联合能源

年　報
Annual Report 2011

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
Andrew Leo Kirby (appointed on 1 June 2011)

Non-Executive Directors

Ho King Fung, Eric (appointed on 15 April 2011)

Independent Non-Executive Directors

San Fung
Chau Siu Wai
Zhu Chengwu

COMPANY SECRETARY

Hung Lap Kay

PRINCIPAL PLACE OF BUSINESS

Unit 2505, 25th Floor
Two Pacific Place
88 Queensway, Admiralty
Hong Kong

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

PRINCIPAL BANKERS

China Development Bank, Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Ltd.
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 HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

http://www.uegl.com.hk

KEY FINANCIAL AND OPERATION HIGHLIGHTS

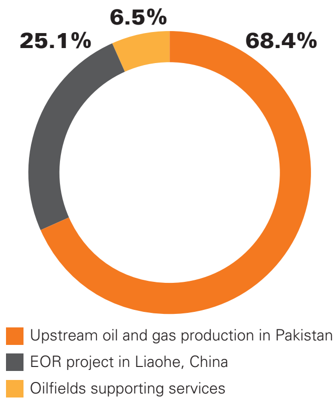
	For the year ended 31 December 2011 HK$'000	For the year ended 31 December 2010 HK$'000	**Change**
RESULTS			
Turnover			
Upstream oil and gas production in Pakistan	**599,362**	–	N/A
EOR project in Liaohe, China	**220,223**	–	N/A
Oilfields supporting services	**57,240**	22,373	155.8%
	876,825	22,373	3,819.1%
EBITDA (note 1)	**390,981**	(235,781)	N/A
Profit for the year	**514,642**	102,068	404.2%
Less: Loss attributable to Non-controlling interests	**(17,243)**	(10,188)	69.2%
Profit attributable to owners of the Company	**531,885**	112,256	373.8%
Basic earnings per share from continuing and discontinued operations	**4.16 HK cents**	0.88 HK cents	372.7%
Diluted earnings per share from continuing and discontinued operations	**4.08 HK cents**	N/A	N/A

	At 31 December 2011 HK$'000	At 31 December 2010 HK$'000	**Change**
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Equity attributable to owner of the Company	**5,686,347**	5,125,420	10.9%
Total assets	**13,372,330**	6,861,514	94.9%
Net assets	**6,083,487**	5,523,076	10.1%
Net assets per share	**HK$0.48**	HK$0.43	11.6%

	For the year ended 31 December 2011 HK$'000	For the year ended 31 December 2010 HK$'000	**Change**
OPERATION			
Average daily net production (BOE/day)			
Upstream oil and gas production in Pakistan	**20,945**	–	N/A
EOR project in Liaohe, China	**761**	350	117.4%
Lifting costs (HK$ per BOE)			
Upstream oil and gas production in Pakistan	**52.55**	–	N/A
EOR project in Liaohe, China	**308.26**	1,090.15	(71.7%)

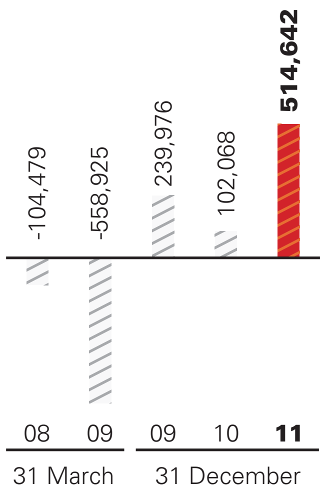
Note 1: EBITDA represents the profit before finance cost, income tax, depreciation and amortisation, gain on bargain purchase, impairment loss on intangible assets and reversal of impairment losses on intangible assets.

2011 TURNOVER



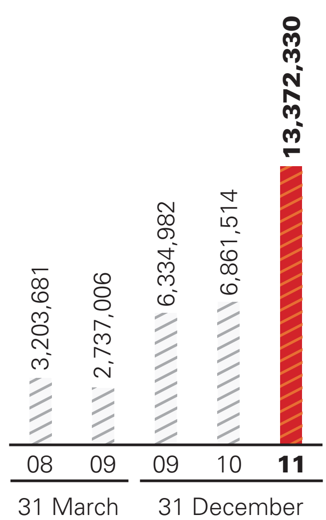
TOTAL PROFITS

HK$'000



TOTAL ASSETS

HK$'000



CHAIRMAN'S STATEMENT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CHAIRMAN'S STATEMENT

In the year 2011, global economy remained shaky. In spite of political instability in Middle East and North Africa, natural disasters and man-made calamities in different countries, it was a year of breakthrough to United Energy Group.

Since the implementation of "reliable operation + rapid expansion" strategy, United Energy Group Limited (the "Company") and its subsidiaries (the "Group") aimed at being a world-class oil and gas enterprise with growth potential, uniqueness and competitive advantage over its counterparts. The Group adopted a prudent manner in asset management and operation, in order to deliver returns to shareholders as well as investors. In the 2011 annual results, it shed lights on the strategy's success. The Group recorded an increase of 38 times in turnover to HK$876 million as compared to previous year, which is mainly contributed by the Pakistan assets which was acquired in last September. Gross profit amounted HK$135 million, whilst profit attributable to shareholders rose from HK$112 million to HK$531 million, amounted to an increment of 3.7 times. Proven by the results, the Group's strategy was a vigorous and visionary one. It also gave lots of encouragement to the members of the Group.

With the completion the acquisition of BP's assets on September 16, 2011, the Group was ranked as the fourth upstream oil and gas company, after the three State Owned Enterprises, in terms of daily production. Currently, the Group produces over 26,000 barrel oil equivalent per day, representing an increase of 70 times from financial year 2010. It also marks a milestone of the Group for being developed into a major energy enterprise.

Upon the invitation by Pakistan's Prime Minister Mr. Yusuf Raza Gilani, we led a business delegation to the country from 16–19 June 2011, and received a warm welcome from the Pakistan Government. During the visit, the delegation met with Pakistan's President, Prime Minister, the Minister of oil, the Minister of finance, Director of the State administration of taxation and some higher officials, and conducted some in-depth discussions on topics such as friendship and business activities between two countries, as well as latest development of our upstream assets as well as investment opportunities. We had a fruitful dialogue with the senior officials of Pakistan.

Regarding the Group's Enhanced Oil Recovery ("EOR") project in Liaohe, we were surprised by the production and efficiencies of fireflood technology applied on the oil field. The allocated oil to the Group has been increase from 350 barrels per day in 2010 to 761 barrels per day in average. As at 23 March 2012, net share to our Group amounted 1,100 barrels on single day basis. The Group planned to accelerate the process to convert the existing wells into fireflood well set this year, in order to propel the daily production as well as recovery rate of the asset.

With an aspiration to bring fireflood technology to the forefront of the world, the Group's subsidiary, Universe Oil and Gas (China) LLC, deployed series of on-site experiments in the past two years to ensure the technology is efficient, effective and safe, and now registered several patents on related aspect. During the financial year 2011, we gained some achievements on the three oil service support contracts managed for PetroChina, namely Du 66, Leng 37 and Bai 92. For example, the construction works of 24 fireflood well sets in Du 66 had been started, and 2 sets of fireflood well were completed during the Period. 10 out of 24 well sets are expected to be completed this year, and the rest is targeted to commence operation in 2013. For Leng 37 Block, it was started ignition in December, marking a breakthrough of applying fireflood technology on oilfield with light oil, whereas Bai 92 had been put into production.

During the Period, turnover derived from oilfield supporting services amounted to HK$57.24 million, representing an increase of 156% from the previous year.

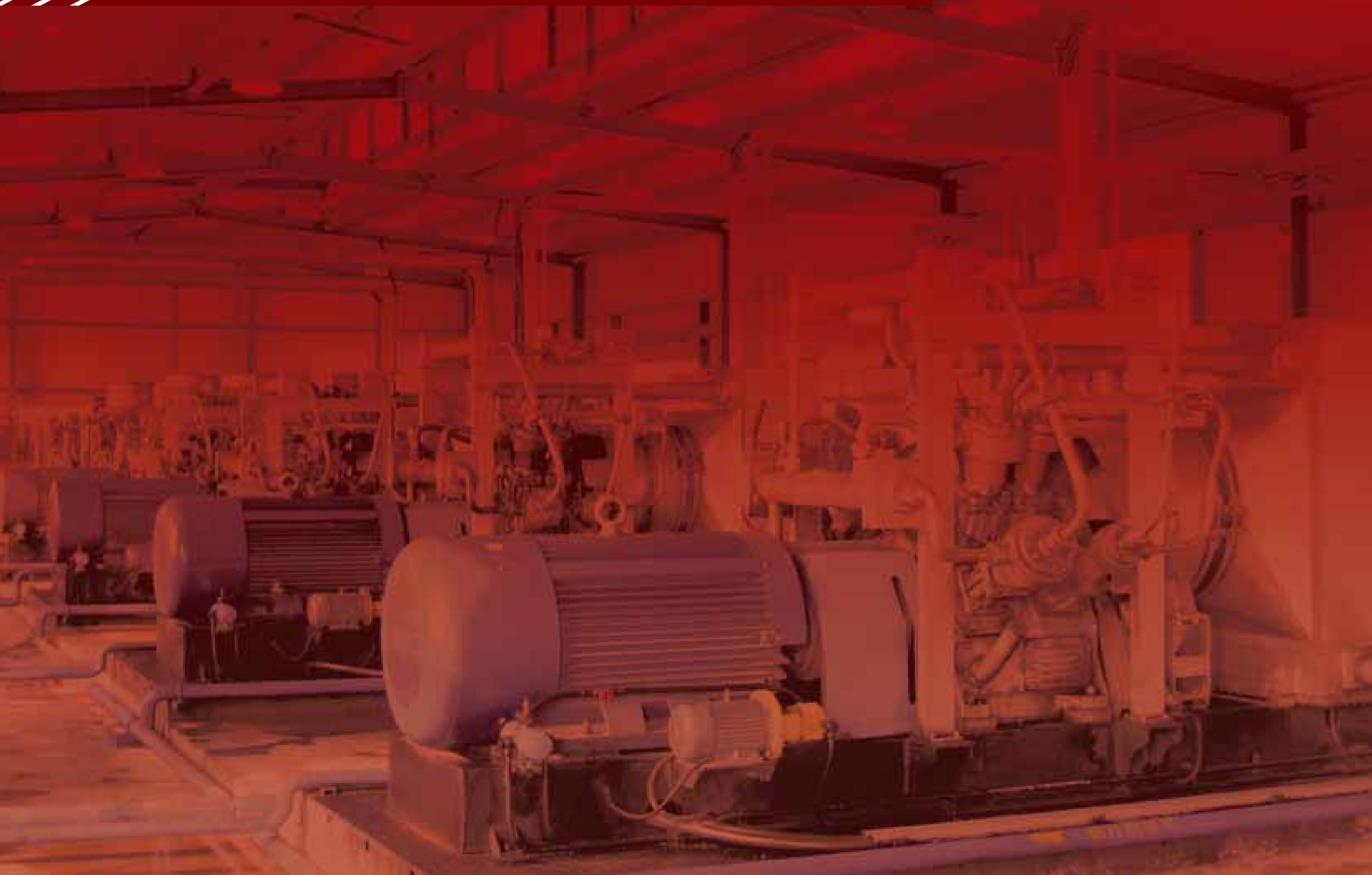
The Group believed that the gloomy economic condition in Europe will create rooms for mergers and acquisitions activities. As such, the quality and choices of assets, or bargaining power would remain with the buyers, as compared to the pleasant economy in the past.

Gliding into the year 2012, the Group will continue its "reliable operation + rapid expansion" strategy to drive our Pakistan asset to attain a higher production rate, lower operating cost as well as enhance the profitability at the same time. We also planned to accelerate the exploration progress so as to achieve a higher reserves level for the Group. Moreover, the Group will allocate more resources on R&D of fireflood technology applied on Liaohe Oilfield to enhance the efficiency of oil recovery rate. As a result, the Group will enjoy a higher profit margin. Meanwhile, through the cooperation agreement with the China Development Bank, we have access to funding of US$5 billion for acquiring good quality assets overseas, strengthening the Group's portfolio as well as position in the energy industry, leading the Group towards its goal to become a world-class oil and gas enterprise with growth potential, uniqueness and competitive advantage.

On behalf of the Board, I would like to express my sincere gratitude to our shareholders and business partners for their steadfast support in the past year. We also owed it to our dedicated and professional management team and staff in Hong Kong, China, Singapore and Pakistan for the achievements we made during the year and we hope to be able to continue to count on their devotion to take our business to new heights in the years ahead. Our concerted efforts will enable us to seize any opportunities that promise to deliver greater returns for our shareholders.

