联合能源

年 報
Annual Report
2012

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

(於開曼群島註冊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 (resigned on 28 September 2012)

Non-Executive Director

Ho King Fung, Eric (resigned on 25 April 2012)

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
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Bankers

China Development Bank, Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Ltd.
Bank of Communications Company Limited, Hong Kong Branch
Hong Kong and Shanghai Banking Corporation Ltd.

Legal Adviser in Hong Kong

Simmons & Simmons
Angela Ho & Associates in association with Lang Michener LLP

Auditors

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

Bermuda Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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 Summary

Financial Summary

	2012 HK$'000	2011 HK$'000	Change
RESULTS			
Turnover	**3,213,793**	876,825	+266.5%
Gross profit	**1,290,833**	135,418	+853.2%
EBITDA [5]	**2,053,253**	390,981	+425.2%
Profit for the year	**793,511**	514,642	+54.2%
Profit attributable to owners of the Company	**786,412**	531,885	+47.9%
Basic earnings per share	**6.10 HK cents**	4.16 HK cents	+46.6%
KEY ITEMS IN CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Equity attributable to owner of the Company	**6,685,135**	5,686,347	+17.6%
Total assets	**14,811,860**	13,372,330	+10.8%
Net assets	**6,776,813**	6,083,487	+11.4%
Net assets per share	**HK$0.52**	HK$0.48	+8.3%

Operation Summary

Pakistan Oil and Gas Project	2012	16 Sep to 31 Dec 2011[1]	Change
Operation			
Average Daily Net Production Rate (mboed)[2]	**24.7**	21.0	+17.6%
Oil & Liquids Ratio	**29.2%**	26.5%	+2.7%
Reserve			
1P Reserve at the period end (mmboe)	**33.8**	28.0	+20.7%
1P Reserve adds during the period (mmboe)	**12.8**[3]	–	
Exploration & Development Activity			
Rig Workovers	**31**	1	
Exploration Wells	**11**[4]	2	
Development Wells	**20**	3	
3D Seismic Data Acquired	**2,277 km^2**	–	

Liaohe EOR Project	2012	2011	Change
Operation			
Average Daily Net Production Rate (bbld)	**1,334**	761	+75.3%
Reserve			
1P Reserve at the period end (mmbbl)	**26.5**	25.3	+4.7%
Development Activity			
Coverage of Fireflood Application at the period end	**37%**	32%	
Rig Workovers	**15**	9	
Development Wells	**20**	26	
Fireflood Unit Installed	**8**	9	
Fireflood Producer Added	**35**	36	

Notes:
1. Acquisition of BP Pakistan Assets completed on 16th Sep 2011
2. Production figure not included 19.74% MKK WI acquired on 31 December 2012
3. 1P Reserve Replacement Ratio : 142%
4. All Exploration Well drilled during the period reached target payzone and discover hydrocarbon. (100% success)
5. EBITDA represents the profit before finance costs, income tax credit, depreciation and amortisation, gain on bargain purchase, impairment loss on intangible assets, reversal of impairment losses on intangible assets and loss on dissolution of a subsidiary.

Chairman's Statement

Chairman's Statement

In 2012, United Energy Group Limited (the "Company") and its subsidiaries (the "Group" or "United Energy') continued to execute the "reliable operation + rapid growth" business strategy. The Group has benefited from the unique characteristics of its oil and gas operations to leap forward and become one of Hong Kong's major oil and gas exploration and production companies. The Group has made leaping enhancements in its reserves, production levels, profitability and competitiveness, which form the foundation for long term rapid growth and help position the Group as a large international growth oil and gas exploration and production company.

In the year ended 31 December 2012 ("the year under review"), the Group's Turnover was approximately HK$3,213,793,000, representing a 2.67 times increase from 2011. Net Profit after tax was approximately HK$786,412,000 increased by 48% as compared to 2011. Together with significant additions to the Group's reserves, the Group has fulfilled its promise of delivering to shareholder and investor sustainable returns.

Significant production ramp-up and increase in profitability in Pakistan assets

2012 was the first full financial year after the Group had completed the acquisition of BP asset at Pakistan. Following the Group's significant investment and management effort, the scale of operation and profitability of the assets has shown significant enhancement, reversing the downward production decline into a rapid increasing trend. The Group average daily net production volume has recorded 24,681 barrels of oil equivalent ("boe"), 17.8% higher than 20,945 boe for the period from the day of completion, 16 September 2011, to 31 December 2011.

The Group has also increased its investment in 3D seismic data acquisition and analysis, thereby identifying a large number of hydrocarbon traps. Based on these higher quality prospects, the Group drilled 11 exploration wells and 20 development wells, with all exploration wells successfully reached the target payzone and discovered hydrocarbon, thus identifying an estimated 870 million boe of Oil and Gas Initial In-Place Volume. The Group also recorded an estimated proved reserves add of approximately 12.8 million boe and proved reserves replacement ratio reached 142% for the year.

As at 31 December 2012, Pakistan assets consist of 9 onshore concessions and 5 offshore blocks. The total area consists of 41,003 km^2 with 10,433 km^2 onshore and 30,570 km^2 offshore. Developed area is approximately 2,923 km^2 representing 7.1% of the total area. Last year, we acquired about 2,277 km^2 of 3D seismic data, representing 5.6% of the our total gross acreage. The Group's Pakistan assets has significant room for value enhancement.

2012 was a year of consolidation and growth for the Group's assets in Pakistan. Following our better understanding of the exploration potential of the MKK Concessions, we made decisive actions and took over additional working interests from a minority shareholder. After the completion of the acquisition, the Group's working interest at MKK increased from 51% to 71%. The acquisition enabled the Group to enhance its interest and improve operating in the Concessions. Since 2010, Pakistan has been facing severe energy shortage. The Government of Pakistan has been issuing a range of incentives and favourable policies to encourage investments in energy sector and related infrastructure. The Group as one of the largest foreign energy companies in Pakistan, has built a solid and excellent brand in the country. The Company will continue to increase the exploration efforts in the next few years and target to achieve high growth rate in both production volume and reserves in the next five years. The Group will keep searching for quality asset and look for business opportunities.

China Liaohe Oilfield Project achieve high growth rate

The Group's patented fireflood technology progressed very well in the year under review. The reliability and commercial value of the project were re-affirmed. The production volumes recorded very high double-digit growth rate for both years since the project entered into production and development stages. In the year under review, the average daily net production volume reached 1,334 barrels, 75.3% higher compared to the corresponding period in 2011. During the period, 8 fireflood unit were added, 20 development wells were drilled and 15 Rig Workovers were carried out. As at 31 December 2012, 37% of production wells have been converted to fireflood producers. The conversion has built a solid foundation for the year 2013 and beyond.

Benefited from the rising oil prices, ramp-up progress and further conversion of production wells to fire-flood producers, it is expected that Liaohe EOR Project will significantly contribute to revenue growth. Management's target to maintain a very high growth rate for the next 5 years.

Positive growth from Oilfield Support Service Business

The Group's fireflood technology business progressed well. During the year, the fireflood coverage at Du-66 and Du-48 was expanded from 17 units to 27 units, and with encouraging production enhancements. Turnover increased 63.4% from HK$57,240,000 to HK$93,504,000 in 2012. On the other hand, the Group has set up a joint research center in fireflood technology with Xian Petroleum University, a leading institute with specialization in oil and gas technologies. This investment in R&D will build a solid foundation for future business development. As the numerous large oilfields in China mature, the Group's fireflood technology will assist them in significantly increasing production volume and prolong their life of production. We are now in negotiations with a number of major oilfields in China in relation to co-operation opportunities. Our target is to expand the Group's oilfield services in China.

Corporate Social Responsibility

As an oil and gas exploration and production group, we take corporate social responsibility seriously and strive to optimise the delivery of economic benefits while maintaining a sustainable and socially responsible operations. While the Group business achieves rapid growth, the Group provides sustainable, safe, stable and clean energy for the society.

In the past year, the Group has again contributed to our communities. As the largest foreign oil and gas suppliers in Pakistan, the Group production portfolio consists mainly of natural gas (70%). Natural gas is a clean and efficient fossil fuel. It has provided energy for the rapidly growing Pakistan economy while protecting the environment and reducing carbon emission at the same time. The Group strives to contribute back to the local community. In this regard, the Group has set up social responsibility fund to provide education, health and emergency relief.

Liaohe oilfield has also completed a tail-gas processing facility last year. The facility processes and recycles tail-gas thereby reducing production cost reducing gas emission and its impact on the local environment.

Outlook

As one of the largest upstream oil and gas corporation listed on the Hong Kong Stock Exchange, the Group continues to search for opportunities to acquire and expand in the global oil and gas market. This, together with aggressive exploration and development of existing assets, will maximize returns for the shareholders. The Company will closely monitor the global M&A opportunities. The Group's existing asset and strong cashflow will provide us with a solid foundation for outbound acquisitions. In October 2012, the Group refreshed the co-operation agreement with China Development Bank for 5 years and for a renewed US$5 billion. The Group can make use of this strong financial support to expand its asset base and operations, thereby achieving the best returns for shareholders.

