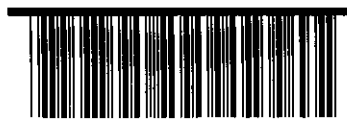


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# UNITED ENERGY

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Report & Accounts  
1999



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<b>Contents</b>	<b>Page</b>
Chairman's Statement	1
Board of Directors	3
Operational Review	4
Financial Review	6
Directors' Report	7
Remuneration Report	10
Corporate Governance	12
Auditors' Report	15
Financial Statements	
Consolidated Profit and Loss Account	16
Consolidated Balance Sheet	17
Company Balance Sheet	18
Consolidated Cash Flow Statement	19
Consolidated Statement of Total Recognised Gains and Losses	19
Notes to the Financial Statements	20
Proved Oil and Gas Reserves	31
Oil and Gas Terms	31
Notice of Annual General Meeting	32
Directors and Advisers	34

#### **The Annual General Meeting of Shareholders**

The Annual General Meeting of United Energy plc ("United Energy") will be held at the offices of Nabarro Nathanson, Lacon House, Theobald's Road, London WC1X 8RW on 7 June 2000 at 11.15 am. (or as soon thereafter as the extraordinary general meeting of the Company convened for the same day has been concluded or adjourned).

## Chairman's Statement

*Dear Shareholder,*

1999 was a year of transition with the disposal of the Group's oil and gas interests to Castle Energy Corporation. Following this disposal your Company had net liquid assets of approximately £4 million and no remaining trading activities. In accordance with the strategy outlined in the circular relating to the disposal, your Board has reviewed a wide range of alternative business opportunities, principally in the e-commerce sector, with a view to identifying a business to "reverse" into United Energy.

### US Oil and Gas Operations

The disposal of AmBrit's oil and gas interests was completed smoothly in accordance with the timetable envisaged at the time of the 1998 Annual Report and Accounts.

The earnings generated by AmBrit up to the completion of the disposal on 1 June 1999 were severely impacted by the collapse in oil prices and weakening gas prices. Despite strong production and lower operating costs the gross profit for the five months was inadequate to cover administrative costs and interest charges during that period.

The US staff showed a high level of professionalism in the way that they handled the work associated with both the disposal and the closing down of the US operations and I wish them all well in their new careers.

### Agrigen

Following the decision to dismiss Agrigen's planning appeal for the Nunn Mills Biomass Power Station, Northampton in February 1999, attempts were made to extract value from the various assets held by the Group. In particular, the Group's interest in the Nunn Mills site was sold and an agreement was entered into in connection with the Thermie Grant. Expressions of interest in the NFFO licence have been received but as yet no transaction has been completed.

### web-angel

As announced on 28 April 2000, United Energy has entered into an agreement, conditional only on the approval by United Energy shareholders and Admission to the Alternative Investment Market ("AIM"), to acquire the entire issued share capital of each of the partners of Web Angel Limited Partnership together ("web-angel"). As more fully described in the circular of the Company which is being sent to shareholders, the initial consideration of £23.1 million for the acquisition will be satisfied by the issue of 90,747,755 new ordinary shares in the capital of United Energy, representing 70 per cent of the enlarged ordinary share capital of United Energy following the acquisition of web-angel. Further consideration of up to 16% of the Company's share capital may also become payable conditional upon the achievement by the enlarged Group of certain performance related criteria over a three year period.

The web-angel concept was initiated in the first half of 1999 as a response to the increasing business opportunities provided by the development of the Internet. It invests in, and provides a range of integrated support services to developing e-commerce businesses. These businesses are mainly, but not exclusively, private companies. web-angel believes that its business acceleration strategy differs from that offered by other providers of such services in that it is able to offer an integrated package of strategy consulting, corporate finance advice, access to funding and investment expertise in return for earning equity.

Web Angel Limited Partnership was formed on 28 March 2000 and at 31 March 2000 had audited net assets of £0.3 million including equity interests in four e-commerce businesses. Subsequent to 31 March 2000, Web Angel Limited Partnership has entered into agreements to earn four further equity interests in e-commerce businesses, and in addition further capital subscriptions of approximately £3.2 million have been received by Web Angel Limited Partnership. On completion United Energy's cash balances will also become available for investment.

Web Angel Limited Partnership's investment objective is long term capital growth from a portfolio of investments in the UK and Europe. Opportunities for investment are expected to be identified by OC&C Strategy Consultants Limited, Ermgassen & Co Limited and Brait International Limited, the three principal Founders of web-angel, under the terms of a services agreement. The circular details the considerable benefits to web-angel from the ongoing relationship with the Founders and provides background information on each of these companies.

Prospective investments will be considered by an Investment Committee which will include board and non-board members with skills in investment management, e-commerce and corporate finance. web-angel aims to expand its portfolio, subject to finding suitable opportunities, by around ten to twenty investments a year.

The Operational Review on pages 4 and 5 provides further information on the proposed acquisition and on the implications of the City Code on Takeovers and Mergers. It also provides details of the capital reorganisation and capital reduction which is being proposed in order to eliminate the accumulated deficit on the Company's profit and loss account.

#### **Transfer to AIM**

The Directors believe that it is now appropriate for the Company to apply to the London Stock Exchange to cancel the listing of its shares on the Official List and to move to AIM, as AIM offers a degree of regulation which is more appropriate given the size of the Company. In addition, AIM will offer a greater degree of flexibility than is available on the Official List.

The cancellation of the Company's listing and the transfer to AIM, which are conditional upon completion of the acquisition of web-angel, is expected to become effective the day following the extraordinary general meeting. In the event that shareholders do not approve the acquisition, the Company's application for admission to AIM will lapse and its listing will be restored.

#### **Board of Directors**

Following completion of the acquisition, all of the existing United Energy directors, except for Nick Tamblyn who will remain in the role of finance director, will be stepping down from the Board. Penny Hughes, who is currently a non-executive director of Vodafone Airtouch plc and a number of other listed companies, will become non-executive chairman. Christopher Eyles, who has a background in consulting and has advised a number of major South African commercial organisations on e-commerce projects, will become chief executive. Five other non-executives will also be appointed, four of whom are directly connected to the Founders of web-angel and will not draw directors fees.

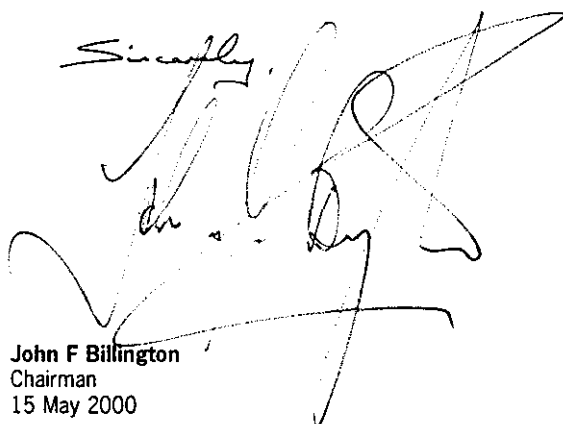
On behalf of shareholders, I would like to express my appreciation to both Derek Howard-Orchard and Tony Hoskinson for their help and assistance that they have provided the Company over the ten years or so that they have both been directors.

#### **Outlook**

Although web-angel's business is only in the early stages of implementing its business plan, your Board is excited by its potential. Its accelerator approach to earning investments based on the extensive skills base within its own management and founders should help deliver long term improvements in shareholder value. Whilst investment in early stage e-commerce businesses can be very rewarding, it also carries a higher degree of risk. The portfolio approach to investment adopted by the web-angel business helps to mitigate the risks associated with any single investment. In the event that shareholders do not approve the proposed acquisition, your Board will resume its search for a new business venture.

I am delighted that Penny Hughes has agreed to become Chairman when I step down. She brings with her a team of experienced and knowledgeable professional investors and advisors which should enable web-angel to take full advantage of the opportunities provided by the e-commerce sector as this expands.

Following completion of the acquisition, the name of the Company will be changed to web-angel plc.



**John F Billington**  
Chairman  
15 May 2000

## **Board of Directors**

### **John F Billington**

Non-Executive Chairman; joined the Board in December 1991 and was appointed Chairman in July 1992. John built up a company with almost 150 pharmacy and drugstore outlets as well as manufacturing and wholesaling activities; this business was sold to Lloyds Chemists plc in 1987. Age 55.

### **Nick Tamblyn**

Chief Executive and Finance Director; was appointed to the Board in May 1992. Nick is a chartered accountant and joined the Company from KPMG where he was a Partner. Age 42.