ZHANG Hong Wei
Chairman
29 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Following the commencement of commercial production phase with ongoing sales of crude oil since February 2011 from Liaohe Project and closing of acquisition of upstream oilfield assets in Pakistan from British Petroleum ("BP") in September 2011, the Group's turnover increased to approximately HK$876,825,000 for the year ended 31 December 2011 ("Period under Reviewed"), which represented a significant increase of approximately 38 times as compared to the turnover of approximately HK$22,373,000 for the year ended 31 December 2010. The turnover for the year ended 31 December 2011 represented sales and production of crude oil, condensate, gas and liquified petroleum gas (approximately HK$819,585,000) and services fees income derived from provision of patented technology supporting services to oilfields (approximately HK$57,240,000). For the year ended 31 December 2010, the turnover represented service fee income derived from provision of patented technology supporting services to oilfields only (approximately HK$22,373,000). For the year ended 31 December 2011, the Group's gross profit was approximately HK$135,418,000 (gross profit ratio approximately 15.44%) which represented a substantial increase compared to gross loss of 2010 of HK$5,283,000.

For the year ended 31 December 2011, other income increased by approximately 13.06% to approximately HK$919,410,000 (For year ended 31 December 2010: approximately HK$813,201,000). The increase in other income was mainly due to the recognition of gain on bargain purchase in acquisition of Pakistan business during the reporting period.

Administrative expenses increased from approximately HK$259,368,000 for the year ended 31 December 2010 to approximately HK$273,116,000 for the year ended 31 December 2011. These expenses for the year ended 31 December 2011 mainly included non-cash expenses of approximately HK$10,127,000 due to equity settled share-based payment transactions from share options granted to the employees and directors per the share option scheme, and acquisition-related costs of approximately HK$121,607,000 incurred for the acquisition of Pakistan business.

Oil exploitation expenses decreased from approximately HK$225,893,000 for the year ended 31 December 2010 to approximately HK$5,784,000 for the year ended 31 December 2011. The decrease was mainly due to the operation of Gaosheng EOR project having proceeded to production phase since February 2011. Exploration expenses and other operating expenses of HK$8,045,000 and HK$423,793,000 respectively are incurred during the year due to newly acquired Pakistan operation. The other operating expenses for the year ended 31 December 2011 mainly included the impairment loss of participating interest in oil exploitation project of approximately HK$144,432,000 and the concession and lease rights of approximately HK$203,001,000.

In summary, profit attributable to owners of the Company was approximately HK$531,885,000 for the year ended 31 December 2011, representing a 3.7 times increase over the profit attributable to shareholders of the Company of approximately HK$112,256,000 for the year ended 31 December 2010. This result is reflected in the basic earnings per share which was 4.16 HK cents for the year ended 31 December 2011 as compared with the basic earnings per share of 0.88 HK cents for the year ended 31 December 2010.

The Group continues to see considerable opportunity for organic and inorganic expansion. Due to the projected expansion, and, as such, the Board has not recommended the payment of dividend for the Period.

The Group's Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2011. 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.

BUSINESS REVIEW

United Energy Group is one of the largest upstream oil and gas companies listed on the Stock Exchange of Hong Kong, with an increasing global reach which now extends to South Asia. During the period under review, the Group completed the acquisition of all of BP's upstream assets in Pakistan, which is located in Sindh Province at the southeastern part of the country around 240 kilometers from the major port city of Karachi. The addition of the Pakistan asset to the existing portfolio, has increased to the Group's daily production to over 26,000 barrel oil equivalent ("boe") currently, ranking as the fourth largest upstream company after the three state owned enterprises on the Exchange in terms of net daily production.

Upstream Oil and Gas Exploration and Production:

Pakistan Assets:

For the year ended 31 December 2011, Pakistan assets became the major revenue contributor to the Group, generating turnover of HK$599 million since the completion of the acquisition on 16 September 2011. Average production over the said period was 20,945 boe per day, of which 90% was contributed by the production of the well-developed Badin block, whereas the rest was derived from MKK, a growing area with only 20% of total area has been developed. The composite realized sales price of oil, gas and LPG production was about US$39.44 per boe (HK$307.63 per boe), royalty payment was US$4.83 per boe (HK$37.69 per boe). Whilst, lifting cost was about US$6.74 per boe (HK$52.55 per boe) and EBITDA margin was about US$24.86 per boe (HK$193.88 per boe).

After completion of the acquisition of the assets from BP in Mid-September last year, the Group reviewed the development plan inherited from BP, and sent our technical experts to Pakistan to conduct a thorough on-site study to explore methods that could propel the reserves level and production. The assets have suffered from a period of relatively low investment from 2010 to 2011, during which Capex reduced over 58% from its peak. As a result, the production enhancement or new wells could not withstand the decline bought by natural depletion.

Moreover, operation of our Pakistan assets was severely hit by the torrential incessant rain started 30 August 2011, about two weeks before the completion of the acquisition. The torrential incessant rains lasted for 8 days but aftermaths of the rain were stretched till end of December. The Government of Pakistan declared five districts as calamity-hit as most of the area were flooded, of which three are part of the Badin concessions while one district falls within MKK concessions. Rig operations were the worst hit, most of re-work will have to be done again. Despite, other operational activities included drilling program, facilities upgrade, workover, as well as 3D seismic program were resulted in a slippage in progress from 30 days to at least three months.

In order to boost up the production rate as well as total reserves level, we plan to plowback US$170–190 million from earnings to deploy an intensive exploration program as well as broaden the scale of production in 2012.

Thereafter, the asset has recorded a significant improvement in production, increasing from 20,990 boe as at 16 September 2011 to 24,795 boe as at 23 March 2012 on a single day basis. Furthermore, we have consolidated the human resources of Pakistan assets with the Group's existing professional team to share best practice and expertise.

Notably, the Government of Pakistan has been tackling the challenge of insufficient supply of natural gas since 2010. To cope with the situation, the Government of Pakistan implemented a policy on January 2012 to encourage new discoveries by paying a higher sales price for natural gas at US$6 per mcf provided the oil price is at US$110 per barrel ("bbl"). Sales price of our contracts was set in a range of US$2.5 per mcf to US$4 per mcf. For UEG, this additional incentive is certainly an encouragement for continuing investment and growth in our Pakistan assets.

The respective policy of the Government of Pakistan had been indicated to us during the visit of the delegation led by Chairman Mr. Zhang Hong Wei to Pakistan in June 2011. During the stay, the delegation received warm welcome from Prime Minister Mr. Yusuf Raza Gilani and also conducted valuable discussions with the Pakistan's President Mr. Asif Ali Zardari and other senior officials of the government regarding the business environment and investment opportunities for Chinese private enterprises. Most importantly, the President of Pakistan indicated his support to the Group's investment as well as future investments in Pakistan.

EOR Project in Liaohe, China:

The operation of EOR Project in Liaohe is the first successful large scale commercial application of fireflood technology in China. The EOR project was approved by National Development and Reform Commission ("NDRC") of China to advance to Development Phase in July 2010. Since then, we accelerated the application of fireflood technology on existing wells. The average daily production allocated to the Group leaped from 350 bbls in previous year to 761 bbls. Currently, the share to the Group is recorded over 1,100 bbls per day.

In terms of new developments, good progress was reported. During the period under review, 9 ignition wells commenced operation, drilling work for 18 vertical wells were completed, 12 air compressors were installed and some ancillary infrastructure had been put in place. Moreover, 10 fireflood well sets are expected to deploy within the year, whereas 30% of old wells have been converted into fireflood wells by the end of the reporting period.

For the year ended 31 December 2011, sales from EOR Project amounted to HK$220 million and EBITDA margin was about US$34.8 per bbl (HK$271.46 per bbl).

Oilfield Supporting Service Business:

As a pioneer in using fireflood technology in China, the Group is determined to lead the development of the fireflood technology to another level, by utilizing this advanced technology to derive an addition value of matured oilfield through collaboration with oilfield operators or mergers and acquisitions. For the year ended 31 December 2011, income from oilfield services amounted to HK$57.24 million, an increase of 156% from HK$22.37 million recorded in previous financial year, whilst EBITDA amounted to HK$19.8 million.

The Group is currently providing oilfield supporting services to CNPC in three oilfields, namely Du 66; Leng 37; and Bai 92. During the period under review, the Group entered into a supplementary agreement with CNPC to convert additional 12 fireflood well sets in Du 66, of which 2 fireflood well sets were completed with about 10 well sets to be commenced in 2012. Regarding the progress of Leng 37, it was ignited in December 2011, representing a revolution in applying fireflood technology on light oil fields. For the block Bai 92, it has commenced production.

In addition to the contracts mentioned above, the Group will continue seeking cooperation opportunities with operators of matured oilfields. By utilizing this advanced technology which features low production cost and high efficiency, the residual value of mature oilfields with high potential will be significantly enhanced.

MARKET OVERVIEW AND PROSPECT

Although global economy remains gloomy, oil prices remain strong due to continued geopolitical instability. As such, the Group's oil and gas production will continue to benefit from high oil and gas selling prices. Moreover, we also perceive the global economic turbulence as a favorable backdrop for conducting mergers and acquisitions activities as sources of funding become uncertain.

Embarking on our vision to build a world class upstream enterprise, our mergers and acquisitions department has identified a list of accretive, best in class projects to broaden the scale and reach of our upstream operations. With the current acquisition financing arrangement with China Development Bank, we believe that we have a significant edge in pursuing quality assets, in line with our "reliable operation + rapid expansion" strategy. We seek to maintain a balanced portfolio in terms of OECD versus non-OECD assets, oil versus gas and seek to capture synergies with existing assets and technologies.

Apart from dedicating our efforts to constructing a solid portfolio, we will continue to maximize value from the inherent potential of our existing assets.

Pakistan Assets:

With reference to the research findings of Pakistan Petroleum Limited, insufficient supply of natural gas, we believe that Pakistan's oil and gas industry will continue to enjoy favorable dynamics. The Group is targeting to increase average daily production to 24,000 boe per day to 26,000 boe per day, and strives to maintain the lifting cost at US$6.5 to US$6.9 per boe. As at 23 March 2012, the average daily production rate of our Pakistan asset touched 24,000 boe per day.

Moreover, we will allocate more resources to conduct 3D seismic work, planning to cover the area included 1,472 km^2 in Badin, 1,340 km^2 in MKK and 1,700 km^2 in DSS. We will also launch a comprehensive workover plan in order to achieve a higher production rate.

EOR Project in Liaohe, China:
For the China market, government's initiatives to encourage improved production in oil and gas industry resulted in the implementation of policy to raise the threshold of windfall tax levy on gains from crude oil from US$40 to US$55 early in 2012 to be applied retrospectively from 1 November 2011. Under such policy, we believed our operations in China will benefit substantially.

Concluding remarks:
Striding into the future, United Energy Group endures its commitment to build a world-class upstream enterprise by enriching our portfolio through mergers and acquisitions on one hand and maximizing the value of existing assets on the other. We believe our strategy has potential to create substantial value for the Group. With the Group's vision to be one of the leading global energy enterprise based in Asia, our management team will continue to devote significant effort on the establishment of a solid foundation by acquiring high quality assets as well as leveraging synergy across the Group in order to deliver favorable returns to shareholders.

MATERIAL ACQUISITION AND DISPOSAL

During the year under review, the Group continued its strategy of international expansion and acquisition of oilfield assets in Pakistan from BP is the first step for the Group's international expansion. After the Group signing 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) and paid US$100,000,000 (equivalent to approximately HK$780,000,000) as deposit in December 2010, the Group became the first non-state owned corporation listed in Hong Kong to acquire quality upstream assets from BP which is one of the international oil and gas majors. On 24 June 2011, the Group issued a circular regarding the acquisition together with a notice of special general meeting for approving the acquisition agreement. During the special general meeting held on 15 July 2011, the shareholders unanimously voted to approve the acquisition of BP's Pakistan oilfields assets. On 16 September 2011, the closing of the acquisition took place. The market share of the BP's Pakistan oilfields assets is the one of the largest among foreign corporations in Pakistan (excluding the local Pakistan oil companies). After closing of the acquisition, the Group became one of the largest oil corporations in Pakistan and one of the major and independent oil and gas players listed in Hong Kong.

SEGMENT INFORMATION

Particulars of the Group's segment information are set out in note 8 under the financial statements 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$482,323,000 as at 31 December 2011 (as at 31 December 2010: approximately HK$845,172,000). The decrease was mainly due to return of the capital contribution in the sum of RMB255,936,000 (approximately equivalent to HK$315,825,000) to the non-controlling interests shareholder, Beijing Shengtai Mingze Food Products Company Limited, in June 2011, according to the arbitral award from Harbin Arbitration Commission made on 6 December 2010. The capital contribution represents the share capital and capital reserve and retained earnings of Shenyang Shengtaiyuan Logistics Company Limited, an indirectly 80% owned joint venture company by the Group.

