR") contract entered into on 15 September 2006 between United Petroleum, a subsidiary of the Company, and China National Petroleum Corporation ("CNPC"), United Petroleum agreed to provide funds and apply its appropriate and advanced technology, equipment and managerial experience to enhance, with the cooperation of CNPC, the oil recovery in the contract area. The term of the EOR contract is 25 years. The remaining amortisation period of the oil exploitation rights is 21 years (2009: 22 years (as restated)).

For the year ended 31 December 2010, the Group carried out reviews of the recoverable amount of its intangible assets having regard to the changes in market conditions. Technical know-how and contractual rights in oil exploitation projects are used in the Group's oilfields supporting services segment whereas oil exploitation right is used in the Group's oil exploitation segment. The reviews led to the recognition of an impairment loss of approximately HK$4,131,000 for technical know-how and reversal of impairment losses of approximately HK$753,056,000 for oil exploitation rights that have been recognised in consolidated profit or loss. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates used in measuring value in use for technical know-how and oil exploitation rights were 15.31 percent and 15.64 percent respectively.

For the period ended 31 December 2009, the Group carried out reviews of the recoverable amount of its participating interest in oil exploitation project and oil exploitation rights based on fair value less costs to sell and value in use respectively. The recoverable amount of the participating interest in oil exploitation project was arrived at by reference to the recent sales and purchase transactions of gas and oil fields over the world from year 2008 to year 2010. The discount rate used in measuring value in use for oil exploitation rights was 15.64 percent. The reviews led to the recognition of an impairment losses of approximately HK$8,895,000 for participating interest in oil exploitation project and reversal of impairment losses of approximately HK$496,758,000 for oil exploitation rights that have been recognised in the consolidated profit or loss.

19. OTHER ASSETS

The amount represents deposits paid by the Group for a proposed acquisition of upstream oil and gas business in Pakistan of approximately HK$780,000,000 (equivalents to US$100,000,000). According to the acquisition agreement, if the acquisition does not occur and the acquisition agreement is terminated as a direct result of a breach or non-performance by the Group of its obligations under the acquisition agreement (including the failure to obtain Group's shareholders' approval), the entire deposits will be forfeited. In the opinion of the directors, the possibility of forfeiture is remote and such deposits are expected to be partial cash consideration to be paid by the Group upon the completion of the acquisition. Further details of the acquisition are disclosed in note 39 to the financial statements.

20. INVENTORIES

	2010 HK$'000	2009 HK$'000
Finished goods	**68,189**	100,866
Less: allowances for inventories	**(66,734)**	(93,639)
	1,455	7,227

During the year, the Company received an amount of approximately HK$26,905,000 (equivalent to US$3,449,000) in relation to the claim of oil production equipment which was accounted for as inventories and full allowance was made against such items in previous years because the supplier had failed to make delivery according to the contract. As a result, allowance made in prior years against the inventories of HK$26,905,000 (2009: Nil) was reversed.

21. TRADE AND OTHER RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade receivables (note a)	**11,386**	13,778
Other receivables (note b)	**134,251**	21,239
Total trade and other receivables	**145,637**	35,017

21. TRADE AND OTHER RECEIVABLES (Continued)

(a) *Trade receivables*

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 analysis of trade receivables, based on the invoice date, is as follows:

	2010	2009
	HK$'000	HK$'000
0 to 30 days	**6,352**	13,778
31 to 60 days	**5,034**	–
	11,386	13,778

As of 31 December 2010, trade receivables of approximately HK$5,034,000 (2009: Nil) were past due but not impaired. These relate to a single customer who has no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010	2009
	HK$'000	HK$'000
Up to 3 months	**5,034**	–

All trade receivables are denominated in RMB.

(b) *Other receivables*

	2010	2009
	HK$'000	HK$'000
Amounts due from joint venture partners	**71,102**	16,380
Consideration receivable (note i)	**37,924**	–
Deposits and prepayments	**21,113**	2,195
Advances to staff	**3,926**	2,280
Others	**186**	384
	134,251	21,239

(i) The consideration receivable represents an amount due from the Purchaser of 71% equity interests in Shengtaicheng which were disposed of during the year. The amount is unsecured and interest-free and had been fully settled after the reporting period.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 HK$'000	2009 HK$'000
Held for trading:		
Equity securities, listed in Hong Kong at market value	**3,387**	3,800

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 the formulation of a credit policy governing the control of credit risk. In this regard, the directors consider that the credit risk is significantly reduced.

23. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

At 31 December 2010, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$563,093,000 (2009: HK$509,993,000). 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.

At 31 December 2010, the Group's cash at bank of approximately HK$385,097,000 (2009: HK$4,680,000) was pledged to banks for the issue of performance bonds relating to the production of crude oil sharing contracts. The pledged bank deposits were in US$ and at fixed interest rates of ranging from 0.6% per annum to 1.3% per annum (2009: 1.1% per annum). The pledged bank deposits in US$ of approximately HK$385,097,000 (2009: HK$4,680,000) was therefore subject to foreign currency risk and fair value interest rate risk.

24. TRADE AND OTHER PAYABLES

	2010 HK$'000	2009 HK$'000
Accrual for operating expenses	**170,726**	15,643
Salary and welfare payables	**2,570**	2,544
Deposits received	**3,560**	947
Temporary receipts	**22,139**	–
Other tax payables	**1,720**	1,194
Consideration payable (note 33(b))	**21,161**	–
Others	**1,508**	6,372
Total trade and other payables	**223,384**	26,700

25. DUE TO DIRECTORS

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

26. BANK LOAN

	2010	2009
	HK$'000	HK$'000
Secured short-term bank loan	**23,676**	–

The secured short-term bank loan is denominated in RMB.

The effective interest rate of the secured short-term bank loan at 31 December 2010 was 5.38% (2009: Nil).

The secured short-term bank loan is arranged at fixed interest rates and exposes the Group to fair value interest rate risk.

The secured short-term bank loan is secured by 100% equity interests of the Group's subsidiary in PRC.

27. DEFERRED TAX LIABILITIES

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

	Investment properties	**Intangible assets**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 April 2009, as previously reported	17,103	–	17,103
Effect of change in accounting policy (note 3)	–	750,704	750,704
At 1 April 2009, as restated	17,103	750,704	767,807
Acquisition of subsidiaries	–	87,496	87,496
Charge to profit or loss for the period (note 11)	3,326	97,704	101,030
Exchange differences	31	(44)	(13)
At 31 December 2009, as restated	20,460	935,860	956,320
At 1 January 2010, as previously reported	20,460	85,624	106,084
Effect of change in accounting policy (note 3)	–	850,236	850,236
At 1 January 2010, as restated	20,460	935,860	956,320
Disposal of a subsidiary	(20,893)	–	(20,893)
Charge to profit or loss for the year (note 11)	–	144,723	144,723
Exchange differences	433	3,573	4,006
At 31 December 2010	–	1,084,156	1,084,156

27. DEFERRED TAX LIABILITIES (Continued)

At the end of reporting period, the Group has unused tax losses and other deductible temporary differences of approximately HK$372,233,000 and HK$26,959,000 respectively (2009: HK$663,744,000 and HK$19,550,000 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.

During the year, the Hong Kong Inland Revenue Department disallowed the deductions of certain expenses of approximately HK$377,537,000 which were previously claimed by the Company for income tax purpose. Accordingly, the above disclosed unused tax losses of the Group have decreased.

28. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 April 2009, 31 December 2009 and 31 December 2010	60,000,000,000	600,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 April 2009, 31 December 2009 and 31 December 2010	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.

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 period ended 31 December 2009 and year ended 31 December 2010.

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 issued 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 December 2010, 32% (31 December 2009: 30%) of the shares were in public hands.

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2010 HK$'000	2009 HK$'000
Investments in subsidiaries		**4,473,597**	4,832,952
Trade and other receivables		**1,775**	1,120
Financial assets at fair value through profit or loss		**3,387**	3,800
Due from subsidiaries		**990,384**	640,475
Pledged bank deposits		**4,732**	4,680
Bank and cash balances		**258,390**	1,458,872
Trade and other payables		**(25,589)**	(3,051)
Due to directors		**(6,501)**	(7,446)
Other assets	19	**780,000**	–
NET ASSETS		**6,480,175**	6,931,402
Capital and reserves			
Share capital		**127,771**	127,771
Reserves	30(b)	**6,352,404**	6,803,631
TOTAL EQUITY		**6,480,175**	6,931,402