### **Derek Howard-Orchard**

Non-Executive Director; joined the Board in February 1990. Derek became a non-executive director on 1 December 1999 having previously been Group Technical Director and a Director of the Group's US operations. Derek is a petroleum engineer with 16 years experience as a consultant to international oil and energy companies. Age 48.

### **Tony Hoskinson**

Non-Executive Director; joined the Board in September 1989. Tony became a non-executive director in April 1997 having previously been Group Company Secretary. Age 58.

## Operational Review

The sale of the Group's US oil and gas interests was completed on 1 June 1999 resulting in 5 months production being reflected in the annual results. Production during this five month period averaged 2,254 boepd in 1999. Clearly, however, total production for 1999 fell well below the 1998 levels as a result of the sale.

### Sale of US Oil and Gas Interests

The decision to sell the US oil and gas interests to Castle Energy Corporation was approved by shareholders on 24 May 1999 and completion took place as scheduled on 1 June 1999. In accordance with the completion mechanism defined in the Sale and Purchase Agreement, approximately US\$1.2 million was placed in escrow at the time of completion, out of this US\$1 million was to cover payments due for production net of expenses subsequent to the effective date of the sale and approximately US\$0.2 million was to cover certain title defects which Castle Energy Corporation required to be resolved. During September the escrow funds were distributed with all title defects cured, thereby finalising the disposal of the US assets.

### Closure of US Operations

Subsequent to the sale of the US assets, all the US staff were made redundant and the offices of AmBrit were closed down with the lease terminated by mutual consent. The formal process of liquidating AmBrit commenced on 1 December 1999 and this is expected to be completed during the current year, subject to the resolution of the litigation matter referred to below. Overall, the closure of the US operations has gone to plan with realisations in line with expectations.

### US Litigation

As detailed in the 1998 Report and Accounts, AmBrit is involved in a legal dispute with the operator of the Pilgreen 2-St well on the Simpson (Pilgreen) Lease. The dispute arises from the fact that the operator has not paid AmBrit its royalty revenues from this well amounting to US\$0.5 million (£312,000), such amounts having been paid into court pending resolution of the dispute.

The operator's justification for paying the royalties into court, but not to AmBrit, is that it is in title dispute with a company with whom it entered into a farmout agreement and until that dispute is resolved it is uncertain what royalty interest is due to AmBrit, if any. This dispute was subject to an agreed judgement during 1998 which effectively confirmed the royalty due to AmBrit. This judgement was appealed unsuccessfully by the operator. A further appeal by the operator is under consideration but in the meantime settlement negotiations are taking place which could lead to a resolution of the dispute. AmBrit consider that the operator is obliged to comply with the terms of the agreed judgement and to pay all outstanding royalties. Based on legal advice, AmBrit believes that it has a high chance of success in receiving the full amount of royalty revenues that have been paid into court.

The disposal of the oil and gas interests takes into account this legal dispute and does not require AmBrit to provide guaranteed title to the disputed interest. However, AmBrit still has a direct interest in the revenues of £312,000 paid into court as these were earned in the period prior to 1 January 1999. Under the terms of the agreement with Castle Energy Corporation, all amounts relating to periods subsequent to 1 January 1999 are due to Castle.

### Agrigen

As detailed in the 1998 Report and Accounts, Agrigen Limited was placed in Administrative Receivership in March 1999, following the dismissal of Agrigen's planning appeal for the Nunn Mills Biomass Power Station, with United Energy as the only secured creditor.

During 1999 the sale of United Energy Properties Ltd's interest in the Nunn Mills site was duly completed for a consideration of £250,000. In addition, United Energy and Agrigen entered into an agreement in December 1999 with Energy Power Resources Limited ("EPR") to assign their respective interests in the Thermie Grant. An estimate of the contributions which EPR will make to the previously incurred costs of both Agrigen and United Energy has been included in the accounts amounting to £150,000. This contribution is expected to be received during the current year.

**Proposed Acquisition of web-angel**

Following the completion of the disposal of AmBrit's oil and gas interests, considerable time was spent evaluating a wide range of potential businesses to "reverse" into United Energy before we identified the web-angel opportunity. The search for suitable new business ventures had concentrated on the Technology Sector as it offered, in our opinion, the most attractive prospects for enhancing shareholder value. The web-angel business's accelerator approach to earning investments in the e-commerce sector together with the significant experience within its management team made it stand out above the wide range of opportunities that have been reviewed.

## Financial Review

### Group Results

The results for 1999 reflect the impact of the disposal of the Group's US oil and gas interests and the subsequent closure of the US operations. The net asset position at the end of the year is in line with that expected at the time the decision was made to dispose of the US interests.

Turnover reflects only five months production up to the completion of the sale on 1 June 1999. The average oil and gas prices received for sales showed continued weakness with oil prices at US\$12.61 bbl compared to an average of US\$12.47 in 1998 and gas prices at US\$1.77 mcf compared to US\$1.99.

Production costs fell in line with the reduced turnover, with average costs of US\$4.40 per boe (1998: US\$4.57). However, the continued reduction in average operating costs per boe had little impact compared to the substantial falls in average product prices since 1997. Depletion costs also fell in line with the reduced production.

Administrative costs reflect the savings achieved from the closure of the US office part way through the year, however, they continued to exceed the gross profit resulting in an operating loss for the year of £0.23 million (1998: £0.79 million). At the end of 1999, the Group only had one employee other than the directors.

Net interest costs reflect the repayment of all borrowings on the completion of sale on 1 June 1999. However, interest expenses of £0.34 million up to that date compared to the gross profit of £0.42 million reflect the pressure that low prices was placing on the Group's finances.

The Group incurred an exceptional loss of £3.23 million on the disposal of the US assets during the year. This loss was primarily as a result of charging the profit and loss account with £3.10 million of goodwill arising on the acquisition of AmBrit International Plc in 1992, the goodwill having not previously been separately recognised. This charging of goodwill to the profit and loss account does not impact on the net assets of the Group. In arriving at the exceptional gain of £0.03 million on the closure of a former associate, a further £0.21 million of goodwill was charged to the profit and loss account which had previously been written off to reserves. This goodwill charge was offset by the release of provisions against loans to the former associate and an estimate of contributions due against previously incurred costs as a result of the assignment of both the Company's and the former associates interest in a Thermie Grant amounting to £0.24 million in total.

The net cash inflow from operating activities of £1.06 million benefited from a £0.27 million reduction in working capital requirements following the disposal of the US interests. The year end cash at bank of £3.52 million was in line with expectations subject to the SW Speaks revenues of £0.31 million remaining unpaid.

### Treasury Policies

Treasury policies are approved by the board and cover the types of financial instruments that may be employed and the criteria for investing and borrowing cash. The Group does not currently use derivatives and does not enter into transactions of a speculative nature.

**Liquidity risk:** Since disposing of the US operations, the Group has repaid all of its bank borrowings, leaving net cash balances of approximately £3.52 million. These are managed through a mixture of cash deposits and short term investments of not more than 30 days duration.

**Foreign currency risk:** The majority of the Group's net assets comprise cash balances which following the sale of the US assets and repayment of the US\$ bank loans were mostly converted into sterling. The remainder of the Group's net assets are denominated in US Dollars, this exposure is not hedged on the basis that the risk of a material adjustment to the overall net asset position of the Group is considered low particularly given the policy of converting the cash balances into sterling as and when appropriate.

**Interest rate risk:** The Group's cash deposits are invested at floating rates of interest because it has been important to retain flexibility given the Group's stated intention of identifying a suitable business opportunity in which to invest.



## Directors' Report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 1999. Pages 1 to 6 are an integral part of this report.

### Activities

The Group's principal activities were the development of proved and near proved oil and gas reserves in the USA. These activities were discontinued during 1999 with the disposal of the Group's oil and gas interests.

### Results and Dividend

The results of the Group for the year ended 31 December 1999 are set out in the profit and loss account on page 16.

The Directors do not propose to recommend the payment of a dividend (1998: £nil).

### Donations

The Group made no political or charitable donations during the year ended 31 December 1999.

### Subsequent Events

Details of post balance sheet events are set out in note 26 to the financial statements. Further details of these events and the background to them are set out in both the Chairman's Statement and the Review of Operations.

### Creditor Payment Policy

The Company does not follow any code or standard on payment practice, but it is the Company's policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier. The number of days billings outstanding from trade suppliers at 31 December 1999 for the Company and Group was approximately 30 days, although the level of purchasing activity was minimal during December 1999.

### Year 2000

During the year the Group conducted a comprehensive review of the potential Year 2000 risks across all areas of the business to ensure that the Group did not suffer any disruption due to the millennium bug problem. The costs of the limited remedial work identified were not considered to be material and were charged to the profit and loss account as incurred. No millennium bug problems have been experienced to date.