As at 26 January 2010, the Group has banking facilities of approximately HK$468,000,000 (equivalent to approximately US$60,000,000) in respect of issuance of performance bond for guarantee of performance of United Petroleum, a wholly subsidiary of the Company, of its obligation in the development period of the EOR Contract in Liaohe Oilfields project dated 15 September 2006. In December 2010, April 2011 and November 2011, as United Petroleum has completed part of its obligation, CNPC confirmed and agreed to release part of the performance in the amount of HK$266,793,000 (equivalent to approximately US$34,204,200). As at 31 December 2011, the Group's cash at banks with carrying value of approximately HK$201,207,000 (equivalent to approximately US$25,795,800) were pledged for the banking facilities.

On 18 December 2010, the Company entered into a cooperation agreement with Hong Kong Branch of the China Development Bank Corporation ("CDB") 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 CDB as its preferred financing partner and CDB 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 CDB. CDB also agrees to give preferential consideration to financing applications in respect of the Group's projects. No commitment to lend had been made by CDB under such cooperation agreement and the actual financing terms and amount are subject to further approvals and loan documentations. In May 2011, CDB confirmed its commitment to provide the Group a loan facility for an amount up to US$640,000,000 (approximately HK$5 billion) with a term of 10 years and an interest rate of LIBOR plus 420 basis points in connection with the acquisition of upstream oil and gas assets in Pakistan from BP. In July 2011, the Group signed the related facility agreements with CDB. In September 2011, the loan facility of US$630,000,000 (approximately HK$4.9 billion) was drawn for the settlement of the balance payment for the closing of the acquisition of Pakistan assets. In December 2011, the remaining loan facility of US$10,000,000 (approximately HK$78,000,000) was drawn for general operation in Pakistan.

As at 31 December 2011, the gearing ratio was approximately 37.5% (as at 31 December 2010: Nil), based on bank loan under current liabilities and non-current liabilities of approximately HK$102,680,000 and HK$4,914,000,000 respectively and total assets of approximately HK$13,372,330,000. As at 31 December 2011, the current ratio was approximately 2.49 times (as at 31 December 2010: approximately 5.43 times), based on current assets of approximately HK$2,651,680,000 (as at 31 December 2010: approximately HK$1,380,748,000) and current liabilities of approximately HK$1,064,635,000 (as at 31 December 2010: approximately HK$254,282,000).

CAPITAL STRUCTURE

There had been no material change in the share capital structure of the Group since 31 December 2010.

ORDERS

In line with its business nature, the Group did not have any order records as at 31 December 2011.

EMPLOYEES

As at 31 December 2011, the Group employed a total of 871 full time employees, located in Hong Kong, the PRC and Pakistan. 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.

During the period under review, the Company appointed Mr. Andrew Leo Kirby ("Mr. Kirby") as executive Director and Mr. Ho King Fung, Eric ("Mr. Ho") as non-executive Director.

Mr. Kirby has been appointed as an executive Director and the Head of Strategy, M&A, Asset Sales and Investor Relations of the Company with effect from 1 June 2011. Prior to joining the Group, Mr. Kirby was working in the resources group of Macquarie Capital (Hong Kong) Limited and acted as financial advisor to the Company in relation to its landmark announcement of a very substantial acquisition of BP's upstream business in Pakistan. With the broad energy industry and investment banking experience, Mr. Kirby will perform the role of Head of Strategy, M&A, Asset Sales and Investor Relations of the Company primarily responsible for identifying and executing mergers and acquisitions in line with the stated strategy of the Company. In addition, Mr. Kirby will lead investor relations and support the arrangement of any debt or issuance of equity.

Mr. Ho has been appointed as a non-executive Director of the Company with effect from 15 April 2011 with the broad legal and investment banking experience. The Company believes that after Mr. Kirby and Mr. Ho joining the Board of the Company, they should contribute to the delivery of international expansion of the Group and the enhancement of Shareholders' value.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2011.

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2011, the Group's largest and five largest customers represented 87.6% of total turnover and the Group's largest and five largest suppliers represented 11.1% of total cost of sales and services rendered.

In accordance with the Chapter 18 of Hong Kong Listing Rules, the Company became a Mineral Company after completion of the acquisition of petroleum business in Pakistan during the reporting period. This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 requirements.

A. INFORMATION ON CRUDE OIL AND NATURAL GAS RESERVES

The proved reserves presented in this report have been prepared in accordance with the PRMS approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. Estimates of reserves were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry.

For the year ended 31 December 2011, the Group engaged independent third party consulting firms to perform annual estimates for the oil and gas reserves. The following table set out the estimates of Group's share of proved reserves. As the first time the Company produced the information on the oil and gas reserves, only the balance as at 31 December 2011 were provided.

	Pakistan(note1)			China(note 2)
As at 31 December 2011:	**Oil, Condensate and LPG** (Mbbl)	**Sales Gas** (MMcf)	**Total** (Mboe)	**Oil** (Mbbl)
Proved Developed Reserves	6,783	83,938	21,255	4,990
Total Proved Reserves	9,998	104,508	28,017	25,320

Notes:

(1) The prices assumed were as follows:

- The weighted average oil price for the proved reserves over the lives of the properties was US$92.10 per barrel.
- The weighted average condensate price for the proved reserves over the lives of the properties was US$116.45 per barrel based on the revenue statements for a period of 11 months of 2011.
- The weighted average natural gas price for the proved reserves over the lives of the fields was US$3.44 per thousand cubic feet based on the various lease operating statements.

(2) The weighted average oil price after VAT for the proved reserves over the lives of the fields was assumed at US$102.65 per barrel.

(3) The above figures represent the Group's net interest in the reserves.

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

For the year ended 31 December 2011, the Group had the following major exploration, development and production activities:

Pakistan Assets

The Group has completed the acquisition of the Pakistan business on 16 September 2011. During the reporting period, two exploration wells and three developments were drilled, one capital workover were completed and various facilities upgrade were put in place. The average production for the said period was 20,945 boe per day.

EOR project in Liaohe, China

During the reporting period, 9 ignition wells commenced operation, drilling work for 18 vertical wells were completed, 12 air compressors were installed and some ancillary infrastructure had been put in place. The average production was 761 bbls per day.

C. GROUP'S SHARE OF EXPENDITURES INCURRED ON EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

The following table summarized the Group's share of expenditures incurred on exploration, development and production activities for the year ended 2011:

	Pakistan (HK$'000)	China (HK$'000)	Total (HK$'000)
Exploration costs	56,471	–	56,471
Development costs	189,483	187,205	376,688
Production costs(note1)	117,651	88,059	205,710
Total	363,605	275,264	638,869

Note:

1. The production costs excluded depreciation and amortization.

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 2011 except that:

1. The Code A.2.1 – the company have the post of chief executive officer but it was still vacant; and

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

Although the Company has separated the duties between the chairman and chief executive officer, the post of the chief executive officer is still vacant. In this connection, the executive function of the Company is performed by the executive directors and management of the Company. Thus, significant decision of the Company is made by the Board. The Board considers that such structure will not affect the balance of power and authority between the chairman and the executive directors.

Code provision A.4.1 of the Code provides that non-executive Directors should be appointed for a specific term, subject to re-election. None of the independent non-executive Directors and non-executive Director has entered into any service contracts with the Company or its subsidiaries. In view of the fact that the independent 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 2011.

BOARD OF DIRECTORS

Composition

The Board of Directors (the "Board") of the Company comprises eight members. Mr. Zhang Hong Wei acts as the Chairman of the Board. The other executive Directors are Mr. Zhu Jun, Ms. Zhang Meiying and Mr. Andrew Leo Kirby. The Company has one non-executive Director, Mr. Ho King Fung, Eric, and 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 29 to 30 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 15 meetings being held during the financial year for the year ended 31 December 2011 and attendance of individual directors are as follows:

	Board Meetings
Zhang Hong Wei	14/15
Zhu Jun	15/15
Zhang Meiying	15/15
Andrew Leo Kirby (appointed on 1 June 2011)	7/7
Ho King Fung, Eric (appointed on 15 April 2011)	9/9
Chau Siu Wai	15/15
San Fung	15/15
Zhu Chengwu	15/15

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 2011, 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 2011. 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 2011: (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 3 meetings in 2011 at which all committee members were present. At the meeting, the Remuneration Committee reviewed and discussed the remuneration policy, the remuneration package and bonus arrangements for newly appointed Directors in 2011.

Nomination of Directors

On the date of this report, the Board resolved to establish a nomination committee, comprising San Fung as its Chairman with Chau Siu Wai and Zhang Meiying as its members, with effective from 30 March 2012. The Nomination Committee is responsible for nomination of Directors, structure of the Board, number of Directors and the composition of the Board. To maintain high quality of the Board with a balance of skill and experience, the Nomination Committee will identify individuals who fulfill criteria of the Company. When assessing the quality of the individual, the Nomination Committee 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 31 to 32.

During the year, remuneration paid to the Company's auditors, Messrs RSM Nelson Wheeler and other RSM network firms, are as follows:

Services rendered:	HK$
– audit services	2,052,239
– interim financial review	320,000
– non-audit services	845,855

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. 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 2011.

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 2011 and the state of affairs of the Group at that date are set out in the financial statements on pages 33 to 99 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 to the financial statements.

SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2011 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 100. 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
Andrew Leo Kirby (appointed on 1 June 2011)

Non-executive directors:

Ho King Fung, Eric (appointed on 15 April 2011)

Independent non-executive directors:

Chau Siu Wai
San Fung
Zhu Chengwu

Pursuant to Bye-laws 87(1) and 87(2) of the Bye-laws, Mr. Zhang Hong Wei, Mr. Andrew Leo Kirby and Mr. Chau Siu Wai shall retire by rotation and being eligible, will offer themselves for re-election at the Annual General Meeting to be held in 2012.

There is no service contract entered into between the Company and the non-executive director 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, 2,000,000 of these options granted to eligible participants were lapsed and additional 10,000,000 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 1.1.2011	Granted	Exercised	Lapsed	Cancelled	As at 31.12.2011
Directors									
04.12.2007	1.56	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	3,000,000	–	–	–	–	3,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	2,000,000	–	–	–	–	2,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	2,000,000	–	–	–	–	2,000,000
04.12.2007	1.56	04.12.2007 to 03.12.2011	04.12.2011 to 03.12.2012	3,000,000	–	–	–	–	3,000,000
17.05.2011	1.15	17.05.2011 to 16.05.2012	17.05.2012 to 10.05.2016	–	3,000,000	–	–	–	3,000,000
17.05.2011	1.15	17.05.2011 to 16.05.2013	17.05.2013 to 10.05.2016	–	2,000,000	–	–	–	2,000,000
17.05.2011	1.15	17.05.2011 to 16.05.2014	17.05.2014 to 10.05.2016	–	2,000,000	–	–	–	2,000,000
17.05.2011	1.15	17.05.2011 to 16.05.2015	17.05.2015 to 10.05.2016	–	3,000,000	–	–	–	3,000,000
Employees									
04.12.2007	1.56	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	5,250,000	–	–	(600,000)	–	4,650,000
04.12.2007	1.56	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	3,500,000	–	–	(400,000)	–	3,100,000
04.12.2007	1.56	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	3,500,000	–	–	(400,000)	–	3,100,000
04.12.2007	1.56	04.12.2007 to 03.12.2011	04.12.2011 to 03.12.2012	5,250,000	–	–	(600,000)	–	4,650,000
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				39,500,000	10,000,000	–	(2,000,000)	–	47,500,000

DISCLOSURE OF INTERESTS

Directors' Interests in Shares and Underlying Shares of the Company

As at 31 December 2011, 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	9,261,950,115	–	72.49 (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
Andrew Leo Kirby	The Company	Beneficial owner	10,000,000	–	0.078 (Note 3)

Note:

1. Out of the 9,261,950,115 shares, 5,688,879,125 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 9,261,950,115 shares.

2. Share options which entitle Ms. Zhang Meiying to subscribe for an aggregate 100,000,000 shares at exercise price of HK$1.56 per share 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.

3. Share options which entitle Mr. Andrew Leo Kirby to subscribe for an aggregate 10,000,000 shares at exercise price of HK$1.15 per share were granted to Mr. Andrew Leo Kirby on 17 May 2011 under the share option scheme adopted by the Company on 11 May 2006.

Save as disclosed above, none of the directors, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2011.

Substantial Shareholders

As at 31 December 2011, 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	5,688,879,125	44.53
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 2011, 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 2011.

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 2011.