30. RESERVES

(a) Group

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

30. RESERVES (Continued)

(b) Company

	Share premium account HK$'000	Share-based capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2009	13,027,326	148,639	(6,282,485)	6,893,480
Recognition of equity-settled share-based payments	–	54,251	–	54,251
Forfeiture of equity-settled share-based payments	–	(2,205)	2,205	–
Loss for the period	–	–	(144,100)	(144,100)
At 31 December 2009	13,027,326	200,685	(6,424,380)	6,803,631
At 1 January 2010	13,027,326	200,685	(6,424,380)	6,803,631
Recognition of equity-settled share-based payments	–	116,902	–	116,902
Forfeiture of equity-settled share-based payments	–	(215,580)	215,580	–
Loss for the year	–	–	(568,129)	(568,129)
At 31 December 2010	13,027,326	102,007	(6,776,929)	6,352,404

(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.

30. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(iii) Capital reserve

At 31 December 2009, capital reserve represented the aggregate of:

– the Group's share of an additional equity contribution made from non-controlling 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, United Energy International Investments Limited.

During the year, the Group's share of the additional equity contribution made from non-controlling shareholder of Shenyang Shengtaiyuan Logistic Company Limited was reclassified to non-controlling interests due to an arbitration granted by a PRC governmental authority.

(iv) Foreign currency translation reserve

Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(e)(iii) to the financial statements.

(v) 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.

(vi) Share-based capital reserve

Share-based capital 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(x) to the financial statements.

31. 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.

31. SHARE-BASED PAYMENTS (Continued)

Equity-settled share option scheme (Continued)

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.

Details of the specific categories of options are as follows:

Grantee	Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of share options outstanding as at 31 December 2010
Directors and employees	04.12.2007	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	1.56	8,250,000
	04.12.2007	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	1.56	5,500,000
	04.12.2007	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	1.56	5,500,000
	04.12.2007	04.12.2007 to 03.12.2011	04.12.2011 to 03.12.2012	1.56	8,250,000
	20.05.2008	20.05.2008 to 19.05.2009	20.05.2009 to 19.05.2013	0.902	–
	20.05.2008	20.05.2008 to 19.05.2010	20.05.2010 to 19.05.2013	0.902	–
	20.05.2008	20.05.2008 to 19.05.2011	20.05.2011 to 19.05.2013	0.902	–
	20.05.2008	20.05.2008 to 19.05.2012	20.05.2012 to 19.05.2013	0.902	–

31. SHARE-BASED PAYMENTS (Continued)

Grantee	Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of share options outstanding as at 31 December 2010
	03.11.2010	03.11.2010 to 02.11.2011	03.11.2011 to 02.11.2015	0.90	3,000,000
	03.11.2010	03.11.2010 to 02.11.2012	03.11.2012 to 02.11.2015	0.90	2,000,000
	03.11.2010	03.11.2010 to 02.11.2013	03.11.2013 to 02.11.2015	0.90	2,000,000
	03.11.2010	03.11.2010 to 02.11.2014	03.11.2014 to 02.11.2015	0.90	3,000,000
	31.12.2010	31.12.2010 to 30.12.2011	31.12.2011 to 30.12.2015	1.55	600,000
	31.12.2010	31.12.2010 to 30.12.2012	31.12.2012 to 30.12.2015	1.55	400,000
	31.12.2010	31.12.2010 to 30.12.2013	31.12.2013 to 30.12.2015	1.55	400,000
	31.12.2010	31.12.2010 to 30.12.2014	31.12.2014 to 30.12.2015	1.55	600,000
					39,500,000

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.

31. SHARE-BASED PAYMENTS (Continued)

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

	At 31 December 2010		At 31 December 2009	
	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/period	**355,000,000**	**1.412**	365,000,000	1.398
Granted during the year/period	**12,000,000**	**1.008**	–	–
Forfeited during the year/period	**(327,500,000)**	**(1.399)**	(10,000,000)	(0.902)
Outstanding at the end of the year/period	**39,500,000**	**1.392**	355,000,000	1.412
Exercisable at the end of the year/period	**19,250,000**	**1.560**	161,500,000	1.462

The options outstanding at the end of the year have a weighted average remaining contractual life of 2.82 years (for the period ended 31 December 2009: 3.03 years) and the exercise prices are ranging from HK$0.90 to HK$1.56 (for the period ended 31 December 2009: HK$0.902 to HK$1.56). In 2010, options were granted on 3 November 2010 and 31 December 2010. The estimated fair values of the options granted on those dates are approximately HK$8,079,000 and HK$2,043,000 respectively.