### Directors

The Directors of the Company during the year are shown on page 3.

Under the terms of the acquisition agreement to acquire the entire issued share capital of each of the partners of Web Angel Limited Partnership dated 27 April 2000 (further details of which are set out in note 26 to the financial statements) it is intended that Messrs Billington, Hoskinson and Howard-Orchard will resign from the Board on completion of the acquisition. Mr Tamblyn will become Finance Director. The new directors being proposed are Penny Hughes (Chairman), Chris Eyles (Chief Executive), the following are all proposed to be non-executive directors, Paul Jessiman, Peter Jungen, Geoffrey Mott, Christopher Outram and Christopher Stainforth.

### Directors' Interests in the Company

The Directors at 31 December 1999 had, according to the Register of Directors' interests maintained in accordance with Section 325 of the Companies Act 1985, the following interests in the share capital of the Company:

	At 31 December 1999		At 1 January 1999	
	Ordinary shares of 10p each	Share options	Ordinary shares of 10p each	Share options
Beneficial:				
JF Billington	9,358,724	228,703	9,358,724	453,703
JA Hoskinson	225,100	150,000	225,100	375,000
D Howard-Orchard	262,445	325,000	262,445	787,500
NJ Tamblyn	209,812	800,000	209,812	1,000,000
Non Beneficial:				
JA Hoskinson	198,750	—	198,750	—

Details of the share options to subscribe for the Company's ordinary shares are set out in the Directors' Remuneration Report and Note 20(b).

Subsequent to the year end, Mr Hoskinson's interest decreased by 164,413 shares, of which 81,563 were held beneficially by him and 82,850 were non-beneficial, other than for these changes there have been no changes in the Directors' registered interests in the share capital of the Company during the period 1 January 2000 to 12 May 2000. None of the Directors had any interest in the shares of any subsidiary undertaking at 31 December 1999 or since.

#### **Substantial Shareholdings**

At 15 May 2000 the following had notified the Company that it was interested in 3% or more of its issued ordinary share capital:

	Number of Shares	%
Haut Terre Investments Ltd	8,329,158	21.42

Other than the interests set out above the Directors are not aware of any other person with a beneficial holding or interest of 3% or more in the issued ordinary share capital of the Company. The Haut Terre Investments Ltd shares are included within the share interests of Mr JF Billington set out on page 7.

#### **Proposed Capital Reorganisation and Capital Reduction**

In order to enable the Company to eliminate the accumulated deficit on its profit and loss account, the Board is now proposing to subdivide the existing Ordinary Shares of 10p into one ordinary share of 1p each and one deferred share of 9p each. A resolution to approve the subdivision and the creation of the deferred shares will be proposed at the Extraordinary General Meeting. Subsequently, the Board intends to seek the confirmation of the High Court for the cancellation of all of the issued deferred shares. If confirmation from the High Court for such cancellation is forthcoming, all the issued deferred shares will be cancelled, and the reserve thereby created will be used to eliminate the accumulated profit and loss account deficit. This will enable the company to pay dividends in the future, although web-angel's principal objective will be capital growth from its investments.

#### **Annual General Meeting**

Accompanying this annual report and accounts, is a circular issued by the Company in respect of its proposed acquisition of the entire issued share capital of each of the partners of Web Angel Limited Partnership ("Acquisition") and admission of the entire issued share capital of the Company to trading on the Alternative Investment Market of the London Stock Exchange ("Admission"). That circular convenes an extraordinary general meeting of the Company to propose a resolution approving a capital reorganisation of the Company and granting the Directors authority to allot relevant securities pursuant to Section 80 of the Companies Act 1985 until 31 May 2005. The authority sought will be in respect of securities issued pursuant to the Acquisition and in addition, up to an aggregate nominal amount of £474,481 representing approximately 30% of the issued ordinary share capital of the Company as enlarged following Admission and the issue of the minimum number of ordinary shares of 1p each in the Company (as created by the above-mentioned capital reorganisation) ("Subdivided Shares") to be issued as a result of the Acquisition (as more particularly described in the above mentioned circular) (being 28,520,723 such shares) if the performance criteria set out in the Acquisition agreement are met in full. The Directors have no present intention of exercising the authority sought in respect of the additional nominal amount, other than to satisfy the Company's obligations to issue shares on the exercise of share options.

As at last year's Annual General Meeting, in accordance with limits prescribed by the organising bodies representing the interests of institutional shareholders, a special resolution (number 4) will be proposed to renew the power to allot for cash equity securities up to an aggregate nominal amount of £79,080 (representing approximately 5% of the issued ordinary share capital as enlarged following Admission) and the issue of the minimum number of Subdivided Shares to be issued as a result of the Acquisition (as more particularly described in the above mentioned circular) if the performance criteria set out in the Acquisition agreement are met in full until the next following Annual General Meeting or, if earlier, the date 15 months after the passing of the resolution. This resolution is conditional upon Admission.

The authority for the Company to purchase its own ordinary shares given last year expires at the Annual General Meeting and your Directors propose that it should be renewed and extended in the terms of Resolution 5, which will be proposed as a special resolution, in respect of up to 15,816,037 Subdivided Shares. This figure represents approximately 10% of the issued ordinary share capital of the Company as enlarged following Admission and the issue of the minimum number of Subdivided Shares to be issued as a result of the Acquisition as more particularly described in the above mentioned circular if the

performance criteria set out in the Acquisition agreement are met in full. The authority will expire at the next following Annual General Meeting or, if earlier, the date 15 months after the passing of the resolution. The resolution is conditional upon Admission.

This authority gives the Company greater flexibility in managing its capital resources. The Directors intend to use the authority now sought only if they are satisfied such purchases would be in the long term interests of shareholders and would result in an increase in earnings per share. They consider it prudent that they should be able to act at short notice and make such purchases should market conditions and the price of the ordinary shares so justify. Any shares purchased under this authority will be cancelled and the number of shares in issue reduced accordingly. No such purchases were made by the Company under the terms of the authority granted in 1999. The maximum price which may be paid for an ordinary share shall be an amount equal to 5% above the average of the middle market prices for the 10 dealing days prior to purchase.

**Auditors**

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

By Order of the Board



NJ Tamblin  
Lacon House, Theobald's Road  
London WC1X 8RW  
15 May 2000

## Directors' Remuneration Report

The Company's Remuneration Committee consists of the Chairman, Mr Billington and Mr Hoskinson. Whenever appropriate, independent advice is taken by the Committee.

The Committee, on behalf of the Board, has specific responsibility for determining the remuneration of each of the Executive Directors and in calculating the individual salary package particular attention is paid to ensuring that an appropriate balance is maintained between reward and performance taking into account the special factors which relate to natural resource companies whereby the Company itself is unable to influence the price of oil and gas, or predict the impact of severe weather patterns, mechanical failure, and the uncertainties associated with reservoir, geological and geophysical interpretations. Details of the emoluments paid to individual Directors are set out in the table below. The remuneration of Non-Executive Directors is determined by the Board.

### Directors' Emoluments

	Salary & Fees £	Contract Variation £	1999 Total £	1998 Total Salary & Fees £	1999 Pension £	1998 Pension £
<b>Executive Directors</b>						
NJ Tamblin	98,333	—	98,333	90,169	9,833	9,017
D Howard-Orchard (as executive)	71,543	150,000	221,543	82,908	—	—
Sub Total	169,876	150,000	319,876	173,077	9,833	9,017
<b>Non-Executive Directors</b>						
JF Billington (Chairman)	—	—	—	—	—	—
JA Hoskinson	2,500	—	2,500	15,000	—	—
D Howard-Orchard	1,000	—	1,000	—	—	—
Sub Total	3,500	—	3,500	15,000	9,833	9,017
<b>Total</b>	<b>173,376</b>	<b>150,000</b>	<b>323,376</b>	<b>188,077</b>	<b>9,833</b>	<b>9,017</b>

The Group continues not to provide cars or other similar benefits in respect of Directors and the Chairman. Mr JF Billington, provides his services without charge to the Group other than for his involvement in the Group Bonus Scheme.

The services of Mr D Howard-Orchard are provided through North Sea Hydrocarbons Ltd, a company of which he is a director and shareholder. The Company's agreement with North Sea Hydrocarbons Ltd was terminable by not less than 36 months written notice by either party at a rate of £89,490 per annum, Retail Price Index linked. On 1 December 1999, Mr Howard-Orchard became a Non-Executive Director and the 3 year rolling contract on which notice had been given with effect from 14 April 1999, was replaced by a 10 month contract with North Sea Hydrocarbons Ltd at a rate of £1,000 per month to 30 September 2000. This has been paid in full. North Sea Hydrocarbons Ltd was paid £150,000 as compensation for the change of contract.