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 2011 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 19 to 23 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 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

As at 31 December 2011, the Company has not redeemed any of its shares nor any or its subsidiaries has purchased or sold any of the Company's shares during this period.

EVENTS AFTER REPORTING PERIOD

Details of significant events occurring after the balance sheet 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, 29 March 2012

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Hong Wei, aged 57, 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 30 more years of experience in management in the PRC. As at the date of this report, Mr. Zhang is beneficially interested in 9,261,950,115 shares of the Company, representing approximately 72.45% of the existing issued share capital of the Company, and is the controlling shareholder of the Company. Mr. Zhang is the father of Ms. Zhang Meiying, an executive director appointed on 19 June 2006.

Mr. Zhu Jun, aged 46, 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 17 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 33, 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. As at the date of this report, Ms. Zhang has 10,000,000 share options which entitle Ms. Zhang Meiying to subscribe for an aggregate 10,000,000 ordinary shares of the Company at an exercise price of HK$1.56 per share. They were granted to Ms. Zhang on 4 December 2007 under the share option scheme adopted by the Company on 11 May 2006.

Mr. Andrew Leo Kirby, aged 39, joined the Company on 1 June 2011 as an executive Director. Mr. Kirby was working in the resources group of Macquarie Capital (Hong Kong) Limited ("Macquarie") from September 2007 to May 2011. During this time, Mr. Kirby acted as financial advisor to the Company in relation to its landmark announcement of a very substantial acquisition of BP's upstream business in Pakistan. Prior to the role at Macquarie, Mr. Kirby worked in London for Lehman Brothers also in the natural resources group. This followed a 9-year career at BP plc in the United Kingdom, China, Japan and New Zealand in various international business development, strategy and merger & acquisition related roles. Mr. Kirby has gained a deep experience across the energy industry in addition to strong corporate finance and investment banking. He graduated from the University of Canterbury with a Bachelor of Commerce degree in Business Administration. After graduating he studied Mandarin at the National Taiwan Normal University Mandarin Training Centre in Taipei. As at the date of this report, Mr. Kirby has 10,000,000 share options which entitle Mr. Kirby to subscribe for an aggregate 10,000,000 ordinary shares of the Company at an exercise price of HK$1.15 per share. They were granted to Mr. Kirby on 17 May 2011 under the share option scheme adopted by the Company on 11 May 2006.

With the broad energy industry and investment banking experience, Mr. Kirby also performs the role of Head of Strategy of the Company and is primarily responsible for identifying and executing mergers and acquisitions in line with the stated strategy of the Company and supporting the arrangement of any debt or issuance of equity.

Non-executive Director

Mr. Ho King Fung, Eric, aged 35, joined the Company on 15 April 2011 as a non-executive Director. Mr. Ho graduated from the University of New South Wales, Australia with Bachelor of Commerce (Finance) and Bachelor of Laws degrees, is a solicitor of the Hong Kong Special Administrative Region and the chairman and executive director of Ample Hope Limited. In Macau, Mr. Ho is also the chairman of P&W Money Changer Limited and Jing Yang Company Limited, and an executive director of Mascargo (Macau) Company Limited. Mr. Ho joined JP Morgan in 2000 as an analyst and worked as an associate solicitor at Linklaters between 2003 and 2006. Between 2007 and 2010, Mr. Ho was a vice president at Deutsche Bank AG, Hong Kong Branch and was their head of Hong Kong and Macau Origination. He is a committee member of the Chinese People's Political Consultative Conference of Beijing and the president of Macau Money Exchangers Association. Mr. Ho was also the award winner of the Chinese Economics Elite Award in 2009.

Independent Non-executive Directors

Mr. San Fung, aged 47, 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 14 years of experience in accounting. Mr. San is currently the chairman of New Century Investment and Development Company.

Mr. Chau Siu Wai, aged 42, 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 10 more years of experience in financial reporting and investment analysis and is now a duty president of an investment company.

Mr. Zhu Chengwu, aged 42, joined the Company on 5 December 2005 as 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 50, 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. Song Yu, aged 36, joined the Company in October 2009 as Investment Controller and promoted as Chief Operation Officer of the Company in October 2011. Before joining the Company, Mr. Song previously worked in different subsidiaries of Sinopec Group during the period from July 2004 to October 2009. He worked in Winfield Euro Asia Oil Service Company (Russia) , a wholly-owned subsidiary of Sinopec Group in Moscow, as General Director and focused on oil trading, procurement and technical services in relation to petroleum exploration and production in Euro-Asia. Mr. Song also worked in Sinopec International Petroleum E&P Corporation ("SIPC") in Beijing and SIPC Russia and Central Asia Regional Company as In House Legal Consultant and Head of Legal respectively. Mr. Song graduated from the Tsinghua University and obtained a bachelor degree of Physics and master degree of Law in International Economic Law.

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 33 to 99, which comprise the consolidated statement of financial position as at 31 December 2011, 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 2011, 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

29 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	**2011 HK$'000**	2010 HK$'000
Continuing operations			
Turnover	6	**876,825**	22,373
Cost of sales and services rendered		**(741,407)**	(27,656)
Gross profit/(loss)		**135,418**	(5,283)
Other income	7	**919,410**	813,201
Oil exploitation expenses		**(5,784)**	(225,893)
Exploration expenses		**(8,045)**	–
Administrative expenses		**(273,116)**	(259,368)
Other operating expenses		**(423,793)**	(32,868)
Profit from operations		**344,090**	289,789
Finance costs	9	**(71,563)**	(522)
Profit before tax		**272,527**	289,267
Income tax credit/(expense)	11	**242,115**	(146,003)
Profit for the year from continuing operations		**514,642**	143,264
Discontinued operations			
Loss for the year from discontinued operations	12	**–**	(41,196)
Profit for the year	10	**514,642**	102,068

	Note	2011 HK$'000	2010 HK$'000
Attributable to:			
Owners of the Company			
Profit from continuing operations		**531,885**	154,152
Loss from discontinued operations		**–**	(41,896)
Profit attributable to owners of the Company		**531,885**	112,256
Non-controlling interests			
Loss from continuing operations		**(17,243)**	(10,888)
Profit from discontinued operations		**–**	700
Loss attributable to non-controlling interests		**(17,243)**	(10,188)
		514,642	102,068
Earnings per share			
From continuing and discontinued operations			
Basic	14(a)	**4.16 cents**	0.88 cents
Diluted	14	**4.08 cents**	N/A
From continuing operations			
Basic	14(b)	**4.16 cents**	1.21 cents
Diluted	14	**4.08 cents**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
Profit for the year	**514,642**	102,068
Other comprehensive income:		
Exchange differences on translating foreign operations	**35,642**	31,887
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, net of tax	**35,642**	19,997
Total comprehensive income for the year	**550,284**	122,065
Attributable to:		
Owners of the Company	**550,800**	122,507
Non-controlling interests	**(516)**	(442)
	550,284	122,065

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**1,877,254**	182,048
Intangible assets	17	**8,762,996**	4,518,718
Advances, deposits and prepayments	18	**17,017**	780,000
Deferred tax assets	27	**63,383**	–
		10,720,650	5,480,766
Current assets			
Inventories	19	**495,185**	1,455
Trade and other receivables	20	**1,439,607**	145,637
Held-to-maturity investments		**30,850**	–
Financial assets at fair value through profit or loss	21	**2,508**	3,387
Pledged bank deposits	22	**201,207**	385,097
Bank and cash balances	22	**482,323**	845,172
		2,651,680	1,380,748
Current liabilities			
Trade and other payables	23	**942,822**	223,384
Due to directors	24	**8,066**	6,501
Bank loans	25	**102,680**	23,676
Current tax liabilities		**11,067**	721
		1,064,635	254,282
Net current assets		**1,587,045**	1,126,466
Total assets less current liabilities		**12,307,695**	6,607,232
Non-current liabilities			
Bank loans	25	**4,914,000**	–
Provisions	26	**251,449**	–
Deferred tax liabilities	27	**1,058,759**	1,084,156
		6,224,208	1,084,156
NET ASSETS		**6,083,487**	5,523,076

	Note	**2011 HK$'000**	2010 HK$'000
Capital and reserves			
Share capital	28	**127,771**	127,771
Reserves	30(a)	**5,558,576**	4,997,649
Equity attributable to owners of the Company		**5,686,347**	5,125,420
Non-controlling interests		**397,140**	397,656
TOTAL EQUITY		**6,083,487**	5,523,076

Approved by the Board of Directors on 29 March 2012

Zhang Hong Wei
Director

Zhu Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	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	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(c))	–	–	–	–	–	–	–	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
At 1 January 2011	**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**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**18,915**	**-**	**-**	**531,885**	**550,800**	**(516)**	**550,284**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**10,127**	**-**	**10,127**	**-**	**10,127**
Forfeiture of equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**(1,610)**	**1,610**	**-**	**-**	**-**
Changes in equity for the year	**-**	**-**	**-**	**-**	**18,915**	**-**	**8,517**	**533,495**	**560,927**	**(516)**	**560,411**
At 31 December 2011	**127,771**	**13,027,326**	**(2,286,000)**	**155,580**	**77,152**	**371**	**110,524**	**(5,526,377)**	**5,686,347**	**397,140**	**6,083,487**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
– Continuing operations		**272,527**	289,267
– Discontinued operations		**–**	(41,193)
		272,527	248,074
Adjustments for:			
Finance costs		**71,563**	522
Fair value loss on financial assets at fair value through profit or loss		**879**	413
Depreciation and amortisation		**549,847**	223,355
Interest income		**(7,039)**	(14,017)
Impairment losses on intangible assets		**393,650**	4,131
Recovery of other receivables written off		**(311)**	–
Reversal of impairment losses on intangible assets		**–**	(753,056)
Other payables written back		**(2,100)**	–
Equity-settled share-based payments		**10,127**	116,902
Impairment losses on advances to oil exploitation project		**–**	47,580
Loss on disposal of property, plant and equipment		**31**	9
Loss on disposal of a subsidiary		**–**	43,608
Allowance for other receivables		**2,255**	–
Allowance for advances, deposits and prepayments		**1,301**	–
Allowance for inventories		**19,500**	–
Gain on bargain purchase		**(896,606)**	–
Operating profit/(loss) before working capital changes		**415,624**	(82,479)
Decrease in inventories		**18,108**	6,023
Increase in trade and other receivables		**(994,951)**	(118,774)
Increase in advances, deposits and prepayments		**(18,318)**	–
Increase in trade and other payables		**634,076**	244,035
Increase/(decrease) in amounts due to directors		**1,565**	(945)
Decrease in provisions		**(1,010)**	–
Cash generated from operations		**55,094**	47,860
Interest paid		**(1,404)**	(522)
Income taxes paid		**(1,034)**	(1,691)
Net cash generated from operating activities		**52,656**	45,647

	Note	**2011 HK$'000**	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a business	33(a)	**(5,063,123)**	–
Deposits paid for acquisition of an upstream oil and gas business in Pakistan		**–**	(780,000)
Decrease/(increase) in pledged bank deposits		**183,890**	(380,417)
Acquisition of held-to-maturity investments		**(30,850)**	–
Disposal of a subsidiary	33(b)	**–**	(72,527)
Purchases of property, plant and equipment		**(526,268)**	(136,478)
Interest received		**7,039**	14,017
Net cash used in investing activities		**(5,429,312)**	(1,355,405)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans raised		**5,016,680**	23,464
Repayment of bank loans		**(23,676)**	–
Net cash generated from financing activities		**4,993,004**	23,464
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(383,652)**	(1,286,294)
Effect of foreign exchange rate changes		**20,803**	13,474
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**845,172**	2,117,992
CASH AND CASH EQUIVALENTS AT END OF YEAR		**482,323**	845,172
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**482,323**	845,172

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.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the financial statements.

In the opinion of the directors of the Company, Mr. Zhang Hong Wei is the ultimate controlling party of the Company.

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 2011. 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 investments which are carried at their fair values.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (Continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combination and goodwill (Continued)

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 (z) 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.

(c) 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 (the "venturers").

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.

(d) 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)

(d) 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.

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

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, except for freehold land and construction in progress which are stated at cost less accumulated 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)

(e) 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
Buildings	–	5%
Leasehold improvements	–	5%–50%
Motor vehicles	–	25%–30%
Furniture, fixtures and equipment	3%–10%	20%–33.33%
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 represents plant and machinery pending installation and costs of oil wells under construction. 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.

(f) Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. 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. Exploratory expenses are capitalised as construction in progress pending determination of whether the exploratory wells find commercial reserves. Commercial reserves are the estimated quantities of crude oil and natural gas 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.