The estimated fair values of the share options granted on 4 December 2007, 20 May 2008, 3 November 2010 and 31 December 2010 are determined using the Black-Scholes model or Binomial models when appropriate. The respective fair values and significant inputs to the models were as follows:

	Share option grant date			
	4 December 2007	20 May 2008	3 November 2010	**31 December 2010**
Model	Black-Scholes	Black-Scholes	Binomial	**Binomial**
Fair value at measurement date	HK$231,400,000	HK$176,913,000	HK$8,079,000	**HK$2,043,000**
Number of share options granted	275,000,000	330,000,000	10,000,000	**2,000,000**
Grant date share price	HK$1.49	HK$0.900	HK$1.17	**HK$1.55**
Exercise price	HK$1.56	HK$0.902	HK$0.90	**HK$1.55**
Expected volatility	105.04%	110.71%	93.50%	**94.37%**
Risk free rate	1.160% – 2.403%	1.181% – 2.420%	1.074%	**1.763%**
Expected life	1-4 years	1-4 years	5 years	**5 years**

31. SHARE-BASED PAYMENTS (Continued)

Expected volatility was based on the historical volatility of the Company's share price over the previous 5 years for the share options granted on 20 May 2008, 3 November 2010 and 31 December 2010 and 1 year for the share options granted on 4 December 2007. 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.

32. UNLISTED WARRANTS

On 19 July 2010, the Company entered into service agreements (the "Service Agreements") with Joy Wealth International Limited and Tung Tai Asset Management Limited (the "Consultants"), to engage them as consultants of the Company for the provision of business development, strategies and advisory services including seeking suitable energy projects for the development or diversification of the business of the Company and suitable business partners/investors for the Company for fund raising projects. Under each of the Service Agreements with the Consultants, the Company agreed to issue to each of them 500,000,000 units of unlisted warrants shares (the "Unlisted Warrants") at the price of HK$0.8 per share. The aggregate amounts of Unlisted Warrants to be issued by the Company to both Consultants are HK$800,000,000. The Service Agreements shall come into force from the date of the issue of the Unlisted Warrants and shall continue for a period of twenty-four months therefrom. Details of the above are set out in the Company's announcement dated 19 July 2010.

The issue of the Unlisted Warrants is an equity-settled transaction given that the Company granted Unlisted Warrants as considerations for services rendered by the Consultants. All the Unlisted Warrants will be settled in equity. The recognition and measurement of the issue of the Unlisted Warrants should follow HKFRS 2 "Share-based Payment".

The exercisable period of the Unlisted Warrants of the Company is as follows:

Date of grant	**Exercise period**	**Exercise price** HK$
19 July 2010	26 July 2010 – 25 July 2012	0.8

If the Unlisted Warrants remain unexercised after a period of 2 years from the date of grant, the warrants expire. Unlisted Warrants ceased if the Service Agreements are terminated before the Unlisted Warrants are exercised.

32. UNLISTED WARRANTS (Continued)

Details of the Unlisted Warrants outstanding during the year are as follows:

	At 31 December 2010		At 31 December 2009	
	Number of Unlisted Warrants	Weighted average exercise price HK$	Number of Unlisted Warrants	Weighted average exercise price HK$
Outstanding at the beginning of the year/period	–	–	–	–
Granted during the year/period	1,000,000,000	0.8	–	–
Outstanding at the end of the year/period	1,000,000,000	0.8	–	–
Exercisable at the end of the year	500,000,000	0.8	–	–

The Unlisted Warrants outstanding at the end of the year has a weighted average remaining contractual life of 1.5 years.

In the opinion of the directors, the fair value of the services provided by the Consultants cannot be reasonably estimated. Therefore, the fair value of the services is measured by reference to the fair value of the Unlisted Warrants. The fair value of the Unlisted Warrants is calculated using the Binomial Option Pricing Model. The inputs into the model were as follows:

Spot price	HK$0.560
Exercise price	HK$0.80
Risk-free rate	0.507%
Expected life	2 years
Expected price volatility	79.29%

Expected price volatility was determined by calculating the historical volatility of the Company's share price over the past 2 years. The expected life represents the effective life of the Unlisted Warrants estimated from the expected exercising time frame.

For the year ended 31 December 2010, HK$80,885,000 of equity-settled share-based payments in relation to the issue of the Unlisted Warrants has been recognised in the consolidated profit or loss and the corresponding amount of which has been credited to the share-based capital reserve.