Mr NJ Tamblin's service agreement is terminable by not less than 24 months' written notice by either party. The Company made contributions of 10% of Mr Tamblin's salary to a money purchase personal pension scheme, payments during the year amounted to £9,833 (1998: £9,017).

The services of Mr Hoskinson are provided through Trojan Investments Ltd, a company of which he is a director and shareholder. The Company's agreement with Trojan Investments Ltd was for a 2 year fixed period from 1 April 1997 at £15,000 per year, subsequent to this date Mr Hoskinson has continued to provide his services as a Director through Trojan Investments Ltd on a month to month basis at a rate of £500 per Board Meeting, following completion of his two year contractual term pending finalisation of the transaction to sell the Group's oil and gas assets and identification of a new business opportunity.

The Board is aware of the fact that it does not comply with the provisions of the Combined Code concerning directors' contracts of employment, in that Mr Tamblyn has a two year rolling contract. This contract was in place before the publication of both the Cadbury and Greenbury Reports. The Remuneration Committee has reviewed the impact of Mr Tamblyn's rolling contract and has determined that at this time no change is required to the present arrangement due to the potential cost implications. The present policy of the Remuneration Committee provides that all future rolling contracts of employment for Directors shall not exceed one year and that fixed contracts shall not exceed three years. It will continue to review the present arrangement for Mr Tamblyn and should it be deemed appropriate the contract will be amended as part of an overall salary review.

The Company operates a Bonus Pool for certain directors based on a minimum profit on ordinary activities before taxation of £604,000 for 1999. The participants of this scheme during 1999 were Messrs Billington, Tamblyn and Howard-Orchard. The Board of Directors consider that Mr Billington's involvement in the Bonus Scheme is appropriate, given that as detailed above, he receives no other fees or benefits from the Company. The Board is aware that this fact could be viewed as affecting his objectivity due to his personal financial interest but do not believe this to be a problem in the Company's particular circumstances. As the Group did not earn the minimum profit, no bonuses are payable based on the 1999 results. The existing bonus scheme is to be discontinued in the event that the proposed acquisition is completed.

#### Directors' Interests in Share Option Scheme

The Company operates an Employee Share Option Scheme. Under the rules of this Scheme, up to 3,889,189 ordinary shares are available to be issued at the date of this report. At 31 December 1999 options had been granted under the rules of this Scheme on 2,153,703 ordinary shares (1998: 3,266,203) of which the following had been issued to directors who were in office at 31 December 1999.

#### Directors' Share Options

Period during which options exercisable	14.06.96- 13.06.00	06.07.98- 05.07.02	05.06.99- 04.06.03	29.10.00- 28.10.04	Total At 31.12.99
Exercise price	27p	15p	15p	17p	
JF Billington	228,703	—	—	—	228,703
JA Hoskinson	—	—	—	150,000	150,000
D Howard-Orchard	—	—	100,000	225,000	325,000
NJ Tamblyn	—	300,000	200,000	300,000	800,000
	228,703	300,000	300,000	675,000	1,503,703

No new options were granted or options exercised during the year although the following options lapsed.

Exercise price	JF Billington	JA Hoskinson	D Howard-Orchard	NJ Tamblyn	Total
42.5p	—	—	237,500	—	237,500
17p	225,000	225,000	225,000	200,000	875,000
	225,000	225,000	462,500	200,000	1,112,500

Any proposed grant of new options to directors and senior employees is required to be approved by the Board of Directors based on the recommendations of the Remuneration Committee. The grant of new options, which are made strictly in compliance with the scheme rules, are made to help align the recipients' interest with those of shareholders by motivating them to achieve long term capital growth in the Company's share price. The existing Employee Share Option Scheme is due to cease on 9 August 2000 after which no new options may be granted under the terms of the Scheme.

The Board considers that the current arrangements are appropriate and take account of the necessary factors which affect both the individual and the Company.

## Corporate Governance

Following the work of the Committee on Corporate Governance, in June 1998 the London Stock Exchange published a new Listing Rule together with the related principles of Good Governance and Code of Best Practice ('the Combined Code'). This embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ended on or after 31 December 1998. The Company is supportive of the principles of the Combined Code. On 1 May 2000, the role of the UK Listing Authority was transferred from the London Stock Exchange to the Financial Services Authority. This Authority now has responsibility for the Listing Rules.

This Statement describes how the principles of good governance set out in the Combined Code are applied to the Company.

### Board Structure

The Board of Directors comprised of four members, two Executive and two Non-Executives including the Chairman up to 1 December 1999, after which date there was one Executive and three Non-Executive Directors. Short biographical details of each Director are provided on page 3. The Chairman and Mr Hoskinson sit on the Audit and Remuneration Committees.

The Board meets regularly during the year with a formal schedule of matters specifically reserved to it for decision. In addition, monthly management accounts and production and cash flow forecasts are distributed to the Board for review and consideration together with management reports covering all key aspects of the business. Should decisions be required between Board Meetings papers are circulated to all Board Members containing information on the issue involved. Any decision taken in this regard is then duly ratified at the next formal Board Meeting. There exists an agreed procedure for directors in furtherance of their duties to take independent professional advice if necessary at the Company's expense.

The Audit Committee meets twice yearly to review and report to the Board on matters related to the published Financial Statements and systems of Internal Financial Control. The external auditors are invited to attend these meetings to discuss audit related issues.

The Remuneration Committee meets at least once a year to determine the remuneration of Executive Directors.

The Company's Articles presently require one-third of the Board to retire by rotation at each AGM, other than the Chief Executive who is not required to retire by rotation. A resolution to amend the articles so that the Chief Executive is treated the same as the other Directors will be proposed at the extraordinary general meeting.

### Internal Control

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including, financial, operational, compliance, and risk management as set out by The Institute of Chartered Accountants in England and Wales 'Internal Control Working Party' otherwise known as the Turnbull Committee (*Internal Control: Guidance for Directors on the Combined Code*) which was published in September 1999. However, the directors have taken advantage of the Financial Services Authority's transitional rules and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance Internal Control and Financial Reporting.

It is expected that the procedures necessary to implement the Turnbull Guidance will have been fully established during the current accounting period ending on 31 December 2000, taking into account the web-angel acquisition, in the event that it is completed.

### Internal Financial Control

The Directors acknowledge their responsibility for the Group's systems of internal control which are designed to allow the Board to monitor the Group's overall financial position and help to protect its assets. Such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The Directors have reviewed the effectiveness of internal financial control.

In accordance with the provisions of the Combined Code, we set out below a general description of United Energy's internal financial control, thereby complying with the existing transitional arrangements on internal controls.

Key elements of the Group's system of internal financial controls which are considered appropriate for a Group of our size, are as follows:

#### **Control Environment**

The Group is committed to the highest standards of business conduct and sought to maintain these standards in its US business while it was operational.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve group objectives. Lines of responsibility and delegations of authority are documented. Recruitment of appropriately qualified and experienced staff having been made in prior years.

#### **Risk Identification**

The executive directors and senior US staff were responsible for the identification and evaluation of key risks applicable to their areas of business while the US business was operational. Since that date, the risks have been monitored and assessed by the Chief Executive. Clearly, the nature of the risks have changed fundamentally during the course of the year. The principal risks subsequent to the sale of the US oil and gas assets have been associated with the closure and liquidation of the US business and the identification of a new business venture.

#### **Information and Communication**

Annual budgets were prepared ahead of the disposal of the US oil and gas interests which were then updated by way of a Board Memorandum to reflect the impact of the disposal. Actual performance has been actively monitored against both of these by the Board during the course of the year. A separate monthly report has been produced monitoring the progress of the closure of the US operations.

#### **Control Procedures**

Control procedures changed significantly during the course of the year, as many of the systems of control were no longer appropriate following the sale of the US oil and gas interests and the related redundancies. Control procedures have however been maintained at levels appropriate to the new circumstances of the Group. This includes control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. The scope for effective segregation of duties has been limited given the reduction of staff, however, the close day to day involvement of the Chief Executive has ensured that appropriate control procedures have been maintained.

#### **Monitoring and Corrective Action**

There are procedures in place for monitoring the system of internal financial control. Procedures have been maintained throughout the year despite the significant changes to the Group. The Audit Committee currently meets twice a year and, within its remit, reviews the effectiveness of the Group's system of internal financial controls. The systems of internal financial control are discussed with the firm's external auditors annually, although they only review these systems to the extent necessary to arrive at their audit opinion.

#### **Statement of Compliance**

Save as noted below, the Directors consider that the Company was in full compliance throughout the financial year with the provisions set out in Section 1 of the Combined Code.