Stepping into 2013, the Group continues to implement its strategy of "Win-win cooperation to achieve quantum leap growth". We plan to work closely with state-owned as well as international oil companies to explore the potential of the existing assets and to ramp-up the reserve and production of the Pakistan assets, while reducing the cost of production and enhancing profitability. These are the solid foundation for competing as a large international exploration and production company. In the meantime, the Group will enhance its corporate development model and competitiveness in China by continuing to scale up the production and profitability of the Liaohe project and conduct research in fireflood technology.

Our management team has vast experience and ability which is demonstrated in the successful completion of acquisition of the Pakistan asset and its subsequent production ramp-up. Although the global economy remains unsettled, this we believe has provided us with good opportunities and motivations. With the recovery of the global economy, stronger demand for energy and the further expansion of the Chinese economy, United Energy possesses the plan and the human resources to continue its rapid growth in production, reserves and profitability and quantum leap developments. I would like to thank all the shareholders and investors for their continued support. We will try our best to achieve better returns for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS


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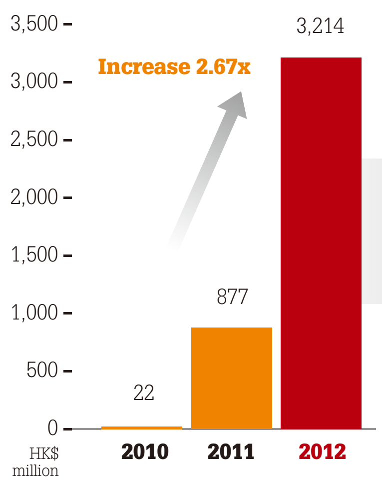
Management Discussion and Analysis

Financial Review

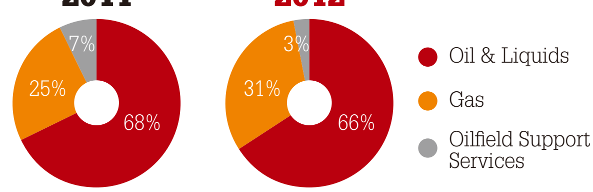
The year ended 31 December 2012 (the "year under review" or "this year") was the first full year operation and production of Liaohe Project in China and the project in Pakistan. The Group's turnover increased to approximately HK$3,213,793,000 in this year, which represented a significant increase of approximately 2.67 times as compared to the turnover of approximately HK$876,825,000 in last year. The turnover for the year was from the sale of crude oil, condensate, gas and liquefied petroleum gas (2012: approximately HK$3,120,289,000, 2011: approximately HK$819,585,000) and services fees income derived from provision of oilfield support services utilizing patented technology (2012: approximately HK$93,504,000, 2011: approximately HK$57,240,000). In this year, the Group's gross profit was approximately HK$1,290,833,000 (gross profit ratio approximately 40.2%) which represented a substantial increase of 8.53 times as compared to gross profit of 2011 of HK$135,418,000 (gross profit ratio approximately 15.4%). The Company reported an EBITDA of approximately HK$2,053,253,000 for this year (2011: approximately HK$390,981,000).

HK$3,214 million record high turnover following the Pakistan business acquisition

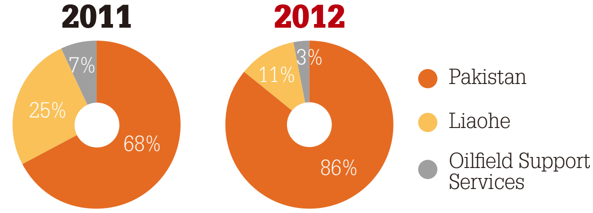
Turnover



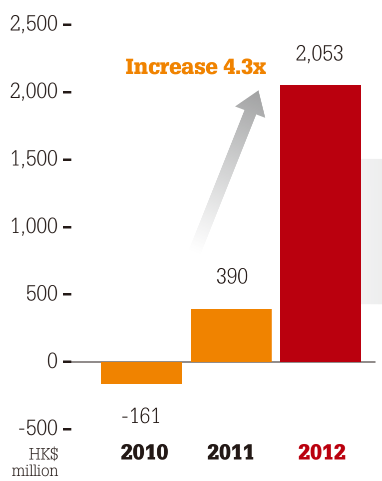
Turnover by Products and Services



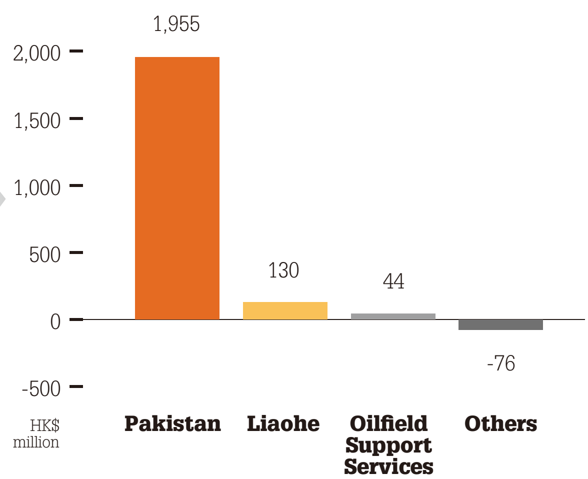
Turnover by Assets



EBITDA*



EBITDA* by Assets



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

Management Discussion and Analysis (Continued)

For this year, the Group reported a total other income approximately HK$309,185,000 (2011: approximately HK$919,410,000). The main contributors of other income in the year under review were the reversal of impairment losses on intangible assets (approximately HK$172,395,000) and gain on bargain purchase (approximately HK$77,537,000), while the main contributor in 2011 was the gain on bargain purchase of approximately HK$896,606,000 from the acquisition of the Pakistan assets from BP plc.

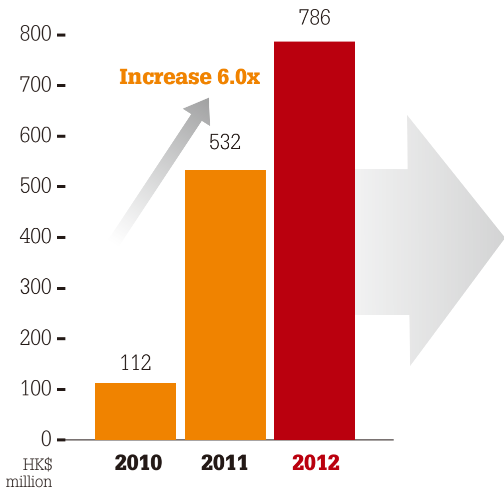
Administrative expenses increased from approximately HK$273,116,000 for the year ended 31 December 2011 to approximately HK$355,723,000 for the year ended 31 December 2012. The increase in administrative expenses reflected an enlarged overhead of operating the Pakistan business for a full year. These expenses for the year ended 31 December 2012 included staff cost of approximately HK$143,897,000 (2011: HK$68,369,000), non-cash expenses of approximately HK$7,329,000 (2011: HK$10,127,000) due to equity settled share-based payment transactions from share options granted to the employees per the share option scheme and depreciation of approximately HK$46,481,000 (2011: approximately HK$4,466,000).

Exploration expenses of HK$217,111,000 (2011: HK$8,045,000) are incurred during the year. The significant increase in exploration expenses were incurred for the result of a full yield of the 3D seismic studies and exploration drilling performed in Pakistan.

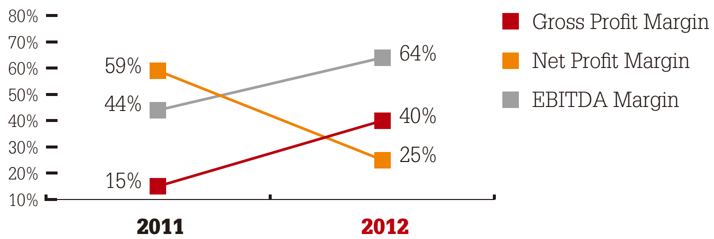
In summary, profit attributable to owners of the Company was approximately HK$786,412,000 for the year ended 31 December 2012, representing a 47.9% increase over the profit attributable to owners of the Company of approximately HK$531,885,000 for the year ended 31 December 2011. This result is reflected in the basic earnings per share which was 6.10 HK cents for the year ended 31 December 2012 as compared with the basic earnings per share of 4.16 HK cents for the year ended 31 December 2011.

Strong growth in net profit, increase of 6.0 times over the past two years.

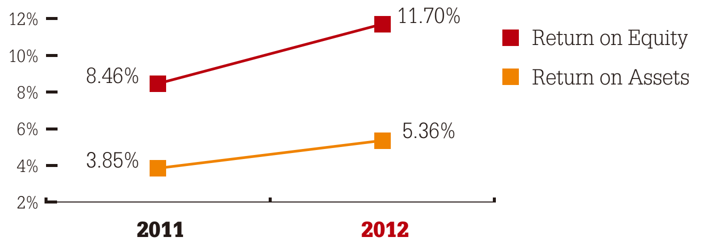
Net Profit - Attributable to owners of the Company



Profitability



Return on Capital



Note:
The decrease in 2012 net profit margin is due to one time off recognition of gain on bargain purchase of approximately HK$897 million in 2011

Management Discussion and Analysis (Continued)

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 year under review.