As at 31 December 2010, none of the Unlisted Warrants was exercised and converted into shares of the Company.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) *Disposal of a subsidiary*

As referred in note 12 to the financial statements, on 20 September 2010, the Group discontinued its operations of property investment business in PRC upon the disposal of its 71% equity interests in Shengtaicheng.

Net assets at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	4
Investment properties	150,774
Bank and cash balances	72,527
Other payables	(70,831)
Deferred tax liabilities	(20,893)
Net assets disposed of	131,581
Release of foreign currency translation reserve	(11,890)
Non-controlling interests	(38,159)
Loss on disposal of a subsidiary	(43,608)
Total consideration – satisfied by cash	37,924
Net cash outflow arising on disposal:	
Cash consideration	37,924
Consideration receivable	(37,924)
Cash and cash equivalents disposed of	(72,527)
	(72,527)

The cash consideration has not yet been settled at the end of reporting period and is included in trade and other receivables as disclosed in note 21 to the financial statements.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Purchase of non-controlling interests

During the year, the Group acquired 29% equity interests in a 71% subsidiary from the non-controlling shareholder at a cash consideration of approximately HK$21,161,000 (equivalent to RMB17,876,000). The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

	HK$'000
Share of net assets in the subsidiary acquired	86,617
Consideration	(21,161)
Gain on acquisition recognised directly in equity	65,456

The consideration has not yet been settled by the Group at the end of the reporting period and has been included in trade and other payables as disclosed in note 24 to the financial statements.

34. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name of the related party	**Relationship**
東方集團能源投資控股有限公司 (Orient Group Energy Investment Holdings Company Limited ("Orient Group Energy")) #	Mr. Zhang Hong Wei is an ultimate controlling party and authorised representative of Orient Group Energy
東方集團投資控股有限公司 (Orient Group Investment Holdings Company Limited ("Orient Group")) #	Mr. Zhang Hong Wei is an ultimate controlling party and authorised representative of Orient Group

\# The English translation of the Company names is for reference only. The official names of these companies are in Chinese.

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year/period:

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000
Rental expenses paid to Orient Group for rental of office premises	**38**	–
Rental expenses paid to Orient Group Energy for rental of office equipment	**54**	–

35. CAPITAL COMMITMENTS

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

	2010 HK$'000	2009 HK$'000
Contracted but not provided for:		
Acquisition of property, plant and equipment	**23,593**	11,492

36. OPERATING LEASE COMMITMENTS

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

	2010 HK$'000	2009 HK$'000
Within one year	**3,896**	3,258
In the second to fifth years inclusive	**6,620**	209
	10,516	3,467

Operating lease payments represent rentals 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.

37. 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 ended 31 December 2010 amounted to approximately HK$107,000 (for the period ended 31 December 2009: HK$52,000).

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 ended 31 December 2010 amounted to approximately HK$565,000 (for the period ended 31 December 2009: HK$265,000).

38. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2010 are as follows:

Name	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
United Energy Technology (China) Company Limited ("UET") #	PRC	US$5,287,900	100%	–	100%	Dormant
Shenyang Shengtaiyuan Logistics Company Limited ("Shengtaiyuan") #	PRC	RMB60,000,000	80%	–	80%	Dormant

38. SUBSIDIARIES (Continued)

Name	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	
Universe	PRC	US$10,000,000	70%	–	100%	Engaged in provision of patented technology supporting services to oilfields
United Petroleum	British Virgin Islands	US$50,000	100%	100%	–	Production of crude oil in the PRC
UEIIL	British Virgin Islands	US$1	100%	100%	–	Investment holding
Merry Year Investments Limited	British Virgin Islands	US$100	100%	100%	–	Investment holding
Universe Energy International Investments Limited	British Virgin Islands	US$100	70%	–	70%	Investment holding
United Energy International Holdings Limited	British Virgin Islands	US$100	100%	100%	–	Investment holding
Gold Trade Group Limited	British Virgin Islands	US$10	100%	100%	–	Dormant
PC (NAD) International Limited	Bahamas	US$100	100%	–	100%	Investment holding

Shengtaiyuan is a domestic enterprise and UET and Universe is a wholly foreign owned enterprise established in the PRC.

The English translation of the Company names is for reference only. The official names of these companies are in Chinese.