Oil and gas properties are stated at cost less accumulated depreciation and any impairment losses. The cost of oil and gas properties is amortised at the field level based on the unit of production method over the proved reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Decommissioning cost

Decommissioning cost represents cost for the future abandonment of oil and gas production facilities, representing the legal obligations, at the end of their economic lives. Decommissioning activities may include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation, and site restoration.

The Group makes provision for its share of the full decommissioning cost on the declaration of commercial discovery of the reserves of each field, to fulfil the legal obligation. The amount recognised is the estimated cost of decommissioning, discounted to its net present value. The timing and amount of future expenditure are reviewed annually together with the interest rate to be used in discounting the cash flows. Any change in the present value of the estimated expenditure is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment – oil and gas properties.

Decommissioning costs, included in oil and gas properties, are depreciated using the unit-of-production method over the proved reserves. The unwinding of discount of the provision of decommissioning cost is recognised as finance costs in the consolidated profit or loss.

(h) 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.

(i) Research and development expenditure

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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, except for oil exploitation rights and concession and lease rights which are amortised using the unit-of-production method over the proved and probable reserves of petroleum.

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

Both the period and method of amortisation are reviewed annually.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. 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.

(l) 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)

(m) 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.

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

An impairment loss is recognised in consolidated profit or loss when there is objective evidence that the held-to-maturity investments are impaired, and is measured as the difference between the investments' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods and recognised in consolidated profit or loss when an increase in the investments' 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 investments at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity investments are classified as financial assets at fair value through profit or loss.

(ii) 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.

(n) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) Equity instruments

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

(t) Revenue recognition

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

Revenue from the sales and production of crude oil and gas 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/petroleum concession agreements and on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the crude oil and gas is delivered and the title has passed to the customers. This generally occurs when crude oil and gas are 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)

(u) Employee benefits

(i) Employee leave entitlements

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

(v) 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 rendered 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 is recognised as an expense.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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.

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.

(y) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Related parties (Continued)

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(z) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except deferred tax assets, inventories, investments and receivables 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) 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.

(bb) Provisions and contingent liabilities

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

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

(cc) Events after the 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. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

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) *Estimation of final adjusted purchase consideration in relation to the acquisition of an upstream oil and gas business in Pakistan*

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. The acquisition was completed on 16 September 2011 (the "Closing Date").

According to the agreement, the consideration adjustments and final adjusted purchase consideration are to be mutually agreed and settled through a final closing statement to be issued within six months after the Closing Date. However, such final closing statement is still under discussion and no conclusion has been reached by both parties. To facilitate the preparation of the financial statements, the management has taken a prudent approach and estimated that the final adjusted purchase consideration shall not exceed HK$5,591,515,000 (equivalent to approximately US$716,861,000). Up to the Closing Date, the Group paid cash consideration of approximately HK$5,843,309,000 (equivalent to approximately US$749,142,000) to BP p.l.c.. Accordingly, the excess payment to BP p.l.c. amounting to approximately HK$251,794,000 (equivalent to approximately US$32,281,000) has been included in other receivables and disclosed in note 20 to the financial statements.

The acquisition has been accounted for as a business combination as disclosed in note 33(a) to the financial statements and gain on bargain purchase of approximately HK$896,606,000 has been recognised in the financial statements. Should the actual result of the final adjusted purchase consideration be different from the estimation by the management, such difference will affect the amount of gain on bargain purchase and be reflected in the financial statements for the year ending 31 December 2012.

(b) *Estimation of crude oil and gas reserves*

Crude oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in determining the amount of amortisation of the oil exploitation rights and concession and lease rights included in intangible assets and depreciation of oil and gas properties included in property, plant and equipment, and in testing for impairment. Changes in proved and probable oil and gas reserves, will affect unit-of-production amortisation, depreciation and depletion recorded in the Group's consolidated financial statements for the oil exploitation rights and concession and lease rights and oil and gas properties related to oil and gas production activities.

Proved and probable reserve estimate are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms, evolution of technology or development plans. In general, changes in the technical maturity of oil and gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(c) *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 other than oil and gas properties. 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.

(d) *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.

(e) *Estimated impairment of property, plant and equipment and intangible assets*

Property, plant and equipment and intangible assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil or gas and production profile. However, the impairment reviews and calculation are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(f) *Decommissioning cost*

Provision is recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provision recognised are the present values of the estimated future expenditures. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, discount rates, inflation factor, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(g) *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.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(h) Share-based payments expenses

The fair value of the share options granted to the director 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 binomial option pricing model (the "Binomial Model") was used. The Binomial Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Binomial Model requires the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

(i) 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.

(j) Held-to-maturity investments

The Group follows the HKAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payables and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in HKAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would, therefore, be measured at fair value not amortised cost.

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 loans.

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

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

At 31 December 2011, 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$23,650,000 higher/lower, arising mainly as a result of lower/higher interest expenses on the bank loans bearing interest at variable rates.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Interest rate risk (Continued)

At 31 December 2010, if interests 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.

(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 longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Carrying amount HK$'000	Total contracted undiscounted cash outflow HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2011						
Trade and other payables	**942,822**	**942,822**	**942,822**	**-**	**-**	**-**
Due to directors	**8,066**	**8,066**	**8,066**	**-**	**-**	**-**
Bank loans	**5,016,680**	**6,554,842**	**342,263**	**312,296**	**2,333,842**	**3,566,441**
At 31 December 2010						
Trade and other payables	223,384	223,384	223,384	–	–	–
Due to directors	6,501	6,501	6,501	–	–	–
Bank loans	23,676	25,358	25,358	–	–	–

(c) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables, held-to-maturity investments 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 no significant concentration of credit risk. 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.

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 held-to-maturity investments and financial assets at fair value through profit or loss are limited because the counterparties are large state-controlled bank and well-established securities broker firm in PRC and Hong Kong respectively.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 2011, 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$251,000 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 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.

(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$"), United States dollars ("US$"), Renminbi ("RMB"), Singapore dollars ("SGD") and Pakistani Rupee ("PKR") and the functional currencies of the principal operating Group entities are HK$, US$, SGD 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 2011, if the PKR had weakened/strengthened 5 per cent against the HK$ with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$1,488,000 lower/higher, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances, trade and other receivables and trade and other payables denominated in PKR.

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$10,367,000 lower/higher, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances and other assets denominated in US$.

(f) Categories of financial instruments at 31 December

	2011 HK$'000	2010 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss	**2,508**	3,387
Held-to-maturity investments	**30,850**	–
Loans and receivables (including cash and cash equivalents)	**1,760,066**	1,356,110
Financial liabilities:		
Financial liabilities at amortised cost	**5,806,465**	253,561

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 asset at fair value through profit or loss is measured based on quoted prices in active markets.

6. TURNOVER

The Group's turnover which represents sales and production of crude oil, condensate, gas and liquified petroleum gas and provision of patented technology supporting services to oilfields are as follows:

	2011 HK$'000	2010 HK$'000
From continuing operations		
Sales and production of crude oil, condensate, gas and liquified petroleum gas	**819,585**	–
Provision of patented technology supporting services to oilfields	**57,240**	22,373
	876,825	22,373

The turnover from sales and production of crude oil, condensate, gas and liquified petroleum gas are net of sales tax, royalty to government and sales discounts amounting to HK$42,399,000 (2010: Nil), HK$83,668,000 (2010: Nil) and HK$62,505,000 (2010: Nil) respectively.

7. OTHER INCOME

	2011 HK$'000	2010 HK$'000
Gain on bargain purchase (note 33(a))	**896,606**	–
Interest income	**7,039**	14,017
Joint operating administrative overheads	**807**	–
Liquified petroleum gas processing fees charged to concessions, net	**1,721**	–
Management fees income	**4,743**	1,086
Net foreign exchange gains	**4,424**	12,654
Other payables written back	**2,100**	–
Rental income	**356**	88
Reversal of allowance on inventories	**819**	26,905
Recovery of other receivables written off	**311**	–
Reversal of impairment losses on other receivables	**–**	3,653
Reversal of impairment losses on intangible assets	**–**	753,056
Others	**484**	5,230
	919,410	816,689
Representing:		
Continuing operations	**919,410**	813,201
Discontinued operations (note 12)	**–**	3,488
	919,410	816,689

8. SEGMENT INFORMATION

The Group's reportable segments are as follows:

1. Exploration and production – engages in activities relating to the exploration and production of crude oil and natural gas in Pakistan.
2. Oil exploitation – engages in activities relating to the production of crude oil in PRC.
3. Oilfields supporting services – engages in activities relating to the provision of patented technology supporting services to oilfields.
4. 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.

8. SEGMENT INFORMATION (CONTINUED)

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

Segment profit or loss does not include the following items:

– other income (except for certain other income included in the exploration and production and oil exploitation segments)

– corporate expenses

– loss on disposal of a subsidiary

– finance costs (except for unwinding of discount on provision for decommissioning costs included in the exploration and production segment)

Segment assets do not include the following items:

– intangible assets – participating interest in oil exploitation project

– deferred tax assets

– financial assets at fair value through profit or loss

– held-to-maturity investments

– pledged bank deposits

– bank and cash balances

Segment liabilities do not include the following items:

– due to directors

– bank loans

– current tax liabilities

– provisions (except for provision for decommissioning costs included in the exploration and production segment)

8. SEGMENT INFORMATION (CONTINUED)

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

	Exploration and production HK$'000	Oil exploitation HK$'000	Oilfields supporting services HK$'000	Total HK$'000
Year ended 31 December 2011				
Turnover from external customers	599,362	220,223	57,240	876,825
Segment profit/(loss)	799,735	55,412	(56,498)	798,649
Interest revenue	–	2,066	13	2,079
Interest expenses	1,176	–	–	1,176
Depreciation and amortisation	428,956	69,820	44,698	543,474
Income tax credit	224,609	11,950	15,187	251,746
Other material non-cash items:				
Gain on bargain purchase	896,606	–	–	896,606
Impairment losses on intangible assets	203,001	–	46,217	249,218
Additions to segment non-current assets	251,563	267,436	22,749	541,748
As at 31 December 2011				
Segment assets	7,222,386	4,632,669	416,240	12,271,295
Segment liabilities	578,039	1,470,959	85,561	2,134,559

8. SEGMENT INFORMATION (CONTINUED)

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

	Property investment (Discontinued operations) 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 profit/(loss)	(1,076)	365,821	(40,744)	324,001
Interest revenue	3,317	3,509	6	6,832
Interest expenses	–	–	522	522
Depreciation and amortisation	–	172,640	44,609	217,249
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
As 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)

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

	2011 HK$'000	2010 HK$'000
Profit or loss		
Total profit of reportable segments	**798,649**	324,001
Unallocated amounts:		
Other income (except for certain other income included in the exploration and production and oil exploitation segments)	**15,532**	60,560
Corporate expenses	**(229,152)**	(238,363)
Finance costs (except for unwinding of discount on provision for decommissioning costs included in the exploration and production segment)	**(70,387)**	(522)
Loss on disposal of a subsidiary	**–**	(43,608)
Elimination of discontinued operations	**–**	41,196
Consolidated profit for the year from continuing operations	**514,642**	143,264
Assets		
Total assets of reportable segments	**12,271,295**	4,656,678
Unallocated amounts:		
Other receivables and other assets	**320,764**	820,964
Deferred tax assets	**63,383**	–
Intangible assets – participating interest in oil exploitation project	**–**	150,216
Financial assets at fair value through profit or loss	**2,508**	3,387
Held-to-maturity investments	**30,850**	–
Pledged bank deposits	**201,207**	385,097
Bank and cash balances	**482,323**	845,172
Consolidated total assets	**13,372,330**	6,861,514
Liabilities		
Total liabilities of reportable segments	**2,134,559**	1,261,169
Unallocated amounts:		
Other liabilities	**117,931**	46,925
Due to directors	**8,066**	6,501
Bank loans	**5,016,680**	23,676
Current tax liabilities	**11,067**	167
Provisions (except for provision for decommissioning costs included in the exploration and production segment)	**540**	–
Consolidated total liabilities	**7,288,843**	1,338,438

8. SEGMENT INFORMATION (CONTINUED)

Geographical information:

	Turnover		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**–**	–	**978**	780,510
PRC	**277,463**	22,373	**4,699,807**	4,550,041
Pakistan	**599,362**	–	**5,955,489**	–
Others	**–**	–	**993**	150,215
Consolidated total	**876,825**	22,373	**10,657,267**	5,480,766

In presenting the geographical information, turnover is based on the locations of the customers. The Group's non-current assets exclude deferred tax assets.