The Group's Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2012. 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 is one of the largest listed upstream oil and gas corporations in Hong Kong, with business now extended to South Asia. 2012 was the first full financial year after the Group's acquisition of the upstream oil and gas assets in Pakistan which has recorded satisfactory growth in production levels. Notably, as at 31 December 2012, the Group reached a single day net production of 35,030 barrel oil equivalent ("boe") (Note: Including 19.74% MKK working interest acquired), which makes the Group ranked as the fourth largest upstream oil and gas producer listed in the Hong Kong Stock Exchange, after the three Chinese national oil companies.

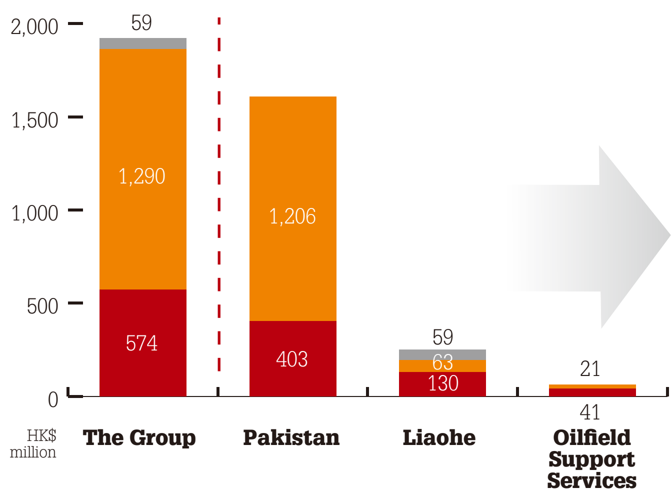
During the year under review, the Group has recorded an average daily net production of 26,015 boe (Pakistan: 24,681 boe (Oil and liquid ratio: 29.2%); Liaohe, China 1,334 barrels (Oil and liquid ratio: 100%)).

On 12 December 2012, 25% working interest in the petroleum sharing contract of Offshore Block G located in Pakistan was transferred to the Group by BP plc without cost. On 31 December 2012, the Group has also completed the acquisition of 19.74% working interest at MKK at consideration of US$36,830,000. After that, as at 31 December 2012, the Group held 71.05% working interest in the MKK Concession.

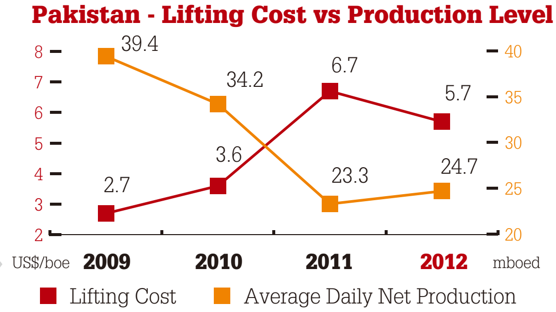
During the year under review, lifting costs and direct costs incurred and recognized in cost of sales and services rendered by the Group is approximately HK$574,331,000 (Pakistan: approximately HK$402,910,000, Liaohe, China: approximately HK$130,386,000, Oilfield Support Services: approximately HK$41,035,000), and the Group invested approximately HK$1,336,920,000 of capital expenditure in oil exploration, development and production activities (Pakistan: approximately HK$1,180,140,000; Liaohe, China: approximately HK$156,780,000) 51 new wells has been drilled (Pakistan: 31 wells, Liaohe, China: 20 wells) with drilled depth totaling 352,675 feet (Pakistan: 215,725 feet, Liaohe, China: 136,950 feet). The Group has also completed 2,277 km² 3D seismic data acquisition in Pakistan.

Efforts in cost control

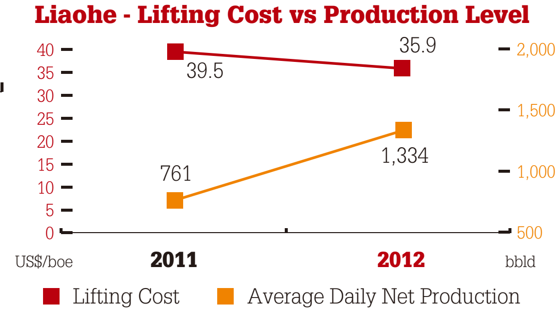
Cost of Sales & Services Rendered



Pakistan - Lifting Cost vs Production Level



Liaohe - Lifting Cost vs Production Level



Management Discussion and Analysis (Continued)

Benefited from the Group's aggressive investment and drilling activities, as at 31 December 2012, the Group's net proved reserve reached 60.3 million boe (Pakistan: 33.8 million boe; Liaohe, China: 26.5 million boe) recording an increase of 7.0 million boe proved reserve compared to 31 December 2011.

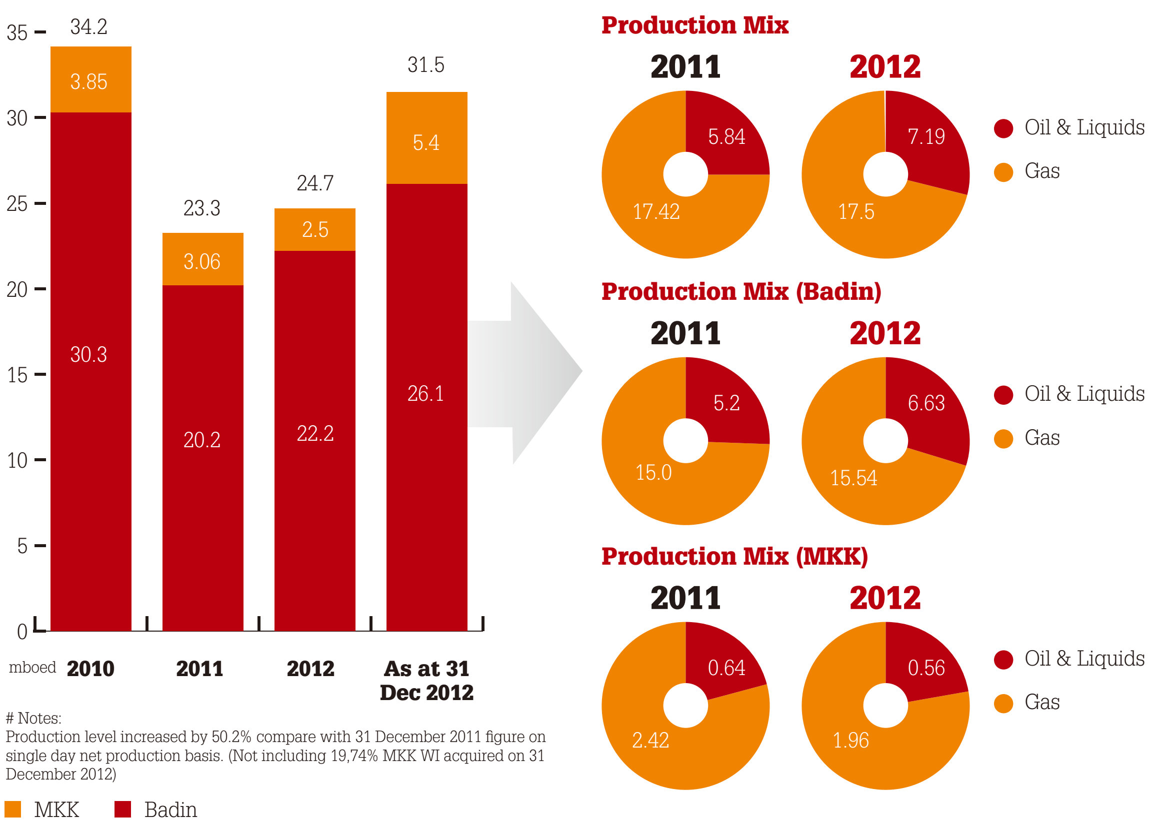
Under the implementation of "reliable operation + rapid expansion" business strategy, the performance and operations of the Group's assets in Pakistan and Liaohe asset have both recorded shown significant growth enhancement. In the year under review, the Group has recorded another year of significant growth in both the turnover and profit. The significant increase is a proof that the Group thereby is fulfilling its promises to deliver to the shareholders and investors on sustainable returns and growth.

Pakistan Oil and Gas Project:

Year 2012 was the first full financial year after the acquisition of the assets. The Pakistan Project has recorded an average daily net production of 24,681 boe, marking 17.8% increase compared to the period from 16 September 2011, the day that the Group completed the acquisition, to 31 December 2011. As a result of the aggressive efforts to acquire and interpret 3D seismic data, the Group have drilled 11 exploration wells and 20 developing wells, with all exploration wells successfully reached the target payzone and discovered hydrocarbon, thus identifying an estimated 870 million boe of Oil and Gas Initial In-Place Volume. The Group also recorded an estimated proved reserves add of approximately 12.8 million boe which included new discovery of 8.24 million boe proved reserves during the year. It is worth noting that on a single day production basis, the Pakistan project was producing 31,532 boe (Note: Not including 19.74% MKK working interest acquired) on 31 December 2012, which is 50.2% higher than the production level on 31 December 2011.