- The Service Contracts of both the Executive Directors exceeded one year at the start of the year, as more fully detailed and explained in the Remuneration Report. At 31 December, the Chief Executive's Contract continued to be a contract requiring 24 months notice.
- The Company's Articles require one-third of the Board to retire by rotation at each AGM other than the Chief Executive, who is not required to retire by rotation. The Combined Code requires that all Directors submit themselves for re-election at least every 3 years. The Company adopted these procedures with effect from last year's AGM to comply with the Combined Code and has proposed that the Articles of Association of the Company are amended.
- The Combined Code requires an Audit Committee of at least three Directors, all Non-Executive, a majority of whom should be independent. On the grounds of cost the Board continued to have four Directors two of which were Non-Executive up to 1 December 1999. Derek Howard-Orchard became a non-executive director on 1 December 1999 at which time the Group had three non-executive directors, none of whom were independent. The Audit Committee continued to comprise of John Billington and Tony Hoskinson.

- Members of the Board do not consider that the appointment of a Senior Non-Executive Director would enhance the manner in which they discharged their duties given the size of the Board during 1999.

#### **Going concern**

The Directors have considered the factors relevant to support a statement on going concern including the implications of the proposed acquisition of web-angel. They have a reasonable expectation that the Company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

#### **Relations with Shareholders**

Communications with shareholders are given a high priority with both the Company's Annual Report and Accounts and Interim Report and Accounts sent to all shareholders. In addition, there is a dialogue with individual institutional shareholders including presentations following the Company's Preliminary Announcement of both the half year and year end results.

The Board uses the Annual General Meeting to provide shareholders with an opportunity to raise questions on matters of interest to them. In recent years all four Directors have been present at the AGM and questions have been answered on a broad range of topics.

Details of the Resolutions to be proposed at the AGM on 7 June 2000 can be found in the Notice of AGM on page 32. Shareholders are encouraged to attend this meeting.

#### **Directors' Responsibilities Statement**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.



## **Auditors' Report to the members of United Energy plc**

We have audited the financial statements on pages 16 to 30.

### **Respective responsibilities of directors and auditors**

The Directors are responsible for preparing the Annual Report. As described on page 14 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 12 to 14 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London, 15 May 2000

**Consolidated Profit and Loss Account for the Year Ended 31 December 1999**

	Notes	1999 £'000	1998 £'000
<b>Turnover</b>	2	<b>2,346</b>	5,471
Cost of sales:			
Production costs		(931)	(2,186)
Depletion of oil and gas interests		(992)	(2,414)
Exceptional impairment of oil and gas interests	3	—	(750)
		<b>(1,923)</b>	(5,350)
<b>Gross profit</b>		<b>423</b>	121
Administrative expenses		(654)	(910)
<b>Operating loss</b>	2	<b>(231)</b>	(789)
Loss from interest in associated undertaking		—	(20)
Exceptional gain/(loss) on closure of former associate	4	30	(870)
Exceptional loss on disposal of discontinued operations	23	(3,227)	—
Interest receivable and similar income	5	142	6
Interest payable and other charges	6	(345)	(729)
<b>Loss on ordinary activities before taxation</b>	7	<b>(3,631)</b>	(2,402)
Taxation	10	(82)	—
<b>Loss on ordinary activities after taxation and retained loss for the year</b>	21(b)	<b>(3,713)</b>	(2,402)
<b>Loss per share and diluted loss per share</b>	11	<b>(9.5)p</b>	(6.2)p

All items included in arriving at the operating loss for 1999 and 1998 relate to discontinued operations.

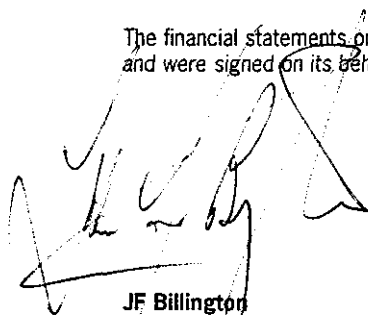
As noted on page 1 the directors are now considering a new commercial opportunity for the Group.

The notes on pages 20 to 30 form part of these financial statements.

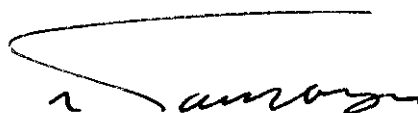
**Consolidated Balance Sheet at 31 December 1999**

	Notes	£'000	1999 £'000	£'000	1998 £'000
<b>Fixed assets</b>					
Intangible exploration assets	12(a)		—		111
Oil and gas interests	12(b)		—		12,009
Other tangible assets	12(b)		17		322
			<b>17</b>		<b>12,442</b>
<b>Current assets</b>					
Debtors	15	466		1,453	
Investments	14(b)	75		—	
Cash at bank	16	3,523		458	
		<b>4,064</b>		<b>1,911</b>	
<b>Creditors: amounts falling due within one year</b>	17	<b>(401)</b>		<b>(3,223)</b>	
<b>Net current assets/(liabilities)</b>			<b>3,663</b>		<b>(1,312)</b>
<b>Total assets less current liabilities</b>			<b>3,680</b>		<b>11,130</b>
<b>Creditors: amounts falling due after more than one year</b>	18		<b>—</b>		<b>(7,175)</b>
<b>Net assets</b>			<b>3,680</b>		<b>3,955</b>
<b>Capital and reserves</b>					
Called up share capital	20(a)		3,889		3,889
Share premium account	21(b)		272		272
Other reserves: capital reserve	21(b)		608		717
Profit and loss account	21(b)		(1,089)		(923)
<b>Shareholders' funds-equity</b>			<b>3,680</b>		<b>3,955</b>

The financial statements on pages 16 to 30 were approved by the Board of Directors on 15 May 2000 and were signed on its behalf by:



**JF Billington**  
Chairman



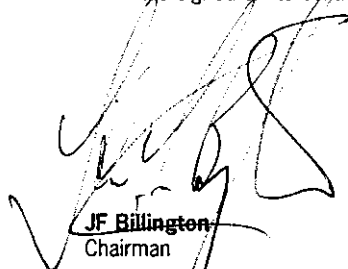
**NJ Tamblyn**  
Chief Executive

The notes on pages 20 to 30 form part of these financial statements.

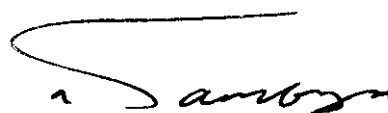
**Company Balance Sheet at 31 December 1999**

	Notes	£'000	1999 £'000	£'000	1998 £'000
<b>Fixed assets</b>					
Oil and gas interests	12(c)		—		22
Other tangible assets	12(c)		17		21
Investments in Group undertakings	14(a)		2,346		3,970
			<b>2,363</b>		<b>4,013</b>
<b>Current assets</b>					
Debtors	15	1,494		1,719	
Investments	14(b)	75		—	
Cash at bank	16	719		33	
		<b>2,288</b>		<b>1,752</b>	
<b>Creditors: amounts falling due within one year</b>	17	<b>(1,578)</b>		<b>(2,110)</b>	
<b>Net current assets/(liabilities)</b>			<b>710</b>		<b>(358)</b>
<b>Total assets less current liabilities</b>			<b>3,073</b>		<b>3,655</b>
<b>Creditors: amounts falling due after more than one year</b>	18		—		(331)
<b>Net assets</b>			<b>3,073</b>		<b>3,324</b>
<b>Capital and Reserves</b>					
Called up share capital	20(a)		3,889		3,889
Share premium account	21(b)		272		272
Profit and loss account	21(b)		(1,088)		(837)
<b>Shareholders' funds-equity</b>			<b>3,073</b>		<b>3,324</b>

The financial statements on pages 16 to 30 were approved by the Board of Directors on 15 May 2000 and were signed on its behalf by:



**JF Billington**  
Chairman



**NJ Tamblyn**  
Chief Executive

The notes on pages 20 to 30 form part of these financial statements.