Turnover from major customers:

Turnover derived from major customers who contributed 10% or more are as follows:

	2011	2010
	HK$'000	HK$'000
Exploration and production segment		
Customer A	**224,378**	–
Customer B	**152,472**	–
Customer C	**100,825**	–
Oil exploitation segment		
Customer D	**220,223**	–
Oilfields supporting services segment		
Customer E	**57,240**	22,373

9. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
From continuing operations		
– Interest on bank loans	**70,387**	522
– Unwinding of discount on provision for decommissioning costs	**1,176**	–
	71,563	522

10. PROFIT FOR THE YEAR

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

	Continuing operations		Discontinued operations		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Depreciation and amortisation (note a)	**549,847**	223,355	**-**	–	**549,847**	223,355
Allowance for other receivables	**2,255**	–	**-**	–	**2,255**	–
Allowance for advances, deposits and prepayments	**1,301**	–	**-**	–	**1,301**	–
Acquisition-related costs (included in administrative expenses)	**121,607**	–	**-**	–	**121,607**	–
Auditor's remuneration						
– Current	**2,852**	1,050	**-**	–	**2,852**	1,050
– Under-provision in prior year	**200**	–	**-**	–	**200**	–
	3,052	1,050	**-**	–	**3,052**	1,050
Allowance for inventories (included in cost of inventories sold)	**19,500**	–	**-**	–	**19,500**	–
Cost of inventories sold (note b)	**543,108**	–	**-**	–	**543,108**	–
Directors' emoluments (note 13)	**18,837**	19,158	**-**	–	**18,837**	19,158
Loss on disposal of property, plant and equipment	**31**	9	**-**	–	**31**	9
Operating lease charges						
– Hire of office equipments and motor vehicles	**3,093**	110	**-**	–	**3,093**	110
– Land and buildings (note c)	**10,985**	3,389	**-**	–	**10,985**	3,389
	14,078	3,499	**-**	–	**14,078**	3,499
Research and development expenditures	**633**	5,371	**-**	–	**633**	5,371
Staff costs including directors' emoluments						
Salaries, bonuses and allowances (note c)	**96,249**	21,876	**-**	–	**96,249**	21,876
Retirement benefits scheme contributions	**6,461**	672	**-**	–	**6,461**	672
Equity-settled share-based payments	**10,127**	36,017	**-**	–	**10,127**	36,017
	112,837	58,565	**-**	–	**112,837**	58,565
Other equity-settled share-based payments	**-**	80,885	**-**	–	**-**	80,885
Direct operating expenses of investment properties that did not generate rental income	**-**	–	**-**	739	**-**	739
Fair value loss on financial assets at fair value through profit or loss	**879**	413	**-**	–	**879**	413
Impairment losses on advances to oil exploitation project	**-**	47,580	**-**	–	**-**	47,580
Impairment losses on intangible assets (included in other operating expenses)	**393,650**	4,131	**-**	–	**393,650**	4,131

Note a: Depreciation and amortisation includes the amortisation charges of intangible assets of approximately HK$5,784,000 (2010: HK$159,784,000), HK$271,396,000 (2010: HK$8,872,000) and HK$29,603,000 (2010:HK$28,737,000) are included in the oil exploitation expenses, costs of sales and services rendered and other operating expenses, respectively.

Note b: Cost of inventories sold includes staff costs, depreciation and amortisation, operating lease charges and allowance for inventories of approximately HK$482,785,000 (2010: Nil) which are included in the amounts disclosed separately above.

Note c: The amounts include the accommodation benefits provided to directors amounting to approximately HK$480,000 (2010: HK$280,000).

11. INCOME TAX (CREDIT)/EXPENSE

	2011 HK$'000	2010 HK$'000
Current tax – PRC enterprise income tax		
Provision for the year	**11,903**	952
(Over)/under-provision in prior years	**(573)**	331
	11,330	1,283
Deferred tax (note 27)	**(253,445)**	144,723
	(242,115)	146,006
Representing:		
Continuing operations	**(242,115)**	146,003
Discontinued operations (note 12)	**–**	3
	(242,115)	146,006

No provision for profits tax in the Bermuda, Bahamas, British Virgin Islands, Singapore, Mauritius, Pakistan or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the years ended 31 December 2011 and 2010.

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 2011 is 12.5%.

11. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

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

	2011 HK$'000	2010 HK$'000
Profit/(loss) before tax		
Continuing operations	**272,527**	289,267
Discontinued operations	**–**	(41,193)
	272,527	248,074
Tax at the statutory PRC enterprise income tax rate of 25% (2010: 25%)	**68,132**	62,018
Tax effect of income that is not taxable	**(545,077)**	(10,331)
Tax effect of expenses that are not deductible	**83,584**	49,602
Tax effect of tax losses not recognised	**15,711**	17,989
Tax effect of utilisation of tax losses not previously recognised	**(26,929)**	(604)
Tax effect of temporary differences not recognised	**839**	5,334
Tax effect of tax preferential period	**9,071**	5,093
Tax effect of withholding tax at 10% on gain derived from the Group's PRC and Mauritius subsidiaries	**8,687**	–
(Over)/under-provision in prior years	**(573)**	331
Effect of different tax rates of the Company and its subsidiaries	**144,440**	16,574
Income tax (credit)/expense	**(242,115)**	146,006

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 for the year from the discontinued operations is analysed as follows:

	2011 HK$'000	2010 HK$'000
Profit from discontinued operations	**–**	2,412
Loss on disposal of discontinued operations (note 33(b))	**–**	(43,608)
	–	(41,196)

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:

	For the twelve months ended 31 December 2011 HK$'000	Period from 1 January 2010 to 20 September 2010 HK$'000
Turnover	**–**	–
Cost of sales and services rendered	**–**	(739)
Gross loss	**–**	(739)
Other income	**–**	3,488
Administrative expenses	**–**	(334)
Profit before tax	**–**	2,415
Income tax expense	**–**	(3)
Profit for the period	**–**	2,412

During the period from 1 January 2010 to 20 September 2010, the disposed subsidiary paid approximately HK$33,547,000 in respect of operating activities and received approximately HK$3,317,000 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 2011					
Executive directors:					
Mr. Zhang Hong Wei	**1,000**	**6,906**	**–**	**–**	**7,906**
Mr. Zhu Jun	**240**	**–**	**–**	**–**	**240**
Ms. Zhang Meiying	**1,950**	**498**	**734**	**12**	**3,194**
Mr. Andrew Leo Kirby (note a)	**3,489**	**–**	**2,592**	**348**	**6,429**
	6,679	**7,404**	**3,326**	**360**	**17,769**
Non-executive director:					
Mr. Ho King Fung, Eric (note b)	**708**	**–**	**–**	**–**	**708**
Independent non-executive directors:					
Mr. Chau Siu Wai	**120**	**–**	**–**	**–**	**120**
Mr. San Fung	**120**	**–**	**–**	**–**	**120**
Mr. Zhu Chengwu	**120**	**–**	**–**	**–**	**120**
	360	**–**	**–**	**–**	**360**
	7,747	**7,404**	**3,326**	**360**	**18,837**
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

Note: (a) Appointed on 1 June 2011

(b) Appointed on 15 April 2011

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2010: Nil).

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

The five highest paid individuals in the Group during the year included three (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2010: three) individuals are set out below:

	2011 **HK$'000**	2010 HK$'000
Salaries and other benefits	**5,643**	1,067
Equity-settled share-based payments	**4,529**	9,795
	10,172	10,862

The emoluments fell within the following bands:

	Number of individuals **2011**	2010
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**–**	1
HK$7,500,001 to HK$8,000,000	**1**	–
	2	3

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 (2010: Nil).

14. EARNINGS PER SHARE

Basic earnings per share

(a) *From continuing and discontinued operations*

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$531,885,000 (2010: HK$112,256,000) and the weighted average number of ordinary shares of 12,777,091,632 (2010: 12,777,091,632) in issue during the year.

(b) *From continuing operations*

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$531,885,000 (2010: HK$154,152,000) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

(c) *Loss 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 based on the loss for the year from discontinued operations attributable to the owners of the Company of approximately HK$41,896,000 and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

Diluted earnings per share

The calculation of diluted 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$531,885,000 and the weighted average number of ordinary shares of 13,021,424,989, being the weighted average number of ordinary shares of 12,777,091,632 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 244,333,357 assumed to have been issued at no consideration on the deemed exercise of the unlisted warrants outstanding during the year.

The effects of all potential ordinary shares in respect of the share options are anti-dilutive for the year ended 31 December 2011 and 2010.

15. DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2011 and 2010.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Leasehold improvements	Motor vehicles	Furniture, fixtures and equipment	Plant and machinery	Oil and gas properties	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost									
At 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 and 1 January 2011	–	7,407	6,826	5,151	1,886	108,776	–	111,693	241,739
Additions	–	–	1,766	163	877	5,670	204,664	313,668	526,808
Acquisition of a business	13,390	–	–	7,910	17,803	21,443	1,267,350	78,245	1,406,141
Written off	–	–	(1,891)	–	(187)	–	–	–	(2,078)
Transfers	–	–	–	402	1,441	563	128,341	(130,747)	–
Exchange differences	–	314	209	193	63	4,660	2,252	4,553	12,244
At 31 December 2011	13,390	7,721	6,910	13,819	21,883	141,112	1,602,607	377,412	2,184,854
Accumulated depreciation									
At 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 and 1 January 2011	–	1,135	3,077	3,195	1,247	51,037	–	–	59,691
Charge for the year	–	473	600	1,469	2,223	23,819	218,708	–	247,292
Written off	–	–	(1,891)	–	(156)	–	–	–	(2,047)
Exchange differences	–	51	51	132	38	2,337	55	–	2,664
At 31 December 2011	–	1,659	1,837	4,796	3,352	77,193	218,763	–	307,600
Carrying amount									
At 31 December 2011	13,390	6,062	5,073	9,023	18,531	63,919	1,383,844	377,412	1,877,254
At 31 December 2010	–	6,272	3,749	1,956	639	57,739	–	111,693	182,048

17. INTANGIBLE ASSETS

	Oil exploitation rights HK$'000	Concession and lease rights HK$'000	Participating interest in oil exploitation project HK$'000	Technical know-how HK$'000	Contractual rights in oil exploitation projects HK$'000	Total HK$'000
Cost						
At 1 January 2010	8,180,000	–	167,738	345,437	63,703	8,756,878
Exchange differences	–	–	–	14,598	2,692	17,290
At 31 December 2010 and 1 January 2011	8,180,000	–	167,738	360,035	66,395	8,774,168
Acquisition of a business	–	4,929,742	–	–	–	4,929,742
Exchange differences	–	–	–	15,268	2,816	18,084
At 31 December 2011	8,180,000	4,929,742	167,738	375,303	69,211	13,721,994
Accumulated amortisation and impairment losses						
At 1 January 2010	4,779,056	–	11,738	11,592	3,579	4,805,965
Amortisation for the year	154,000	–	5,784	28,737	8,872	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 and 1 January 2011	4,180,000	–	17,522	45,246	12,682	4,255,450
Amortisation for the year	47,799	213,661	5,784	29,603	9,936	306,783
Impairment losses	–	203,001	144,432	46,217	–	393,650
Exchange differences	–	–	–	2,501	614	3,115
At 31 December 2011	4,227,799	416,662	167,738	123,567	23,232	4,958,998
Carrying amount						
At 31 December 2011	3,952,201	4,513,080	–	251,736	45,979	8,762,996
At 31 December 2010	4,000,000	–	150,216	314,789	53,713	4,518,718

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 10 years (2010: 11 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 5 years (2010: 6 years).

17. INTANGIBLE ASSETS (CONTINUED)

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.

Oil exploitation rights represent rights 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 & Natural Gas Investments Limited ("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 amortisation of oil exploitation rights is determined using unit-of-production method over the proved and probable reserves of petroleum (2010: straight-line method).

During the year ended 31 December 2011, the directors reviewed the amortisation method of the oil exploitation rights included in intangible assets and considered that there had been a significant change in the expected pattern of consumption of the future economic benefits embodied in such rights. Accordingly, the amortisation method of such rights has been changed from the straight-line method to the unit-of-production method. Such a change is accounted for as a change in accounting estimate and applied prospectively in accordance with Hong Kong Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amortisation charges have decreased by approximately HK$151,365,000 for the year ended 31 December 2011 pursuant to the change of the amortisation method.

Concession and lease rights represent the rights for oil and gas exploitation in the Badin, Mirpur Khas and Khipro areas in the Sindh Province of Pakistan which will expire on various dates, in accordance with the respective development and production leases, between years 2012 and 2021. The amortisation of concession and lease rights is determined using the unit-of-production method over the proved and probable reserves of petroleum.

During the year ended 31 December 2011, the Group carried out reviews of the recoverable amount of its intangible assets having regard to the changes in market conditions. In view of the uncertainty in the future development of the oil exploitation project in Indonesia, a full impairment loss of HK$144,432,000 on participating interest in oil exploitation project was recognised.