39. EVENTS AFTER REPORTING PERIOD

a. On 14 December 2010, the Group entered into an agreement with BP Pakistan Exploration and Production, Inc., BP Pakistan (Badin) Inc. and BP Exploration (Alpha) Limited (collectively referred as the "BP p.l.c.") to acquire the BP p.l.c.'s upstream oil and gas business in Pakistan at a cash consideration of approximately HK$6,006,250,000 (equivalent to US$775,000,000), subject to adjustments as described in the agreement. 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. Details of the transaction are set out in the Company's announcement dated 14 December 2010.

b. On 15 September 2006, United Petroleum, a wholly-owned subsidiary of the Group, and CNPC entered into an enhancing oil recovery contract regarding Liaohe Oilfields in Gaosheng Block, Bohai Bay Basin of the PRC ("Liaohe Oilfields Project"). In July 2010, upon approval of the enhancing oil recovery development plan in respect of the Liaohe Oilfields Project by the National Development and Reform Commission, the development period of the Liaohe Oilfields Project was commenced, enabling it to become the first sino-foreign cooperation project in oil industry of China that adopted fireflood technology to enhance oil recovery rate. In February 2011, the Liaohe Oilfields Project has satisfied the requirements for the commencement of the production period, i.e. having a cumulative 20,000 metric tons of incremental oil extracted from the Liaohe Oilfields Project. The Group has submitted an application to the joint administration committee for the confirmation of the commencement of production period of the Liaohe Oilfields Project.

   During the production period, the annual production of the incremental oil, after payments of value added tax, royalty and operating costs, shall be allocated to CNPC and United Petroleum in the proportion of 40% and 60% respectively. As a result of the further development of Liaohe Oilfields Project, the incremental oil shared by the Group would be increased that would enhance the Group's profitability in future. As of February 2011, the incremental oil shared by the Group has been approximately 12,000 metric tons which would be sold on the prevailing international oil price and reflected in the results of 2011 financial statements.

40. COMPARATIVE FIGURES

As a result of the application of HKFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", HKFRS 8, "Operating Segments" and HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", certain comparative figures have been reclassified to conform to the current year's presentations.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2011.

Financial Summary

RESULTS

	For the twelve months ended 31 December 2010 HK$'000	For the nine months ended 31 December 2009 HK$'000 (Restated)	Year ended 31 March 2009 HK$'000 (note i)	2008 HK$'000 (note i)	2007 HK$'000 (note i)
Turnover					
From continuing operations	**22,373**	25,357	–	–	6,696
From discontinued operations	**–**	–	5,178	4,893	9,237
	22,373	25,357	5,178	4,893	15,933
Profit / (loss) before tax	**289,267**	327,819	(528,386)	(108,676)	16,938
Income tax (expense)/ credit	**(146,003)**	(98,791)	(234)	(159)	(731)
Profit / (loss) for the year / period from continuing operations	**143,264**	229,028	(528,620)	(108,835)	16,207
(Loss) / profit for the year / period from discontinued operations	**(41,196)**	10,948	(30,305)	4,356	4,469
Profit / (loss) for the year / period	**102,068**	239,976	(558,925)	(104,479)	20,676
Attributable to:					
Owners of the Company	**112,256**	237,060	(550,438)	(101,497)	18,508
Non-controlling interests	**(10,188)**	2,916	(8,487)	(2,982)	2,168
	102,068	239,976	(558,925)	(104,479)	20,676

Financial Summary

	As at 31 December		As at 31 March		
	2010	2009	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(note i)	(note i)	(note i)
Total assets	**6,861,514**	6,334,982	2,737,006	3,203,681	1,130,395
Total liabilities	**(1,338,438)**	(991,553)	(53,051)	(70,526)	(402,401)
Net assets	**5,523,076**	5,343,429	2,683,955	3,133,155	727,994
Equity attributable to owners of the Company	**5,125,420**	5,047,845	2,496,931	2,941,737	521,294
Non-controlling interests	**397,656**	295,584	187,024	191,418	206,700
Total equity	**5,523,076**	5,343,429	2,683,955	3,133,155	727,994

Note:

(i) The financial figures for the years ended 31 March 2007, 2008 and 2009 were extracted from the annual report for the nine months ended 31 December 2009. No retrospective adjustments for the adoption of acquisition method as described in note 3 to the financial statements was made on the financial figures for the years ended 31 March 2007 to 2009.

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