**Consolidated Cash Flow Statement for the Year Ended 31 December 1999**

	Notes	£'000	1999 £'000	1998 £'000
<b>Net cash inflow from operating activities</b>	22(a)		1,060	2,160
<b>Returns on investments and servicing of finance</b>				
Interest received		105	6	
Interest paid		(412)	(710)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(307)	(704)
<b>Taxation</b>			—	20
<b>Capital expenditure and financial investment</b>				
Expenditure on oil and gas interests		(324)	(4,705)	
Sale of oil and gas interests	23	11,784	85	
Financing loans to former associate		(149)	(257)	
Purchases of other fixed assets		—	(257)	
Sale of other fixed assets		274	—	
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>			11,585	(5,134)
<b>Acquisitions</b>				
Investment in associated undertakings			—	(2)
<b>Net cash inflow/(outflow) before financing</b>			12,338	(3,660)
<b>Management of liquid resources</b>	22(b)		(2,950)	—
<b>Financing</b>				
Loans repaid	22(c)	(9,322)	—	
Additional loans drawn	22(c)	—	3,432	
<b>Net cash (outflow)/inflow from financing</b>			(9,322)	3,432
<b>Increase/(decrease) in cash in the period</b>	22(d)		66	(228)

**Consolidated Statement of Total Recognised Gains and Losses for the Year Ended 31 December 1999**

	1999 £'000	1998 £'000
Loss for the financial year	(3,713)	(2,402)
Translation differences on foreign currency net investments	127	(83)
<b>Total recognised gains and losses relating to the year</b>	<b>(3,586)</b>	<b>(2,485)</b>

## Notes to the Financial Statements for the year ended 31 December 1999

### 1. Accounting policies

The following accounting policies have been applied consistently, except as noted below following the introduction of new accounting standards, in dealing with items which are considered material in relation to the Group's financial statements.

The Group has adopted FRS 12 'Provisions, Contingent Liabilities and Contingent Assets' as at 31 December 1999. The adoption had no material impact on these accounts. FRS 13 'Derivatives and Other Financial Instruments' was also adopted during the year, disclosures in respect of 1999 only are provided in note 19.

#### Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### Basis of consolidation

The Group financial statements consolidate the financial statements of United Energy plc and all its subsidiary undertakings up to 31 December each year. The results of acquired subsidiary undertakings are included in the consolidated profit and loss account from the date of their acquisition as are the Group's share of the results of acquired associated companies.

A separate profit and loss account for the Company is not presented as permitted by Section 230 of the Companies Act 1985. The loss for the financial year dealt with in the financial statements of the holding company was £251,000 (1998: loss £1,209,000).

#### Associated companies

Investments in associated companies comprise all interests in companies which are not subsidiary companies and which are held for the long term and over which the Group exercises significant influence. The Group's share of the profits or losses of associated companies is included in the financial statements from the date that they became associated companies. Any difference between the cost of the investment in an associated company and the Group's share of the fair value of its assets is written off against reserves.

#### Goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

No purchased goodwill or negative goodwill has arisen since 1 January 1998 as no acquisitions have been made since this date.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off for any impairments.

#### Turnover

Turnover comprises the value of sales of oil and gas produced from the Group's directly owned producing interests, net of sales taxes, together with other related income.

## 1. Accounting policies (continued)

### Oil and gas interests

The full cost method of accounting is used to record interests in oil and gas properties. Under this method the acquisition cost of leaseholds and licences, legal costs in establishing title, geological and geophysical costs, attributable overheads and other direct costs of exploration, appraisal and development of oil and gas reserves are capitalised and accumulated in a single full cost pool.

The costs of properties under appraisal, called intangible exploration assets, are assessed periodically to determine whether impairment has occurred or commerciality has been proven. When impairment has occurred, or when commerciality is determined and a decision to develop the field has been taken, these costs are transferred to tangible fixed assets.

All tangible fixed assets and future development costs are depleted using the unit-of-production method, based on proved commercial reserves. Any changes in commercial reserve estimates are adjusted over the remaining life of the field from the start of the year. Any disposal proceeds are deducted from the cost pool.

The net aggregate carrying value of intangible and tangible oil and gas interests are assessed for recoverability against the anticipated discounted future net cash flows to be derived from their estimated remaining commercial reserves. The assessment is made on the basis of future oil and gas prices and cost levels forecast at the balance sheet date. A provision is made by way of accelerated depreciation, where the aggregate carried value exceeds the discounted future net cash flows to be derived from its estimated remaining commercial reserves.

### Depreciation

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost of assets over their estimated useful lives at the following rates per annum:

Fixtures and fittings and motor vehicles	—	20 per cent
Leasehold Improvements	—	8.5 per cent

Land is not depreciated, although its carrying value is reviewed for impairment.

### Leases

All leases entered into by the Group are operating leases, and the rental charges are charged directly to the Profit and Loss account on a straight line basis over the life of the lease.

### Foreign currency translation

Profit and loss accounts of overseas subsidiary undertakings are translated into sterling at average rates of exchange. The balance sheets of overseas undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves together with the differences between profit and loss accounts translated at average rates and at the balance sheet rate. All other translation differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against investments denominated in foreign currencies, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. Transactions by UK companies with third parties are translated into sterling at the exchange rate prevailing at the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates prevailing at the balance sheet date. Any exchange gain or loss is dealt with through the profit and loss account, except to the extent it represents a hedged position or is used to provide finance for a foreign investment, in which case it is taken to reserves.

### Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to crystallise in the foreseeable future. It is calculated at the rate at which it is estimated that tax will be payable. No provision is made for the tax that would arise were accumulated profits of overseas subsidiaries remitted to the UK.

## 2. Geographical information

	Turnover		Operating loss		Assets employed	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000	1999 £'000	1998 £'000
United States of America	2,344	5,421	35	(564)	2,859	4,904
United Kingdom	2	50	(266)	(225)	821	(949)
	<b>2,346</b>	<b>5,471</b>	<b>(231)</b>	<b>(789)</b>	<b>3,680</b>	<b>3,955</b>

Turnover by destination is not materially different from turnover by origin. All turnover and operating losses are derived from the Group's oil and gas operations. In arriving at profit before interest the Group has recorded a £30,000 gain on the closure of the former associate, Agrigen Limited which related to the UK market and a loss of £3,227,000 arising on the disposal of the US oil and gas operations (see notes 4 and 23).

## 3. Exceptional impairment of oil and gas interests

The exceptional impairment write down of the Group's oil and gas interests in 1998 of £750,000 reflected the impact of weak oil and gas pricing on their realisable value, net of the costs of realising the assets. The impairment review having been performed in accordance with the Group's policy detailed in note 1.

## 4. Exceptional gain/(loss) on closure of former associate

The exceptional charge in 1998 comprised full provision against the carrying amount of the investment in and loans to Agrigen Limited.

In 1999, the exceptional gain comprises a release of provisions against loans to Agrigen of £166,000, of which £75,000 represents a contribution receivable by Agrigen towards previously incurred costs, as a result of the transfer of the benefits of a Thermie Grant to EPR. A further £75,000 is due from EPR directly to the Company as a contribution towards its previously incurred costs resulting in a total gain before the write off of goodwill of £241,000. The transfer is subject to finalisation with the European Commission which the directors are confident will be achieved in the near future.

Goodwill of £211,000 arising on the acquisition of Agrigen, formerly written off directly to reserves has been charged to the profit and loss account following the closure of Agrigen's operations, resulting in a net gain for the year of £30,000.

## 5. Interest receivable and similar income

	1999 £'000	1998 £'000
Interest receivable	105	6
Exchange gains	37	-
	<b>142</b>	<b>6</b>

## 6. Interest payable and other charges

	1999 £'000	1998 £'000
Interest payable on bank loans	345	728
Exchange losses	-	1
	<b>345</b>	<b>729</b>



**7. Loss on ordinary activities before taxation**

The loss on ordinary activities before taxation is stated after charging/(crediting):

	1999 £'000	1998 £'000
Amortisation of oil and gas interests	992	2,414
Impairment of oil and gas interests (note 3)	-	750
Depreciation of tangible fixed assets	32	40
Impairment of land	-	50
Auditors' remuneration - for audit work	24	30
Other fees paid to the auditor and its associates	30	12
Operating lease payments - property	45	56
Exchange (gains)/losses	(37)	1

The auditors' remuneration for audit work includes £8,000 (1998: £7,500) in respect of the Company's audit.

**8. Directors' emoluments**

The total emoluments of the Directors of the Company were:

	1999 £'000	1998 £'000
Fees	3	15
Remuneration	170	173
Pension contributions	10	9
Contract variation payment	150	-
	<b>333</b>	<b>197</b>

More detailed information concerning directors' emoluments is set out in the Directors' Remuneration Report on pages 10 and 11.

**9. Staff numbers and costs**

The aggregate payroll costs of the Group including Directors comprised:

	1999 £'000	1998 £'000
Wages and salaries	439	599
Social Security costs	79	107
Employer's pension contributions	10	9
Redundancy payments	319	8
Contract variation payments	150	-
	<b>997</b>	<b>723</b>

The average number of persons, including Directors, employed by the Group during the year was 10 (1998: 15).