Has turned production from declining to growth

Pakistan - Average Daily Net Production



Notes:
Production level increased by 50.2% compare with 31 December 2011 figure on single day net production basis. (Not including 19,74% MKK WI acquired on 31 December 2012)

The Group has also approximately 600 staff members in Pakistan exploration and development project. Those staff members are well-trained and with average 12 year of experience in oil and gas industry which are part of the Group most valued human resources to explore and develop the assets.

Liaohe EOR, China:

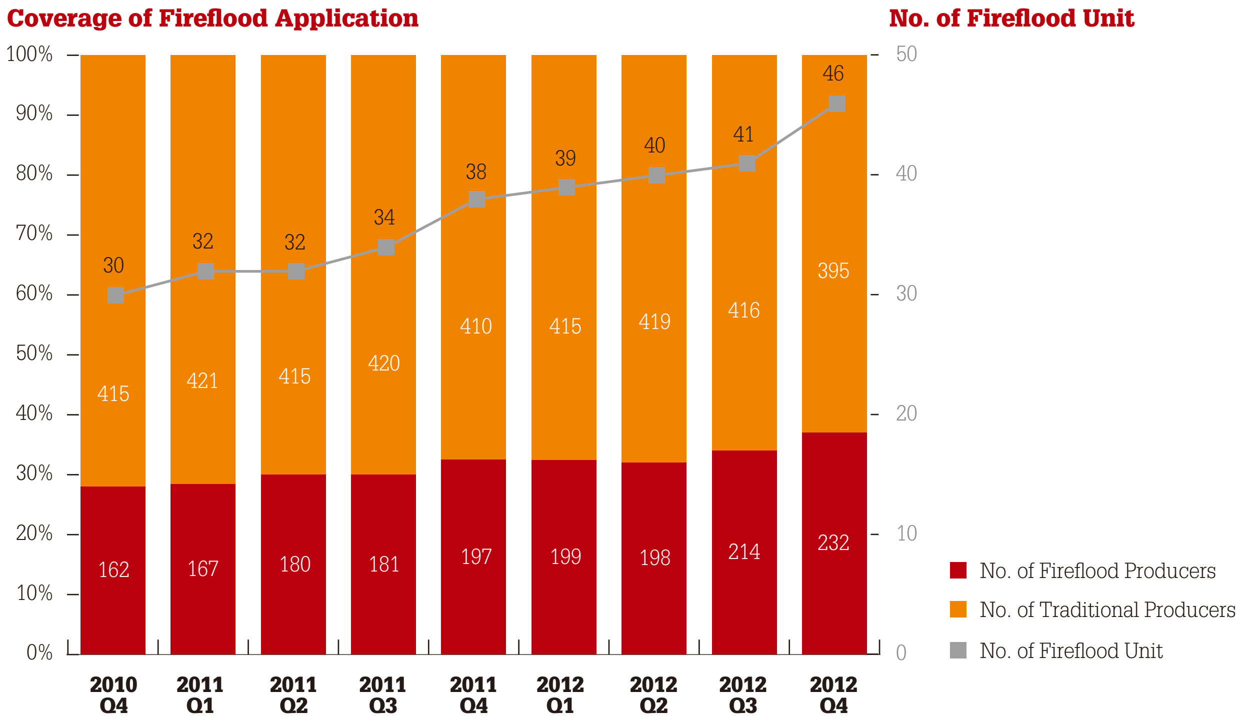
The Group's Enhance Oil Recovery Project located in Liaohe ("Liaohe Project") is the largest commercial application of fireflood technology in enhance oil recovery projects in China. The project was approved by National Development and Reform Commission to enter into development stage in July 2010 and the project entered into production stage in February 2011.

Since Liaohe Project entered into development and production stage and recorded double-digit growth for two consecutive years. The average daily net production has reached 1,334 barrels marking 75.3% increase compared with the corresponding period in 2011. During the year under review, the Company has installed 8 sets of fireflood units and drilled 20 development wells. On a single day production basis, the Liaohe project was producing 1,427 barrels on 31 December 2012, which is 193% higher than the production level on 31 December 2011.

The Group's fireflood application in the Gaosheng block of Liaohe oilfield has made significant progress. The coverage of fireflood application has increased from 25% to the current level of 37% at the end of 2012. During the year under review, Liaohe Project has substantially completed the drilling of infill wells for conversion of production wells into fireflood producers. This has laid the ground work for significant increase in the coverage rate of fireflood producers. Benefited from the oil prices and the progress to convert production wells into fireflood application, it is expected that Liaohe Project will contribute significantly in term of cash-flow for the Group.

Continue strategy to increase fireflood coverage

Fireflood Coverage in Liaohe Oilfield



Oilfield Support Services:

As a leading fireflood technology company in China, the Group plans to maintain its leadership by conducting research in fireflood technology. Through providing patented technology support services to oilfields, the Group will contribute to enhancing the residual values of abolished or retiring oilfields through increasing their ultimate recovery ratios and thereby creating greater economic values.

The Group's provision of patented technology oilfield support services has made excellent progress. In 2012, it has expanded the fireflood service coverage at Block Du 66 and Du 48 located in Jilin, increasing the number of fireflood units from 17 units in 2011 to 27 units in 2012. Turnover increased 63.4% from HK$57,240,000 in 2011 to HK$93,504,000 in 2012. The Group has also jointly set up a laboratory focused on the application of fireflood technology with Xian Petroleum University, a leading academic institute devoted to conduct further research in the use of Fireflood Technology. The Group places significant emphasis on investment in research and development, as this will form a solid basis for future development in the technology. The Group's successful application of fireflood technology can help promoting the technology to elsewhere in the region implying a great business potential. Since the Chinese oilfields are aging gradually, the Group has the patented fireflood technology to explore the opportunity of "secondary development" which will enhance the production volume and life of the maturing oilfields. The Group is currently in negotiations with a number of corporations and actively exploring business opportunities that will significantly increase revenue generated from oilfield support services.

Business and market outlook

Oil prices maintains strong as it is being affected by geopolitical instabilities. Strong oil prices were positive for the Group's revenue. On the other hand, the volatile global economy drives the value of certain oil companies and oil and gas projects attractive hence creates greater opportunities for merger and acquisitions.

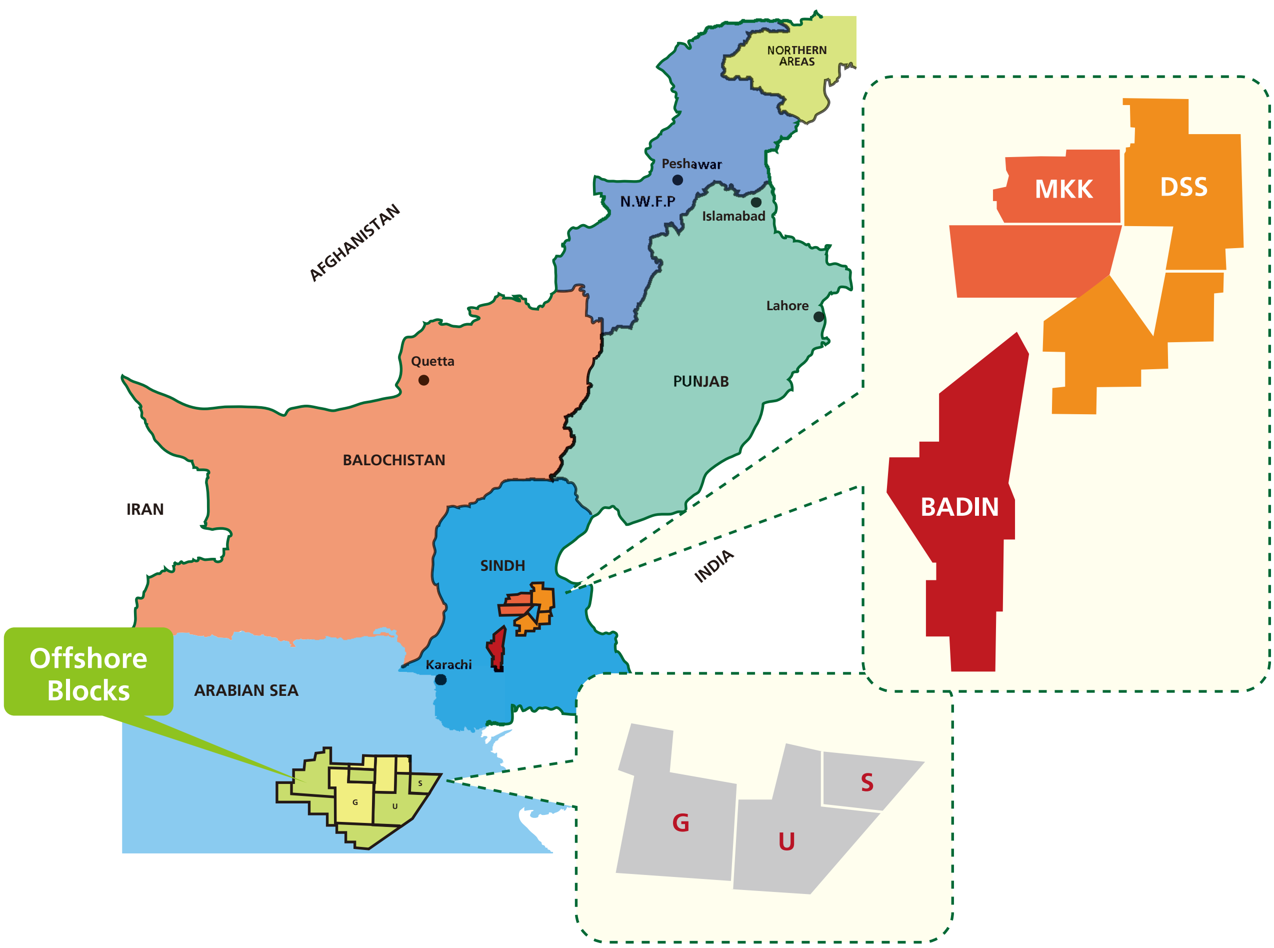
To deliver our strategy at "win-win cooperation to achieve quantum leap growth", our Group actively explores opportunities for acquiring quality projects together with aggressive exploration and development of existing assets to enhance the scale of the Group's upstream operation. The Group signed a project cooperation agreement with China Development Bank at US$5 billion for five years on 26 October 2012, signifying the Company's continued ability to enjoy the preferential financial support in acquisitions. This enhances the Group's financial power in bidding for quality assets. The Group can make use of this strong support to search for quality assets or co-operation opportunities thereby expanding the scale of assets and operations. This creates the best environment to achieve shareholding value maximization.