Technical know-how and contractual rights in oil exploitation projects are used in the Group's oilfields supporting services segment whereas oil exploitation rights and concession and lease rights are used in the Group's oil exploitation segment and exploration and production segment respectively. The reviews led to the recognition of an impairment loss of approximately HK$46,217,000 and HK$203,001,000 for technical know-how and concession and lease rights that have been recognised in consolidated profit or loss respectively. The recoverable amounts of the relevant assets have been determined on the basis of their fair values less costs to sell with reference to the valuations carried out by independent valuers based on discounted future cash flows of the assets. The discount rates used in measurement for technical know-how and concession and lease right are 15.05 percent and 22.44 percent respectively.

17. INTANGIBLE ASSETS (CONTINUED)

During 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 fair values less costs to sell with reference to the valuations carried out by independent valuers based on discounted future cash flows of the assets. The discount rates used in measurement for technical know-how and oil exploitation rights were 15.31 percent and 15.64 percent respectively.

18. ADVANCES, DEPOSITS AND PREPAYMENTS

	2011 **HK$'000**	2010 HK$'000
Advances to staff	**1,717**	–
Deposits and prepayments	**15,300**	–
Other assets (note a)	**–**	780,000
	17,017	780,000

Note a: 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 (equivalent to US$100,000,000). During the year, such deposits formed part of cash consideration upon completion of the acquisition.

19. INVENTORIES

	2011 **HK$'000**	2010 HK$'000
Finished goods	**70,729**	66,734
Spares parts and consumables	**509,871**	1,455
Less: allowances for inventories	**(85,415)**	(66,734)
	495,185	1,455

During the year, the Company received an amount of approximately HK$819,000 (equivalent to US$105,000) (2010: 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, the allowance made in prior years against the inventories of HK$819,000 (2010: HK$26,905,000) was reversed.

20. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables (note a)	**778,170**	11,386
Other receivables (note b)	**661,437**	134,251
Total trade and other receivables	**1,439,607**	145,637

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 45 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:

	2011 HK$'000	2010 HK$'000
0 to 30 days	**668,522**	6,352
31 to 60 days	**59,094**	5,034
61 to 90 days	**11,936**	–
91 to 180 days	**31,170**	–
181 to 365 days	**7,448**	–
	778,170	11,386

As of 31 December 2011, trade receivables of approximately HK$109,648,000 (2010: HK$5,034,000) were past due but not impaired. These relate to a number of independent customers (2010: single customer) for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2011 HK$'000	2010 HK$'000
0 to 30 days	**59,094**	5,034
31 to 60 days	**11,936**	–
61 to 90 days	**13,292**	–
91 to 180 days	**17,878**	–
181 to 365 days	**7,448**	–
	109,648	5,034

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (Continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2011 HK$'000	2010 HK$'000
RMB	**336,212**	11,386
US$	**410,817**	–
PKR	**31,141**	–
Total	**778,170**	11,386

(b) Other receivables

	2011 HK$'000	2010 HK$'000
Amounts due from joint venture partners	**35,010**	71,102
Advances to staff	**9,143**	3,926
Central excise duty receivables	**5,806**	–
Consideration receivable (note i)	**–**	37,924
Prepayments to non-controlling shareholder of a subsidiary (note ii)	**315,825**	–
Deposits and prepayments	**13,980**	21,113
Excess consideration receivables (note 4(a))	**251,794**	–
Sales tax receivables	**27,630**	–
Others	**2,249**	186
	661,437	134,251

(i) The consideration receivable represents an amount due from the Purchaser of 71% equity interests in Shengtaicheng which were disposed of during the year ended 31 December 2010. The amount is unsecured and interest-free and had been fully settled during the year.

(ii) The amount represents the prepayments of equity distribution by the Group for the proposed dissolution of the 80% owned subsidiary, Shenyang Shengtaiyuan Logistics Company Limited. At the end of the reporting period, the dissolution has not yet been completed.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 HK$'000	2010 HK$'000
Held for trading:		
Equity securities, listed in Hong Kong at market value	**2,508**	3,387

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.

22. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

At 31 December 2011, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$197,141,000 (2010: HK$563,093,000). 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 2011, the Group's cash at bank of approximately HK$201,207,000 (2010: HK$385,097,000) was pledged to banks for the issue of performance bonds relating to the production of crude oil sharing contracts. The pledged bank deposits were in US$ and at fixed interest rates of 1% per annum (2010: ranging from 0.6% per annum to 1.3% per annum). The pledged bank deposits in US$ of approximately HK$201,207,000 (2010: HK$385,097,000) was therefore subject to foreign currency risk and fair value interest rate risk.

23. TRADE AND OTHER PAYABLES

	2011 HK$'000	2010 HK$'000
Trade payables (note a)	**189,225**	–
Other payables (note b)	**753,597**	223,384
	942,822	223,384

23. TRADE AND OTHER PAYABLES (CONTINUED)

(a) Trade payables

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2011 HK$'000	2010 HK$'000
0 to 30 days	175,095	–
31 to 45 days	8,809	–
Over 45 days	5,321	–
	189,225	–

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2011 HK$'000	2010 HK$'000
RMB	122,721	–
US$	39,316	–
PKR	27,188	–
Total	189,225	–

(b) Other payables

	2011 HK$'000	2010 HK$'000
Amount due to a joint venture partner	66,451	–
Accrual for operating expenses	489,127	170,726
Salaries and welfare payables	3,200	2,570
Deposits received	10,043	3,560
Temporary receipts	22,139	22,139
Other tax payables	161,104	1,720
Consideration payable (note 33(c))	–	21,161
Others	1,533	1,508
	753,597	223,384

24. DUE TO DIRECTORS

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

25. BANK LOANS

The secured bank loans are repayable as follows:

	2011 HK$'000	2010 HK$'000
On demand or within one year	**102,680**	23,676
In the second year	**78,000**	–
In the third to fifth years, inclusive	**1,716,000**	–
After five years	**3,120,000**	–
	5,016,680	23,676
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(102,680)**	(23,676)
Amount due for settlement after 12 months	**4,914,000**	–

The carrying amounts of the Group's secured bank loans are denominated in the following currencies:

	RMB HK$'000	US$ HK$'000	Total HK$'000
2011			
Bank loans	**24,680**	**4,992,000**	**5,016,680**
2010			
Bank loans	23,676	–	23,676

The average interest rate of the secured bank loans as at 31 December 2011 was 4.73% (2010: 5.38%).

Bank loans of HK$5,016,680,000 (2010: Nil) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. In 2010, bank loans of HK$23,676,000 are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

On 14 July 2011, United Energy Group (Hong Kong) Limited ("UEG (HK)") as borrower (the "Borrower") and the Company, United Energy Pakistan Holdings Limited ("UEPH"), United Energy Pakistan Limited ("UEP") and Gold Trade International Limited ("GTI") as guarantors signed a term facility agreement with China Development Bank Corporation, Hong Kong Branch for the 10 years bank loan of HK$4,992,000,000 (equivalent to US$640,000,000). This bank loan was raised for the purpose of financing the acquisition of an upstream oil and gas business in Pakistan and general operation of the Group. UEG (HK), UEPH, UEP and GTI are wholly owned subsidiaries of the Group.

25. BANK LOANS (CONTINUED)

At 31 December 2011, the 10 years bank loan with carrying amount of HK$4,992,000,000 (2010: Nil) is secured or guaranteed by the following:

(a) account charges over bank and cash balances held by UEG (HK) and UEP with a total carrying amount at the end of the reporting period of approximately HK$166,729,000 (2010: Nil);

(b) share charge over the entire equity interests of UEG(HK), UEPH, UEP and GTI;

(c) a corporate guarantee executed by the China Development Bank Corporation, Beijing Branch was counter guaranteed by a related company of the Group, (note 34(c)) to the extent of HK$4,992,000,000 (2010: Nil).

At 31 December 2011, bank loans of HK$24,680,000 (2010: HK$23,676,000) denominated in RMB are secured by the entire equity interests of the Group's subsidiary in PRC.

26. PROVISIONS

	Dismantling costs in respect of leasehold improvements HK$'000	Decommissioning costs HK$'000	Total HK$'000
At 1 January 2011	–	–	–
Add:			
Acquisition of a business	–	250,743	250,743
Provisions recognised during the year	540	–	540
Less:			
Actual costs incurred during the year	–	(1,010)	(1,010)
Add:			
Unwinding of discount	–	1,176	1,176
At 31 December 2011	540	250,909	251,449

Oil and gas exploration and production activities may result in land subsidence and damage to the environment of the concession areas. Pursuant to the relevant rules and regulations, the Group is required to restore the concession areas back to acceptable conditions.

The decommissioning costs obligation has been determined by management based on future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to the decommissioning costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

The provision for dismantling costs in respect of leasehold improvements is calculated based on the net present value of costs to be incurred to remove leasehold improvements from the leased properties of the Group. The amounts are determined with reference to the quotations from external contractors and the management's estimation.

27. DEFERRED TAX

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

	Accelerated tax depreciation HK$'000	Investment properties HK$'000	Intangible assets HK$'000	Allowance for inventories HK$'000	Total HK$'000
At 1 January 2010	–	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 and 1 January 2011	**–**	**–**	**1,084,156**	**–**	**1,084,156**
Acquisition of a business	**449,755**	**–**	**(288,529)**	**–**	**161,226**
Credit to profit or loss for the year (note 11)	**(86,490)**	**–**	**(157,205)**	**(9,750)**	**(253,445)**
Exchange differences	**–**	**–**	**3,439**	**–**	**3,439**
At 31 December 2011	**363,265**	**–**	**641,861**	**(9,750)**	**995,376**

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position purposes:

	2011 HK$'000	2010 HK$'000
Deferred tax liabilities	**1,058,759**	1,084,156
Deferred tax assets	**(63,383)**	–
	995,376	1,084,156

At the end of reporting period, the Group has unused tax losses and other deductible temporary differences of approximately HK$303,503,000 and HK$39,610,000 respectively (2010: HK$372,233,000 and HK$26,959,000 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.

Temporary differences in connection with the interests in subsidiaries are insignificant.

During the year ended 31 December 2010, the Hong Kong Inland Revenue Department disallowed the deductions of certain expenses totaling 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 at 31 December 2010 have decreased.

28. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2010, 31 December 2010 and 31 December 2011	**60,000,000,000**	600,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2010, 31 December 2010 and 31 December 2011	**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 year ended 31 December 2011 and 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 2011, 32% (2010: 32%) of the shares were in public hands.

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2011 HK$'000	2010 HK$'000
Investments in subsidiaries		**4,410,666**	4,473,597
Trade and other receivables		**1,029**	1,775
Financial assets at fair value through profit or loss		**2,508**	3,387
Due from subsidiaries		**1,757,458**	990,384
Pledged bank deposits		**–**	4,732
Bank and cash balances		**95,727**	258,390
Trade and other payables		**(48,336)**	(25,589)
Financial guarantees contracts		**(33,344)**	–
Due to directors		**(8,066)**	(6,501)
Advances, deposits and prepayments	18	**–**	780,000
NET ASSETS		**6,177,642**	6,480,175
Capital and reserves			
Share capital		**127,771**	127,771
Reserves	30(b)	**6,049,871**	6,352,404
TOTAL EQUITY		**6,177,642**	6,480,175

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 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
At 1 January 2011	**13,027,326**	**102,007**	**(6,776,929)**	**6,352,404**
Recognition of equity-settled share-based payments	**–**	**10,127**	**–**	**10,127**
Forfeiture of equity-settled share-based payments	**–**	**(1,610)**	**1,610**	**–**
Loss for the year	**–**	**–**	**(312,660)**	**(312,660)**
At 31 December 2011	**13,027,326**	**110,524**	**(7,087,979)**	**6,049,871**

(c) Nature and purpose of reserves

(i) Share premium account

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

(ii) Merger reserve

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

(iii) Capital reserve

Capital reserve represented the loan wavier made by the ultimate holding company, He Fu International Limited, to a subsidiary, United Energy International Investments Limited.

(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(d)(iii) to the financial statements.

30. RESERVES (CONTINUED)

(c) Nature and purpose of reserves (Continued)

(v) Statutory reserve

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

(vi) Share-based capital reserve

The 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 Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(v) 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.

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.