**10. Taxation**

No charge for UK corporation tax or US federal income tax arises on the loss for the year with the exceptional items having no effect on this situation. Alternative minimum US Federal Income Tax of £82,000 (1998: Nil) was due on the 1999 results and has been provided for in the current year.

The company has no liability for deferred tax.

**11. Loss per share and diluted loss per share**

The calculation of loss per share is based on the loss on ordinary activities after taxation of £3,713,000 (1998: loss £2,402,000) and on the weighted average number of 38,891,895 ordinary shares in issue during the year (1998: 38,891,895). There is no dilutive effect in the current year or in 1998.

**12. Group intangible exploration assets and tangible fixed assets**

(a) Intangible exploration assets:

	£'000
At 1 January 1999	111
Exchange adjustments	3
Additions	57
Disposals	(171)
At 31 December 1999	-

**12. Group intangible exploration assets and tangible fixed assets (continued)**

**(b) Group tangible fixed assets:**

	Oil & gas interests £'000	Leasehold improvements, fixtures, fittings & motor vehicles £'000	Land £'000	Total £'000
Cost:				
At 1 January 1999	23,009	255	298	23,562
Exchange adjustments	765	5	-	770
Additions (note 13)	199	-	-	199
Disposals	(23,973)	(180)	(298)	(24,451)
<b>At 31 December 1999</b>	-	80	-	80
Depletion and depreciation:				
At 1 January 1999	11,000	181	50	11,231
Exchange adjustments	391	4	-	395
Charge for the year	992	32	-	1,024
Disposals	(12,383)	(154)	(50)	(12,587)
<b>At 31 December 1999</b>	0	63	0	63
Net book value:				
<b>At 31 December 1999</b>	0	17	0	17
At 1 January 1999	12,009	74	248	12,331

At 1 January 1999 the principal tangible oil and gas interests were located in the USA these were all disposed of during the year.

**(c) Company tangible fixed assets**

	Oil & gas interests £'000	Leasehold improvements, fixtures & fittings £'000	Total £'000
Cost:			
At 1 January 1999	140	80	220
Disposal	(140)	-	(140)
<b>At 31 December 1999</b>	0	80	80
Depreciation:			
At 1 January 1999	118	59	177
Charge for the year	22	4	26
Disposal	(140)	-	(140)
<b>At 31 December 1999</b>	0	63	63
Net book value:			
<b>At 31 December 1999</b>	0	17	17
At 1 January 1999	22	21	43

**13. Expenditure on oil and gas interests**

Group expenditure on oil and gas interests during the year comprised:

	£'000
Development expenditure	199
Exploration and appraisal	57
<b>Total expenditure</b>	<b>256</b>

**14. Investments**

**(a) Investments in subsidiary undertakings**

	<b>Company</b>	
	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
Cost of shares	2,634	2,634
Provision against subsidiary undertakings	(288)	(288)
	<b>2,346</b>	<b>2,346</b>
Amounts owed by subsidiary undertakings falling due after more than one year	-	1,624
	<b>2,346</b>	<b>3,970</b>

There have been no movements on the investments in subsidiary undertakings during the year, other than for movements in amounts falling due from subsidiary companies due after more than one year.

At 31 December 1999 the Company had the following principal subsidiary undertakings:

<b>Name of Company</b>	<b>Proportion of ordinary shares held</b>	<b>Nature of business</b>
AmBrit International PLC*	100%	Holding company
AmBrit Energy Corp.	100%	Direct investment in oil and gas properties
United Energy Properties Ltd*	100%	Property holding company

\* Owned directly by the Company

A complete list of Group companies will be included in the Company's Annual Return.

**(b) Investment in former associate**

	<b>Group</b>		<b>Company</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January	(48)	(30)	212	212
Additions	-	2	2	2
Group's share of deficit	-	(20)	-	-
	<b>(48)</b>	<b>(48)</b>	<b>214</b>	<b>214</b>
Loans to former associate	777	868	777	868
Exceptional provision against former associate	(654)	(820)	(916)	(1,082)
<b>At 31 December</b>	<b>75</b>	<b>-</b>	<b>75</b>	<b>-</b>

Following the placing of Agrigen Limited into Administrative Receivership on 12 March 1999, the investment in associate shown above in the Group and Company has been reclassified as a current asset investment. Provision against the investment has been made in both Group (see note 4) and Company to reduce the investment to its recoverable amount of £75,000.

Agrigen Ltd's principal business was to design and develop a non-fossil fuel fired power station in Northampton, England. As more fully detailed in the Operational Review on pages 4 and 5 the Company failed in its Planning Appeal and was subsequently placed in Administrative Receivership under the terms of the Debenture held by United Energy plc. In assessing the recoverability of the loans made to the former associate at 31 December 1998, the directors took into consideration certain further costs in respect of the planning enquiry and Administrative Receivership of £250,000, which were to be settled by Agrigen in 1999 from amounts loaned to it by the Group. Actual costs incurred in 1999 amounted to £149,000 and the Directors believe that a further £10,000 is payable. In addition, a further £75,000 is recoverable by Agrigen as a contribution towards its previously incurred costs as a result of the transfer of the benefits of a Thermie Grant to EPR (see note 4). On this basis, £166,000 of the provision against the loans has been released in the current year.

**15. Debtors: amounts falling due within one year**

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Trade debtors	318	1,407	6	30
Amounts owed by subsidiary undertakings	-	-	1,369	1,675
Other debtors	139	14	110	14
Prepayments and accrued income	9	32	9	-
	<b>466</b>	<b>1,453</b>	<b>1,494</b>	<b>1,719</b>

At 31 December 1999, trade debtors included £312,000 (1998: £300,000) relating to revenues which have been deposited with the Registry of the Court of Travis County, Texas, USA, pending resolution of a title dispute. No provision has been made against the risk of not recovering these funds as based on legal advice it is believed the funds will be recovered in full. Further details of this dispute are set out in the Review of Operations.

**16. Cash at bank**

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Cash	573	458	16	33
Short term deposits	2,950	-	703	-
	<b>3,523</b>	<b>458</b>	<b>719</b>	<b>33</b>

**17. Creditors: amounts falling due within one year**

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Bank overdraft	-	185	-	185
Bank loan (secured)	-	1,687	-	-
Trade creditors	36	629	9	35
Amounts owed to subsidiary undertakings	-	-	1,510	1,510
Accruals and deferred income	274	714	50	372
Taxation and social security	91	8	9	8
	<b>401</b>	<b>3,223</b>	<b>1,578</b>	<b>2,110</b>

**18. Creditors: amounts falling due after more than one year**

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Bank loan (secured)	-	7,175	-	-
Amounts owed to subsidiary undertakings	-	-	-	331
	<b>-</b>	<b>7,175</b>	<b>-</b>	<b>331</b>
Borrowings at 31 December 1999 were repayable as follows:				
Within one year	-	1,872	1,510	1,695
Between one and two years	-	-	-	-
Between two and five years	-	7,175	-	331
	<b>-</b>	<b>9,047</b>	<b>1,510</b>	<b>2,026</b>

The bank loans at 31 December 1998 amounting to £8.9 million were secured on the Group's producing oil and gas assets located in the USA and were repayable by 31 December 2002. During 1999 the loan was repaid in full on the sale of the Group's producing oil and gas assets.

## 19. Financial instruments

The Group's financial assets consist of cash at bank and short term deposits at floating rates of interest. The financial assets at 31 December 1999 were £3,523,000 of which 84% were denominated in Sterling and 16% were denominated in US Dollars.

The Group did not have any financial liabilities other than short term creditors as at 31 December 1999.

The fair values of financial assets and liabilities at 31 December 1999 and 31 December 1998 were not materially different from their book values.

The maturity of financial liabilities is detailed in note 18. As at 31 December 1999 there were not any undrawn committed facilities available to the Group.

Further details of the Group's currency and liquidity risks are described in the Financial Review on page 6.

## 20. Called up share capital

### (a) Share capital

	1999 £'000	1998 £'000
<b>Authorised:</b>		
55,000,000 (1998: 55,000,000) ordinary shares of 10p each	5,500	5,500
<b>Allotted, called up and fully paid:</b>		
38,891,895 (1998: 38,891,895) ordinary shares of 10p each	3,889	3,889

### (b) Share options

At 31 December 1999 the following options over the Company's ordinary shares were outstanding:

	Number of shares	Exercise price	Period during which options exercisable
The United Energy plc, No.2 1990 Executive Share Option Scheme	350,000	16p	12.11.1999 - 12.05.2000
	228,703	27p	14.6.1996 - 13.6.2000
	150,000	17p	29.10.2000 - 29.04.2001
	300,000	15p	6.7.1998 - 5.7.2002
	150,000	13p	30.10.2001 - 30.10.2002
	300,000	15p	5.6.1999 - 4.6.2003
	675,000	17p	29.10.2000 - 28.10.2004

No options were issued during the year.