Pakistan Oil and Gas Project:
Notably, the country has faced a severe energy shortage starting from 2010. Pakistan, one of the most populated developing countries in the world, has strong demand for energy. The Government of Pakistan has released a series of policies encouraging investment in energy. The Group, as one of the largest foreign energy companies at Pakistan, has a solid and reputed brand in the country. The Company continues to search for quality projects and opportunities to fully make use of the Company's advantage in the sector. In view of the macro-economic development in the country, it is believed that fundamental factor is significant development opportunities for oil and gas companies in Pakistan.

On 5 March 2013, the Group has signed an agreement with a third party to acquire an additional 3.95% working interest in MKK Concession in Pakistan. The acquisition is expected to be completed within 2013. When completion, the Group will finally hold 75% working in MKK Concession where the remaining 25% working interest in MKK Concession is owned by the Government of Pakistan, with the exploration costs carried by the Group.

On 19 March 2013, the Government of Pakistan granted approval to United Energy Pakistan Limited ("UEPL"), an indirectly wholly-owned subsidiary of the Company, for surrender of Offshore Indus-V & W blocks with effect from 13 February 2013 and transfer of outstanding 790 work units to Offshore Indus-U block. These work units will not offset against the additional work units earned prior to the surrender of Offshore Indus-V & W blocks. UEPL will discharge its outstanding working obligations in Offshore Indus-V & W. Based on the studies, Offshore Indus-U has significant exploration potential. The surrender will allow the Group effectively allocates its resources to explore the Pakistan Offshore opportunities.

Potential to expand and achieve substantial growth through organic initiatives focusing on developing MKK, DSS and offshore assets



The Group plans to further increase the daily net production in Pakistan to above 60,000 boe in 5 years time and the average compound annual growth rate is approximately 20%. The Group will also target to maintain the cost of production at or below US$5 per barrel.

To ramp up the daily production and to improve the total reserves, the Group plans to invest approximately US$250–300 million CAPEX on exploration and development activities average per year through 2017.

On the other hand, the Group plans to further invest in 3D seismic data acquisition and analysis which covers 3,830 km² onshore area and 800 km² offshore area in 2013. We also plan at conducting a complete workover program in 2013 to enhance the production efficiency.

Liaohe EOR Project, China:

Since the Liaohe EOR Project entered into development and production stage, the project has recorded double-digit growth for two consecutive years. In five years' time, the Group plans to increase the net average daily production volume to above 3,000 barrels to increase coverage of fireflood application to over 80% and to maintain the lifting cost at or below US$35 per barrel.

Conclusion

As one of the largest listed upstream oil companies in Hong Kong, United Energy will keep looking for opportunities to expand its business in China and other regions to maximize the returns for shareholders. Stepping in 2013, the Group is implementing the development strategy of "Win-win cooperation to achieve quantum leap growth". The Group will work closely with Chinese oil companies and other oil companies in search for the values creation. The Group targets at achieving enhancing oil and gas production in Pakistan, lowering the lifting cost and improvement in profit margins and it will also enhance the exploration scale, increasing the reserves ratio to build a solid base as a large-scale oil and gas operator. At the same time, the Group will continue to increase investment in Liaohe EOR fireflood technology, exploration and production to achieve higher profitability under a new corporate development model.

Material Acquisition and Disposal

During the year under review, the Group continued its strategy of international expansion. With the completion of the acquisition of the Pakistan upstream oil and gas assets from BP plc on 16 September 2011, the Group acquired a 68.42% working interest in the licence in the areas under the MKK Concessions (which includes a 17.11% working interest owned by Government Holdings Private Limited, a company owned by the Government of Pakistan, with the exploration costs carried by the Group) and a 51.31% working interest in the lease in the areas under the MKK Concessions. On 1 October 2012, the Group entered into a share purchase agreement for the acquisition of a company, Oasis Natural Energy, Inc., which indirectly owns a 26.32% working interest in the licence in the areas under the MKK Concessions (which includes a 6.58% working interest owned by Government Holdings Private Limited with the exploration costs carried by the seller) and a 19.74% working interest in the lease in the areas under MKK Concession in Pakistan with the consideration of US$33,330,000 (equivalent to approximately HK$259,974,000) subject to adjustments upon closing of this acquisition. On 31 December 2012, the closing took place with the total consideration paid of US$36,830,000 (equivalent to approximately HK$287,274,000). After completion of two acquisitions of working interest in MKK Concessions, the Group totally owns a 94.74% working interest in the licence in the areas under the MKK Concessions (which includes a 23.69% working interest owned by Government Holdings Private Limited with the exploration costs carried by the Group) and a 71.05% working interest in the lease in the areas under the MKK Concessions. It would facilitate the implementation of the Group's business plan in respect of the MKK Concessions which will be beneficial to the business of the Group.

Further, on 12 December 2012, 25% of the petroleum sharing contract of Offshore Block G located in Pakistan was transferred to the Group by BP plc without cost.

During the year under review, the dissolution of Shenyang Shengtaiyuan Logistics Company Limited, an 80% owned subsidiary of the Group, has been completed.

Segment Information

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

Liquidity and Financial Resources

The Group maintained its strong financial position for the year under review with cash and cash equivalents amounting to approximately HK$1,111,466,000 as at 31 December 2012 (as at 31 December 2011: approximately HK$482,323,000).

On 26 January 2010, the Group had 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. As United Petroleum has completed part of its obligation in December 2010, April 2011 and November 2011 and March 2012, CNPC confirmed and agreed to release part of the performance in the amount of HK$357,630,000 (equivalent to approximately US$45,850,000). As at 31 December 2012, the Group's cash at banks with carrying value of approximately HK$110,370,000 (equivalent to approximately US$14,150,000) were pledged for the banking facilities.

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 United Energy Pakistan Limited ("UEPL"), an indirect wholly-owned subsidiary of the Company, with all necessary financial and other means to enable UEPL to fully perform its obligations as stipulated in the concession agreements.

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. As at 31 December 2012, the Group's cash at bank with carrying value of approximately HK$105,406,000 (equivalent to US$13,514,000) were pledged to a bank for the issuance of these bank guarantees. The expiry date of these bank guarantees is 1 December 2013.

On 27 June 2012, United Petroleum & Natural Gas (Panjin) Limited, an indirectly wholly-owned subsidiary of the Company ("United Petroleum (Panjin)"), entered into a facility agreement with Citic Bank (Shenyang Branch) for a credit line of RMB100,000,000 for the bank loan with expiry on 13 December 2013. The Orient Group Industrial Holdings Company Limited, a related party of the Group due to Mr. Zhang Hong Wei as ultimate controlling party, ("Orient Group Industrial"), has provided a guarantee in favour of United Petroleum (Panjin) to Citic Bank (Shenyang Branch) against the credit line to the extent in the amount of RMB110,000,000. On the same day, United Petroleum (Panjin) entered into a loan agreement with Citic Bank (Shenyang Branch) in order to draw down RMB50,000,000 (equivalent to HK$61,360,000) from the credit line at floating interest rate (basic lending rate of People's Bank of China under same period and same grade + 20 bps) with expiry on 27 June 2013 for purchase of raw materials. On 29 November 2012, United Petroleum (Panjin) entered another facility agreement with Citic Bank (Shenyang Branch) to extend the credit line to RMB160,000,000 for both bank loan and bills payable with expiry on 27 May 2014. As at 31 December 2012, the outstanding balance of the bank loan and the bills payables are RMB50,000,000 (equivalent to HK$61,360,000) and RMB94,501,000 (equivalent to approximately HK$115,972,000).