31. SHARE-BASED PAYMENTS (CONTINUED)

Details of the specific categories of options are as follows:

Grantee	Date of grant	Vesting period	Exercise period	Exercise price	Number of share options outstanding as at 31 December 2011
				HK$	
Directors and employees	04.12.2007	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	1.56	7,650,000
	04.12.2007	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	1.56	5,100,000
	04.12.2007	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	1.56	5,100,000
	04.12.2007	04.12.2007 to 03.12.2011	04.12.2011 to 03.12.2012	1.56	7,650,000
	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
	17.05.2011	17.05.2011 to 16.05.2012	17.05.2012 to 10.05.2016	1.15	3,000,000
	17.05.2011	17.05.2011 to 16.05.2013	17.05.2013 to 10.05.2016	1.15	2,000,000
	17.05.2011	17.05.2011 to 16.05.2014	17.05.2014 to 10.05.2016	1.15	2,000,000
	17.05.2011	17.05.2011 to 16.05.2015	17.05.2015 to 10.05.2016	1.15	3,000,000
					47,500,000

Options are forfeited if the employee leaves the Group.

31. SHARE-BASED PAYMENTS (CONTINUED)

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

	2011		2010	
	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	**39,500,000**	**1.392**	355,000,000	1.412
Granted during the year	**10,000,000**	**1.150**	12,000,000	1.008
Forfeited during the year	**(2,000,000)**	**(1.560)**	(327,500,000)	(1.399)
Outstanding at the end of the year	**47,500,000**	**1.334**	39,500,000	1.392
Exercisable at the end of the year	**29,100,000**	**1.492**	19,250,000	1.560

The options outstanding at the end of the year have a weighted average remaining contractual life of 2.40 years (2010: 2.82 years) and the exercise prices are ranging from HK$0.90 to HK$1.56 (2010: HK$0.90 to HK$1.56). In 2011, option was granted on 17 May 2011. The estimated fair values of the option granted on this date is approximately HK$7,894,000.

The estimated fair values of the share options granted on 4 December 2007, 3 November 2010, 31 December 2010 and 17 May 2011 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	3 November 2010	31 December 2010	17 May 2011
Model	Black-Scholes	Binomial	Binomial	Binomial
Fair value at measurement date	HK$231,400,000	HK$8,079,000	HK$2,043,000	HK$7,894,000
Number of share options granted	275,000,000	10,000,000	2,000,000	10,000,000
Grant date share price	HK$1.49	HK$1.17	HK$1.55	HK$1.15
Exercise price	HK$1.56	HK$0.90	HK$1.55	HK$1.15
Expected volatility	105.04%	93.50%	94.37%	95.07%
Risk free rate	1.160%–2.403%	1.074%	1.763%	1.558%
Expected life	1–4 years	5 years	5 years	5 years

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 3 November 2010, 31 December 2010 and 17 May 2011 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 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 consideration 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.

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

	2011		2010	
	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	**1,000,000,000**	**0.8**	–	–
Granted during the year	**–**	**–**	1,000,000,000	0.8
Repurchased during the year	**(500,000,000)**	**(0.8)**	–	–
Outstanding at the end of the year	**500,000,000**	**0.8**	1,000,000,000	0.8
Exercisable at the end of the year	**500,000,000**	**0.8**	500,000,000	0.8

The Unlisted Warrants outstanding at the end of the year has a weighted average remaining contractual life of 0.5 years (2010: 1.5 years).

32. UNLISTED WARRANTS (CONTINUED)

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 Model. The inputs into the model were as follows:

Spot price	HK$0.560
Exercise price	HK$0.800
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. No such equity-settled share-based payment was recognised for the year ended 31 December 2011.

On 30 August 2011, the Company repurchased an aggregate amount of 500,000,000 Unlisted Warrants held by both Consultants at a consideration of HK$1. All the Unlisted Warrants repurchased were cancelled immediately and will not be reissued or resold in accordance with the Condition 7 of the warrant instrument dated 26 July 2010.

As at 31 December 2011 and 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) Acquisition of a business

As disclosed in note 4(a) to the financial statements, on 16 September 2011, the Group acquired the business from BP p.l.c. for a cash consideration of HK$5,591,515,000 (equivalent to US$716,861,000). The acquisition is for the purpose of enhancing the Group's position as an international energy company.

The fair value of the identifiable assets and liabilities of the business acquired as at its date of acquisition is as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	**1,406,141**
Intangible assets	**4,929,742**
Inventories	**531,276**
Other receivables	**45,385**
Bank and cash balances	**186**
Trade and other payables	**(12,640)**
Provisions	**(250,743)**
Deferred tax liabilities	**(161,226)**
Total net assets	**6,488,121**
Gain on bargain purchase (note 7)	**(896,606)**
Total cash consideration	**5,591,515**
Net cash outflow arising on acquisition:	
Total cash consideration	**5,591,515**
Excess consideration receivables (note 20(b))	**251,794**
Deposit paid (note 18)	**(780,000)**
Cash and cash equivalents acquired	**(186)**
	5,063,123

The Group recognised a gain on bargain purchase of HK$896,606,000 in the business combination which is mainly attributable to the increase of fair value in the intangible assets due to the increase of market price of oil and gas during the period from the date at which the purchase contract was agreed upon to the Closing Date.

The business contributed approximately HK$599,363,000 and HK$721,465,000 to the Group's turnover and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2011, total Group's turnover for the year would have been HK$2,332,933,000, and profit for the year would have been HK$900,597,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

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

(b) 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 as at 31 December 2010 and has been included in trade and other receivables as disclosed in note 20 to the financial statements. Such cash consideration was fully settled during the year ended 31 December 2011.

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

(c) Purchase of non-controlling interests

During the year ended 31 December 2010, 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 as at 31 December 2010 and has been included in trade and other payables as disclosed in note 23 to the financial statements. The consideration was fully settled during the year ended 31 December 2011.

34. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name of the related party	Relationship
東方集團實業股份有限公司 (Orient Group Industrial Holdings Company Limited ("Orient Group Industrial")#	Mr. Zhang Hong Wei is an ultimate controlling party and authorised representative of Orient Group Industrial
東方集團股份有限公司 – 北京分公司 (Orient Group Holdings Company Limited – Beijing branch office ("Orient Group-Beijing office"))#	Mr. Zhang Hong Wei is an ultimate controlling party and authorised representative of Orient Group – Beijing office
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

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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:

	2011 HK$'000	2010 HK$'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	**133**	54

(c) The Orient Group Industrial has provided a counter guarantee in favour of the Group against the bank loans made to the Group totalling HK$4,992,000,000 at 31 December 2011 (2010: Nil).

(d) The Orient Group and Orient Group – Beijing office had paid rental expenses on behalf of the Group for which no charges were made.

35. CAPITAL COMMITMENTS

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

	2011 HK$'000	2010 HK$'000
Contracted but not provided for:		
Acquisition of property, plant and equipment	**28,160**	23,593
Commitments for capital expenditure	**793,088**	–
	821,248	23,593

Commitments for capital expenditure include minimum expenditure required under various petroleum concession agreements and production sharing agreements in Pakistan.

36. OPERATING LEASE COMMITMENTS

The Group as lessees

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

	2011 HK$'000	2010 HK$'000
Within one year	**13,712**	3,896
In the second to fifth years inclusive	**42,720**	6,620
After five years	**6,638**	–
	63,070	10,516

Operating lease payments represent rentals payable by the Group for certain of its offices, staff and director's quarters, motor vehicles and plant and machinery. Leases are negotiated for an average term of 3.83 years (2010: 3 years) and rentals are fixed over the lease terms and do not include contingent rentals.

The Group as lessor

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

	2011 HK$'000	2010 HK$'000
Within one year	**268**	–
In the second to fifth years inclusive	**537**	–
	805	–

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 2011 amounted to approximately HK$85,000 (2010: HK$107,000).

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.

37. RETIREMENT BENEFITS SCHEME (CONTINUED)

PRC (Continued)

The Group's contribution under the respective schemes for the year ended 31 December 2011 amounted to approximately HK$901,000 (2010: HK$565,000).

Pakistan

(a) *Funded Gratuity Scheme*

According to the Income Tax Ordinance in Pakistan, a defined contribution gratuity fund is being maintained for all permanent employees, established under a Trust Deed. Contributions to the fund are as per Trust Deed, based on each individual employee's salary, number of years of service and contribution rate applicable to employee's level or grade.

The Group's contribution under the scheme for the year ended 31 December 2011 amounted to approximately HK$2,838,000 (2010: Nil).

(b) *Contributory Provident Fund*

A defined contribution provident fund is being maintained for all permanent employees in Pakistan. Monthly contributions are made to the fund both by the Group and the employees at the rate of 10% of basic salary. The only obligation of the Group with respect to the contributory provident fund is to make the required contributions under the scheme.

The Group's contribution under the scheme for the year ended 31 December 2011 amounted to approximately HK$2,263,000 (2010: Nil).

38. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2011 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
UEG (HK)	Hong Kong	HK$100	100%	100%	–	Investment holding
United Energy Technology (China) Company Limited ("UET")# (note a)	PRC	US$9,246,000	100%	–	100%	Dormant
Shenyang Shengtaiyuan Logistics Company Limited ("Shengtaiyuan")# (note b)	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 (note a)	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
UEPHL	Mauritius	US$1	100%	100%	–	Investment holding
UEPL	Mauritius	US$1	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
GTI	Mauritius	US$1	100%	–	100%	Provision of group financing supporting services
United Energy Group Service Pte Limited	Singapore	SGD100	100%	100%	–	Provision of services to headquarter on corporate development and technical support

38. SUBSIDIARIES (CONTINUED)

Note a: Wholly foreign owned enterprise established in the PRC in accordance with relevant laws and regulations.

Note b: Equity joint venture enterprise established in the PRC in accordance with relevant laws and regulations.

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39. EVENTS AFTER REPORTING PERIOD

(a) On 10 January 2012, the Company resolved to award 6,783,880 new shares as the scheme shares to 519 employees of the Group under the share match scheme (the "Scheme") adopted by the Company on 16 September 2011. The objectives of the Scheme were to provide the employees in Pakistan with incentives in order to retain them for the continual operation and development of the Group in Pakistan and to attract suitable personnel for the growth and further development of the Group. The allotment was completed on 19 January 2012 and the number of issued shares capital of the Company was increased from 12,777,091,632 shares to 12,783,875,512 shares. Details are set out in the Company's announcement dated 10 January 2012.

(b) On 22 February 2012, the Company issued various unlimited corporate guarantees in favour of the President of the Islamic Republic of Pakistan and certain joint venture partners of the Group, for guarantee to provide UEPL with all necessary financial and other means to enable UEPL to fully perform its obligations as stipulated in the concession agreements.

(c) On 20 March 2012, UEPL issued various bank guarantees in an aggregate sum of approximately HK$105,066,000 (equivalent to US$13,470,000) in favour of the President of the Islamic Republic of Pakistan, for guarantee UEPL's performance of its financial and works obligations as stipulated in the concession and production sharing agreements. The Group's cash at bank of approximately HK$105,066,000 (equivalent to US$13,470,000) were pledged to a bank for the issuance of these bank guarantees. The expiry date of these bank guarantees is 1 December 2013.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2012.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December		For the nine months 31 December	Year ended 31 March	
	2011	2010	2009	2009	2008
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000 (note)	HK$'000 (note)
Turnover					
From continuing operations	**876,825**	22,373	25,357	–	–
From discontinued operations	**–**	–	–	5,178	4,893
	876,825	22,373	25,357	5,178	4,893
Profit/(loss) before tax	**272,527**	289,267	327,819	(528,386)	(108,676)
Income tax credit/(expenses)	**242,115**	(146,003)	(98,791)	(234)	(159)
Profit/(loss) for the year/period from continuing operations	**514,642**	143,264	229,028	(528,620)	(108,835)
(Loss)/profit for the year/period from discontinued operations	**–**	(41,196)	10,948	(30,305)	4,356
Profit/(loss) for the year/period	**514,642**	102,068	239,976	(558,925)	(104,479)
Attributable to:					
Owners of the Company	**531,885**	112,256	237,060	(550,438)	(101,497)
Non-controlling interests	**(17,243)**	(10,188)	2,916	(8,487)	(2,982)
	514,642	102,068	239,976	(558,925)	(104,479)

	As at 31 December			As at 31 March	
	2011	2010	2009	2009	2008
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000 (note)	HK$'000 (note)
Total assets	**13,372,330**	6,861,514	6,334,982	2,737,006	3,203,681
Total liabilities	**(7,288,843)**	(1,338,438)	(991,553)	(53,051)	(70,526)
Net assets	**6,083,487**	5,523,076	5,343,429	2,683,955	3,133,155
Equity attributable to owners of the Company	**5,686,347**	5,125,420	5,047,845	2,496,931	2,941,737
Non-controlling interests	**397,140**	397,656	295,584	187,024	191,418
Total equity	**6,083,487**	5,523,076	5,343,429	2,683,955	3,133,155

Note:

The financial figures for the years ended 31 March 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 2008 and 2009.

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