The mid-market price of the Company's ordinary shares at 31 December 1999 was 19p per share and the shares had traded in the range 7½ to 21½ p per share during 1999.

## 21. Shareholders' funds

### (a) Reconciliation of movement in shareholders' funds

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Loss for the financial year	(3,713)	(2,402)	(251)	(1,209)
Exchange adjustments	127	(83)	-	-
Goodwill previously written off	3,311	-	-	-
Net reduction in shareholders' funds	(275)	(2,485)	(251)	(1,209)
Shareholders' funds at 1 January 1999	3,955	6,440	3,324	4,533
<b>Shareholders' funds at 31 December 1999</b>	<b>3,680</b>	<b>3,955</b>	<b>3,073</b>	<b>3,324</b>

**21. Shareholders' funds (continued)**

**(b) Reserves**

<b>Group</b>	<b>Share Premium £'000</b>	<b>Capital Reserves £'000</b>	<b>Profit and Loss £'000</b>
At 1 January 1999	272	717	(923)
Loss for the financial year	-	-	(3,713)
Goodwill written back	-	3,311	-
Transfer of goodwill on disposal and closure of operations	-	(3,420)	3,420
Exchange difference on translation of overseas operations/investments	-	-	154
Exchange differences on related loans/borrowings	-	-	(27)
<b>At 31 December 1999</b>	<b>272</b>	<b>608</b>	<b>(1,089)</b>

The capital reserve arising on consolidation represents the excess of the fair value of the net assets acquired over the fair value of the consideration arising on the acquisition of AmBrit International PLC in February 1992, having applied the merger relief provisions of Section 131 of the Companies Act 1985, after adjustment for the disposal of the US oil and gas interests.

<b>Company</b>	<b>Share Premium £'000</b>	<b>Profit and Loss £'000</b>
At 1 January 1999	272	(837)
Loss for the financial year-	-	(251)
<b>At 31 December 1999</b>	<b>272</b>	<b>(1,088)</b>

**22. Cash flow**

**(a) Reconciliation of operating loss to net cash inflow from operating activities:**

	<b>1999 £'000</b>	<b>1998 £'000</b>
Operating loss	(231)	(789)
Depreciation	32	40
Amortisation of oil and gas interests	992	2,414
Impairment of oil and gas interests	-	750
Decrease/(increase) in debtors	1,083	(395)
(Decrease)/increase in creditors	(816)	140
<b>Net cash inflow from operating activities</b>	<b>1,060</b>	<b>2,160</b>

**(b) Management of liquid resources**

	<b>1999 £'000</b>	<b>1998 £'000</b>
Net cash outflow to short term deposits	2,950	-

**22. Cash flow (continued)**

**(c) Analysis of changes in finance during the year**

	<b>Bank loans and Overdrafts</b>	
	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	9,047	5,683
Additional loans drawn and short term borrowings	-	3,432
Loan repayments	(9,322)	-
Exchange adjustments	275	(68)
<b>At 31 December</b>	<b>-</b>	<b>9,047</b>

**(d) Analysis of the movement on cash balances**

	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	458	691
Cash flow	66	(228)
Exchange	49	(5)
<b>At 31 December</b>	<b>573</b>	<b>458</b>

**(e) Analysis of movement in net debt**

	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
Cash flow	66	(228)
Loans repaid	9,322	-
Additional loans drawn	-	(3432)
Purchase of short term investments	2,950	-
Exchange adjustments	(226)	63
<b>Change in net debt</b>	<b>12,112</b>	<b>(3,597)</b>
Bank loans	(9,047)	(5,683)
Cash at bank	458	691
<b>Net debt at beginning of year</b>	<b>(8,589)</b>	<b>(4,992)</b>
Bank loans	-	(9,047)
Cash at bank	3,523	458
<b>Net cash at bank/(debt) at end of year</b>	<b>3,523</b>	<b>(8,589)</b>

**23. Exceptional loss on disposal of discontinued operations**

	Group £'000
US oil and gas interests	11,590
Intangible exploration asset	171
	<hr/>
Assets disposed of	11,761
Goodwill previously written off to reserves	3,100
	<hr/>
	14,861
Net sale proceeds	(11,634)
	<hr/>
Loss on disposal of US oil and gas interests	3,227
	<hr/>
Sale proceeds comprise:	£'000
Gross proceeds	12,501
Severance payments	(459)
Disposal costs	(408)
	<hr/>
Net sales proceeds	11,634
Movement in debtors	20
Movement in creditors	130
	<hr/>
Cash received from sale of oil and gas interests	11,784
	<hr/>

Goodwill of £3.1 million which was not separately recognised on the acquisition of AmBrit International Plc in 1992 due to the application of the merger relief provisions of Section 131 of the Companies Act 1985, has been charged through the profit and loss account.

**24. Lease commitments**

The Group's annual commitments under non-cancellable operating leases, which are in respect of office space, are as follows:

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Expiring within one year	-	45	-	-
Expiring between two and five years	13	14	13	14

**25. Capital commitments and contingent liabilities**

The Company had provided guarantees on the bank indebtedness of a US subsidiary; the amount guaranteed at 31 December 1998 was £8.9 million. The bank indebtedness was fully repaid during 1999.

**26. Post balance sheet events**

On 28 April 2000, the Company announced that it had entered into an agreement, subject to shareholder approval to acquire web-angel for an aggregate consideration of £23.1 million to be satisfied by the issue of 90,747,755 New Ordinary Shares of 1p each of the capital of United Energy. Further consideration of up to 16 per cent of the Company's share capital from time to time may also become payable conditional upon the achievement by the enlarged Group of certain performance related criteria over a three year period. A circular is being sent to shareholders in this respect.



## Proved Oil and Gas Reserves

	Oil (mmbbl)	Gas (mmscf)	Mboe
<b>Total proved reserves at 1 January 1999 as estimated by Scotia Group, Inc, and analysed as follows:</b>			
- proved developed reserves	1,868.7	13,167.9	4,063.4
- proved undeveloped reserves	99.3	2,352.4	491.4
<b>Total Proved Reserves at 1 January 1999</b>	<b>1,968.0</b>	<b>15,520.3</b>	<b>4,554.8</b>
<b>Changes during the year:</b>			
- production	(150.8)	(1,137.1)	(340.3)
- disposals	(1,817.2)	(14,383.2)	(4214.5)
<b>Total proved reserves at 31 December 1999</b>			
- proved developed reserves	-	-	-
- proved undeveloped reserves	-	-	-

### Estimation and Valuation of Proved Oil and Gas Reserves

The Reserve Estimation at 1 January 1999 was performed by The Scotia Group, Inc, on all the Group's properties. Oil prices used for the evaluation were based on a 12 month average of West Texas Intermediate posted prices of US\$11.95/bbl adjusted by lease for gravity and transportation fees. Similarly, gas prices were based on a 12 month average price for Texas Gulf Onshore Spot of US\$2.05/mmbtu, adjusted for heating value, composition, gathering costs and regional differentials. Oil and gas prices, operating costs and capital expenditures were held constant for the economic life of the property.

### Oil and Gas Terms used in this Report

bbl	barrel
bopd	barrels of oil per day
mmbbl	thousand barrels of oil
bcpd	barrels of condensate per day
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
mscf	thousand standard cubic feet
mmscf	million standard cubic feet
mmbtu	million British thermal units

## Directors and Advisers

<b>Directors</b>	JF Billington*	(Chairman)
	NJ Tamblyn	(Chief Executive and Finance Director)
	D Howard-Orchard*	(Director)
	JA Hoskinson*	(Director)
	* non-executive	
<b>Secretary</b>	NJ Tamblyn	
<b>Registered Office</b>	Lacon House, Theobald's Road London WC1X 8RW	
<b>Registered Number</b>	1712354	
<b>Auditor</b>	KPMG Audit Plc Chartered Accountants 8 Salisbury Square London EC4Y 8BB	
<b>Financial Advisers</b>	Ernst & Young One Colmore Row Birmingham B3 2BD	
<b>Stockbrokers</b>	Peel, Hunt & Company Limited 62 Threadneedle Street London EC2R 8HP	
<b>Solicitors</b>	Nabarro Nathanson Lacon House, Theobald's Road London WC1X 8RW	
<b>Registrars</b>	Independent Registrars Group Limited Balfour House 390/398 High Road Ilford, Essex IG1 1NQ	
<b>Principal Bankers</b>	Bank One, Texas NA 1717 Main Street Dallas Texas 75201 USA	
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