On 26 October 2012, the Company entered into a project cooperation agreement with China Development Bank Corporation Hong Kong Branch ("CDBHK") for a period of five years from the date of such project cooperation agreement with target size of US$5 billion in respect of the acquisition of the oil and gas projects of the Group (the "Agreement"). The Agreement refreshes the cooperation agreement signed with CDBHK on 18 December 2010. During the period of the Agreement, the Group agrees to take CDBHK as its preferred financing partner and CDBHK agrees to provide the Group's projects with financing support services including consultancy and planning. CDBHK also agrees to give preferential consideration to financing applications in respect of the Group's projects. Any financing to be provided under the Agreement may be by way of bilateral or syndicated loans arranged by CDBHK. China Development Bank Capital Co., Ltd., a wholly-owned subsidiary of China Development Bank, will closely cooperate with the Group in relation to equity investment opportunities. The actual financing terms and conditions and the loan amount for specific projects will be subject to the contract signed by both parties and corresponding approvals and loan documentations.

As at 31 December 2012, the outstanding balance of the bank loan from CDBHK for acquisition of the Pakistan upstream oilfield assets from British Petroleum in September 2011 was US$630,000,000, approximately equivalent to HK$4.914 billion (as at 31 December 2011: US$640,000,000, approximately equivalent to HK$4.992 billion).

As at 31 December 2012, the gearing ratio was approximately 33.8% (as at 31 December 2011: 37.5%), based on bank loan under current liabilities and non-current liabilities of approximately HK$163,904,000 (as at 31 December 2011: HK$102,680,000) and HK$4,836,000,000 (as at 31 December 2011: HK$4,914,000,000) respectively and total assets of approximately HK$14,811,860,000 (as at 31 December 2011: HK$13,372,330,000). As at 31 December 2012, the current ratio was approximately 2.02 times (as at 31 December 2011: approximately 2.49 times), based on current assets of approximately HK$3,379,283,000 (as at 31 December 2011: approximately HK$2,651,680,000) and current liabilities of approximately HK$1,672,550,000 (as at 31 December 2011: approximately HK$1,064,635,000).

Capital Structure

During the year under review, the changes of the share capital structure of the Company are as follows:

On 10 January 2012 and 22 October 2012, the Company resolved to award 6,783,880 new shares and 4,620,138 new shares respectively as the scheme shares to 519 Pakistan employees under the Share Match Scheme approved and adopted by the Company for Pakistan employees after the completion of the acquisition of the upstream oil and gas business in Pakistan on 16 September 2011. The objectives of the Share Match Scheme were to provide Pakistan employees with incentives in order to retain them for the continual operation and development of the newly acquired Pakistan business and to attract suitable personnel for the growth and further development of the Group. The allotments of the 6,783,880 scheme shares and 4,620,138 scheme shares were completed on 19 January 2012 and 30 October 2012 respectively.

During the year under review, 2,000,000 units of share options granted and vested under the Company's Share Option Schemes adopted on 11 May 2006 were exercised by management personnel and allotments of the 2,000,000 shares were completed on 1 June 2012 and 5 July 2012.

On 20 July 2012, 250,000,000 units of unlisted Warrants granted and vested under the Warrant Instrument approved and issued by the Company on 26 July 2010 were exercised by the Warrantholder and allotment of the 250,000,000 scheme shares were completed on 31 July 2012.

After completion of all the above allotments during the year under review, the total number of issued shares of the Company was increased from 12,777,091,632 shares as at 1 January 2012 to 13,040,495,650 shares as at 31 December 2012.

Employees

As at 31 December 2012, the Group employed a total of 950 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 year under review, Mr. Andrew Leo Kirby and Mr. Ho King Fung, Eric has resigned as executive director and non-executive director of the Company respectively due to their personal reasons.

Contingent Liabilities

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 United Energy Pakistan Limited ("UEPL"), an indirect wholly-owned subsidiary of the Company, with all necessary financial and other means to enable UEPL to fully perform its obligations as stipulated in the concession agreements.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's monetary assets and transactions are mainly denominated in Hong Kong dollars, United States dollars Renminbi and Pakistani Rupees. 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 2012, the Group's largest and five largest customers represented 94.0% of total turnover (2011: 89.1%) and the Group's largest and five largest suppliers represented 43.8% of total cost of sales and services rendered (2011: 11.1%).

Supplementary Information on Oil and Gas Exploration and Production Activities

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of Hong Kong Listing Rules.

A. Information on Crude Oil and Natural Gas Reserves

For the year ended 31 December 2012, the Group engaged an independent third party consulting firm to perform review on the reserves estimates. The consulting firm has reviewed 25 oil fields in Pakistan and an oil field in China. The reported reserves were based on the definition contained in Petroleum Resources Management System and were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry.

The following table set out the estimates of Group's net interest reserves.

	Pakistan			China
Total proved reserves	**Oil, Condensate and LPG** (MMbbl)	**Sales Gas** (Bcf)	**Total** (MMboe)	**Oil** (MMbbl)
As of 31 December 2011	10.00	104.51	28.02	25.32
Acquisition	1.06	5.62	2.03	–
Production	(2.73)	(36.56)	(9.03)	(0.49)
Discoveries & revisions	6.65	35.82	12.82	1.65
As of 31 December 2012	14.98	109.39	33.84	26.48

Note: Boe was calculated using a conversion ratio of 5,800 Scf/boe.

B. Major Exploration, Development and Production Activities

The following table summarized the major exploration, development and production activities during the reporting period:

	Pakistan	China
Exploration activities:	▪ 2,277km^2 3D seismic data acquired. ▪ 11 Exploration wells	▪ Nil
Development activities:	▪ 20 Development wells ▪ 31 Rig workovers	▪ 20 Development wells ▪ 15 Rig workovers
Production activities:	▪ Average daily net production of 24.7 mboe	▪ Average daily net production of 1.3 mbbl ▪ 8 fireflood units installed

C. Group's Share of Costs Incurred on Exploration, Development and Production Activities

The following table summarized the Group's share of costs incurred on exploration, development and production activities for the year ended 2012:

	Pakistan (HK$'000)	China (HK$'000)	Total (HK$'000)
Acquisition costs	287,274	–	287,274
Exploration costs	485,976	–	485,976
Development costs	591,534	155,346	746,880
Production costs(Note)	402,910	130,386	533,296

Note: Production costs recognized in cost of sales excluding depreciation & amortization and government tax & selling expenses.

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

For the year ended 31 December 2012, the Board is of the view that, for the period from 1 January 2012 to 31 March 2012, the Company has complied with the former code provisions on the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules and for the period from 1 April 2012 till 31 December 2012, the Company has complied with the code provisions included in the amendments made to the former code which took effect since 1 April 2012 (the "Code"), save for the deviations which are explained below.

1. The Code A.2.1 – the Company has the post of chief executive officer but it was still vacant;

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

3. The Code A.6.7 – all the independent non-executive Directors were unable to attend the Company's Annual General Meeting which was held on 29 May 2012 due to other prior business engagements in China.

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 2012.

Board of Directors

Composition

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

Board Members	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Zhang Hong Wei	C			
Mr. Zhu Jun	M			
Ms. Zhang Meiying	M		M	M
Independent Non-executive Directors				
Mr. Chau Siu Wai	M	M	M	M
Mr. San Fung	M	C	C	C
Mr. Zhu Chengwu	M	M		

Notes:

C – Chairman of the Board or relevant Board committees

M – Member of the Board or relevant Board committees

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 page 37 of this annual report.

During the year ended 31 December 2012, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one independent non-executive director possessing appropriate professional qualifications and accounting and related financial management expertise.

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 13 meetings being held during the financial year for the year ended 31 December 2012 and the attendance of individual Directors is as follows:

	Board Meetings
Zhang Hong Wei	12/13
Zhu Jun	13/13
Zhang Meiying	13/13
Andrew Leo Kirby (resigned on 28 September 2012)	9/13
Ho King Fung, Eric (resigned on 25 April 2012)	3/13
Chau Siu Wai	12/13
San Fung	12/13
Zhu Chengwu	13/13

The attendance record of individual Directors of the Annual General Meeting held on 29 May 2012 ("AGM") is set out below:

	AGM
Zhang Hong Wei	1/1
Zhu Jun	1/1
Zhang Meiying	1/1
Andrew Leo Kirby (resigned on 28 September 2012)	1/1
Ho King Fung, Eric (resigned on 25 April 2012)	0/1
Chau Siu Wai	0/1
San Fung	0/1
Zhu Chengwu	0/1

Training and Support for Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Each newly appointed director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction is normally supplemented with visits to the Group's key business sites and/or meetings with the senior management of the Company.

Under code provision A.6.5, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, the Company provided reading materials on corporate governance, Directors' duties and responsibilities and regulatory update on the Listing Rules amendments to all the Directors for their reference and studying. Besides, all Directors attended other seminars and training sessions arranged by other professional firms/ institutions. All Directors had provided the Company their training records for the year under review. The Directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in discharge of their duties while holding office as the Directors and officers of the Company. The Directors and officers shall not be indemnified where there is any fraud, breach of duty or breach of trust proven against them.

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 2012, 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 oversee 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.

During the financial year for the year ended 31 December 2012, there are 3 audit committee meetings being held and the external auditor of the Company has attended 2 audit committee meetings. The individual attendance of each member is as follows:

	Audit Committee Meetings
Chau Siu Wai	3/3
San Fung	3/3
Zhu Chengwu	3/3

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 2012: (1) reviewed the annual audit plan of external auditors, their audit reports and matters incidental thereto; (2) the appointment of external auditors including the terms of engagement; (3) discussed the internal control issues; (4) examined the application of funds; (5) reviewed the interested party transactions; and (6) reviewed the periodic financial statements of the Company and made commendation to the Board for approval and evaluated the performance and independent of the external auditors.

Remuneration Committee

With effect from 17 July 2006, a remuneration committee has been set up with written terms of reference to review the remuneration package, performance-based remuneration and termination compensation of directors and senior management of the Group. The Remuneration Committee comprises Mr. Zhu Chengwu, Mr. Chau Siu Wai and Ms. Zhang Meiying. It is chaired by Mr. 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 1 meeting in 2012 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.

Nomination Committee

With effective from 30 March 2012, a nomination committee, comprising Mr. San Fung, independent non-executive Director of the Company, as its Chairman with Mr. Chau Siu Wai, independent non-executive Director of the Company, and Zhang Meiying, executive Director of the Company, as its members, has been set up with written terms of reference in accordance with the requirements of the Listing Rules. 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.

The Nomination Committee held 1 meeting in 2012 at which all committee members were present. At the meeting, the Nomination Committee: (1) reviewed the structure, size and composition of the Board; (2) discussed the causal vacancies for the resigned directors during the year; and (3) assessed the independent of independent non-executive Directors.

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 pages 39 to 40.

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

Services rendered:	HK$
– audit services	2,020,950
– accounting and taxation services	117,087
– non-audit services	365,036

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.

Company Secretary

Mr. Hung Lap Kay is the company secretary of the Company since March 2010. During the year ended 31 December 2012, Mr. Hung has taken no less than 15 hours of relevant professional trainings to update his skill and knowledge.

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.

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Articles of Association, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	Suite 2505, 25/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong (For the attention of the General Manager of the Investor Relations Department)
Fax:	852–2522 6938
Email:	ir@uegl.com.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Articles of Association for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.uegl.com.hk) immediately after the relevant general meetings.

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

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 2012 and the state of affairs of the Group at that date are set out in the financial statements on pages 41 to 103 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 29 to the financial statements.

Segment Information

The segment information of the Group for the year ended 31 December 2012 is set out in note 8 to the financial statements.

Financial Summary

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 104. 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 period are set out in note 15 to the financial statements.

Directors and Directors' Service Contracts

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

Executive director:

Zhang Hong Wei – *Chairman*
Zhu Jun
Zhang Meiying
Andrew Leo Kirby (resigned on 28 September 2012)

Non-executive directors:

Ho King Fung, Eric (resigned on 25 April 2012)

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. Zhu Jun and Mr. San Fung shall retire by rotation and being eligible, will offer themselves for re-election at the Annual General Meeting to be held in 2013.

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, 34,500,000 units of share options granted to eligible participants were lapsed, additional 18,000,000 units of share options were granted to new eligible participants and 2,000,000 units of share options were exercised.

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 1.1.2012	Granted	Exercised	Lapsed	Cancelled	As at 31.12.2012
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 16.05.2016	3,000,000	–	(1,000,000)	(2,000,000)	–	–
17.05.2011	1.15	17.05.2011 to 16.05.2013	17.05.2013 to 16.05.2016	2,000,000	–	–	(2,000,000)	–	–
17.05.2011	1.15	17.05.2011 to 16.05.2014	17.05.2014 to 16.05.2016	2,000,000	–	–	(2,000,000)	–	–
17.05.2011	1.15	17.05.2011 to 16.05.2015	17.05.2015 to 16.05.2016	3,000,000	–	–	(3,000,000)	–	–

Report of the Directors (Continued)

Grant Date	Exercise Price HK$	Vesting Period	Exercisable Period	Number of Share Options: As at 1.1.2012	Granted	Exercised	Lapsed	Cancelled	As at 31.12.2012
Employees									
04.12.2007	1.56	04.12.2007 to 03.12.2008	04.12.2008 to 03.12.2012	4,650,000	–	–	(4,650,000)	–	–
04.12.2007	1.56	04.12.2007 to 03.12.2009	04.12.2009 to 03.12.2012	3,100,000	–	–	(3,100,000)	–	–
04.12.2007	1.56	04.12.2007 to 03.12.2010	04.12.2010 to 03.12.2012	3,100,000	–	–	(3,100,000)	–	–
04.12.2007	1.56	04.12.2007 to 03.12.2011	04.12.2011 to 03.12.2012	4,650,000	–	–	(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	–	(1,000,000)	–	–	2,000,000
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
29.8.2012	1.20	29.8.2012 to 28.8.2013	29.8.2013 to 28.8.2022	–	5,400,000	–	–	–	5,400,000
29.8.2012	1.20	29.8.2013 to 28.8.2014	29.8.2014 to 28.8.2022	–	3,600,000	–	–	–	3,600,000
29.8.2012	1.20	29.8.2014 to 28.8.2015	29.8.2015 to 28.8.2022	–	3,600,000	–	–	–	3,600,000
29.8.2012	1.20	29.8.2015 to 28.8.2016	29.8.2016 to 28.8.2022	–	5,400,000	–	–	–	5,400,000
Total				47,500,000	18,000,000	(2,000,000)	(34,500,000)	–	29,000,000

Disclosure of Interests

Directors' Interests in Shares and Underlying Shares of the Company

As at 31 December 2012, the Directors and their associates had the following interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Name of Director	Name of Company	Nature of interest	Number of Shares Long Position	Number of Shares Short Position	Approximate % shareholding
Zhang Hong Wei	The Company	Attributable interest of controlled corporation	9,261,950,115	–	71.02 (Note)
Zhu Jun	The Company	Beneficial owner	1,443,000	–	0.01

Note: 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.

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 2012.

Substantial Shareholders

As at 31 December 2012, 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	43.62
United Petroleum & Natural Gas Holdings Limited (Note)	The Company	Beneficial owner	2,223,726,708	17.05
United Energy Holdings Limited (Note)	The Company	Beneficial owner	1,349,344,282	10.35

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

All the interests stated above represent long positions. As at 31 December 2012, 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 2012.

Share Capital

Particulars of the Company's share capital are set out in note 27 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 2012.

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 2012 with the Code on Corporate Governance Practices, except for code provisions A.2.1, A.4.1 and A.6.7 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 23 to 30 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 2012.

Purchase, Sale or Redemption of Shares

As at 31 December 2012, 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, 27 March 2013

Biography of Directors and Senior Management

Executive Directors

Mr. Zhang Hong Wei, aged 58, joined the Company on 27 February 1998. Mr. Zhang is the Chairman of the Group. Mr. Zhang is also the chairman of Orient Group Inc. and Jinzhou Port Co. Ltd.. 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 71.02% 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 47, 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 19 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 34, 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 over 9 years of experience in banking and financial management. Ms. Zhang holds a BBA degree in Finance and International Business from the George Washington University, USA. Ms. Zhang has not held any directorship with other listed companies in the last 3 years. Ms. Zhang is the daughter of Mr. Zhang Hong Wei, the Chairman, executive Director and controlling shareholder of the Company.

Independent Non-executive Directors

Mr. San Fung, aged 48, 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 15 years of experience in accounting. Mr. San is currently the chairman of New Century Investment and Development Company.

Mr. Chau Siu Wai, aged 43, 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 43, joined the Company on 5 December 2005 is an independent non-executive Director. He is currently the chief financial officer of the Shanghai head office of Everbright Securities Company Limited. After graduation from the Lanzhou Commercial College with a bachelor degree in finance, Mr. Zhu Chengwu had held senior financial positions in several PRC companies including Shenzhen Techo Telecom Co., Ltd. ("Shenzhen Techo"), a PRC company whose shares are listed on the Shenzhen Stock Exchange. Mr. Zhu Chengwu was the director and had assumed the role of the chief financial officer of Shenzhen Techo. Through his past experience, in particular, as the director of Shenzhen Techo, Mr. Zhu Chengwu has gained much experience in (a) preparing and conducting review and internal audit of financial statements and reports; and (b) internal control and procedures for financial reporting in respect of public companies and possesses such knowledge, experience and expertise of an independent non-executive director as required under Rule 3.10(2) of the Listing Rules. Mr. Zhu Chengwu acquired the intermediate-level accountant certificate jointly issued by the Ministry of Finance and the Ministry of Personnel of the People's Republic of China on 30 May 2000. Mr. Zhu Chengwu is considered to be an independent non-executive director under Rule 3.13 of the Listing Rules.

Senior Management

Mr. Pang Pui Yin, Thomas, aged 51, 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), founder and Managing Director of WAG Worldsec Corporation Finance Limited, 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 37, 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.

Independent Auditor's Report

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 41 to 103, which comprise the consolidated statement of financial position as at 31 December 2012, 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 2012, 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

27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	6	**3,213,793**	876,825
Cost of sales and services rendered		**(1,922,960)**	(741,407)
Gross profit		**1,290,833**	135,418
Other income	7	**309,185**	919,410
Oil exploitation expenses		**–**	(5,784)
Exploration expenses		**(217,111)**	(8,045)
Administrative expenses		**(355,723)**	(273,116)
Other operating expenses		**(89,045)**	(423,793)
Profit from operations		**938,139**	344,090
Finance costs	9	**(254,492)**	(71,563)
Profit before tax		**683,647**	272,527
Income tax credit	11	**109,864**	242,115
Profit for the year	10	**793,511**	514,642
Attributable to:			
Owners of the Company		**786,412**	531,885
Non-controlling interests		**7,099**	(17,243)
		793,511	514,642
Earnings per share			
Basic	13	**6.10 cents**	4.16 cents
Diluted	13	**6.05 cents**	4.08 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**793,511**	514,642
Other comprehensive income, net of tax		
Exchange differences on translating foreign operations	**(8,301)**	35,642
Total comprehensive income for the year	**785,210**	550,284
Attributable to:		
Owners of the Company	**778,580**	550,800
Non-controlling interests	**6,630**	(516)
	785,210	550,284

Consolidated Statement of Financial Position

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	15	**2,632,932**	1,877,254
Intangible assets	16	**8,596,597**	8,762,996
Advances, deposits and prepayments	17	**25,657**	17,017
Deferred tax assets	26	**177,391**	63,383
		11,432,577	10,720,650
Current assets			
Inventories	18	**681,839**	495,185
Trade and other receivables	19	**1,297,283**	1,439,607
Held-to-maturity investments		**–**	30,850
Financial assets at fair value through profit or loss	20	**3,455**	2,508
Current tax assets		**10,042**	–
Pledged bank deposits	21	**275,198**	201,207
Bank and cash balances	21	**1,111,466**	482,323
		3,379,283	2,651,680
Current liabilities			
Trade and other payables	22	**1,478,833**	942,822
Due to directors	23	**8,337**	8,066
Bank loans	24	**163,904**	102,680
Current tax liabilities		**21,476**	11,067
		1,672,550	1,064,635
Net current assets		**1,706,733**	1,587,045
Total assets less current liabilities		**13,139,310**	12,307,695
Non-current liabilities			
Bank loans	24	**4,836,000**	4,914,000
Provisions	25	**266,921**	251,449
Deferred tax liabilities	26	**1,259,576**	1,058,759
		6,362,497	6,224,208
NET ASSETS		**6,776,813**	6,083,487

Consolidated Statement of Financial Position (Continued)

At 31 December 2012

	Note	**2012 HK$'000**	2011 HK$'000
Capital and reserves			
Share capital	27	**130,405**	127,771
Reserves	29	**6,554,730**	5,558,576
Equity attributable to owners of the Company		**6,685,135**	5,686,347
Non-controlling interests		**91,678**	397,140
TOTAL EQUITY		**6,776,813**	6,083,487

Approved by the Board of Directors on 27 March 2013

Zhang Hong Wei
Director

Zhu Jun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company										
	Share capital (note 27) HK$'000	Share premium account (note 29(c)) HK$'000	Merger reserve (note 29(c)) HK$'000	Capital reserve (note 29(c)) HK$'000	Foreign currency translation reserve (note 29(c)) HK$'000	Statutory reserve (note 29(c)) HK$'000	Share-based capital reserve (note 29(c)) HK$'000	Accu-mulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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
At 1 January 2012	**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**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(7,832)**	**–**	**–**	**786,412**	**778,580**	**6,630**	**785,210**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**7,329**	**–**	**7,329**	**–**	**7,329**
Forfeiture of equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(4,554)**	**4,554**	**–**	**–**	**–**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**–**	**(21,036)**	**21,036**	**–**	**–**	**–**
Issue of shares upon exercise of share options (note 27(a))	**20**	**3,497**	**–**	**–**	**–**	**–**	**(1,467)**	**–**	**2,050**	**–**	**2,050**
Issue of shares upon exercise of unlisted warrants (note 27(b))	**2,500**	**237,943**	**–**	**–**	**–**	**–**	**(40,443)**	**–**	**200,000**	**–**	**200,000**
Issue of shares under share match scheme (note 27(c))	**114**	**10,715**	**–**	**–**	**–**	**–**	**–**	**–**	**10,829**	**–**	**10,829**
Expiry of unlisted warrants	**–**	**–**	**–**	**–**	**–**	**–**	**(40,443)**	**40,443**	**–**	**–**	**–**
Dissolution of a subsidiary (note 19(b))	**–**	**–**	**–**	**–**	**–**	**(371)**	**–**	**371**	**–**	**(312,092)**	**(312,092)**
Changes in equity for the year	**2,634**	**252,155**	**–**	**–**	**(7,832)**	**(371)**	**(100,614)**	**852,816**	**998,788**	**(305,462)**	**693,326**
At 31 December 2012	**130,405**	**13,279,481**	**(2,286,000)**	**155,580**	**69,320**	**–**	**9,910**	**(4,673,561)**	**6,685,135**	**91,678**	**6,776,813**

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**683,647**	272,527
Adjustments for:			
Finance costs		**254,492**	71,563
Fair value (gain)/loss on financial assets at fair value through profit or loss		**(947)**	879
Depreciation and amortisation		**1,361,333**	549,847
Interest income		**(8,972)**	(7,039)
(Reversal of)/impairment losses on intangible assets		**(172,395)**	393,650
Recovery of other receivables written off		**(648)**	(311)
Other payables written back		**(22,139)**	(2,100)
Equity-settled share-based payments		**7,329**	10,127
Loss on disposals of property, plant and equipment		**468**	31
Loss on dissolution of a subsidiary		**3,713**	–
Allowance for other receivables		**39**	2,255
Allowance for advances, deposits and prepayments		**–**	1,301
Allowance for inventories		**–**	19,500
Gain on bargain purchase		**(77,537)**	(896,606)
Operating profit before working capital changes		**2,028,383**	415,624
(Increase)/decrease in inventories		**(157,610)**	18,108
Increase in trade and other receivables		**(153,762)**	(994,951)
Increase in advances, deposits and prepayments		**(8,717)**	(18,318)
Increase in trade and other payables		**395,288**	634,076
Increase in amounts due to directors		**271**	1,565
Decrease in provisions		**(11,413)**	(1,010)
Cash generated from operations		**2,092,440**	55,094
Interest paid		**(179,553)**	(1,404)
Income taxes paid		**(40,081)**	(1,034)
Net cash generated from operating activities		**1,872,806**	52,656

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a business	32(a)	**(280,545)**	(5,063,123)
(Increase)/decrease in pledged bank deposits		**(73,991)**	183,890
Acquisition of held-to-maturity investments		**–**	(30,850)
Proceeds from held-to-maturity investments		**30,850**	–
Purchases of property, plant and equipment		**(1,120,125)**	(526,268)
Interest received		**8,972**	7,039
Net cash used in investing activities		**(1,434,839)**	(5,429,312)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		**2,050**	–
Proceeds from issue of shares upon exercise of unlisted warrants		**200,000**	–
Proceeds from issue of shares under share match scheme		**10,829**	–
Bank loans raised		**85,904**	5,016,680
Repayment of bank loans		**(102,680)**	(23,676)
Net cash generated from financing activities		**196,103**	4,993,004
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**634,070**	(383,652)
Effect of foreign exchange rate changes		**(4,927)**	20,803
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**482,323**	845,172
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,111,466**	482,323
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**1,111,466**	482,323

Notes to the Financial Statements

For the year ended 31 December 2012

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 that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. 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.

3. Significant Accounting Policies (Continued)

(b) Business combination and goodwill (Continued)

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

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

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (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.

3. Significant Accounting Policies (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances in each entity's financial statements (Continued)

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.

(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 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.

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

Buildings	5%
Leasehold improvements	5%–50%
Motor vehicles	25%–30%
Furniture, fixtures and equipment	20%-33.33%
Plant and machinery	20%

3. Significant Accounting Policies (Continued)

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

The 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, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

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

(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.

(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.

3. Significant Accounting Policies (Continued)

(g) Decommissioning cost (Continued)

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

(i) Research and development expenditure

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

(j) 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.

3. Significant Accounting Policies (Continued)

(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.

(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.

3. Significant Accounting Policies (Continued)

(m) Investments (Continued)

(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.

(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.

3. Significant Accounting Policies (Continued)

(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 support 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.

(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.

3. Significant Accounting Policies (Continued)

(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.

(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.

3. Significant Accounting Policies (Continued)

(x) Taxation (Continued)

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) 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.

(bb) 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 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, 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.

(b) 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.

4. Critical Judgement and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(c) Intangible assets and amortisation

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

(d) 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.

(e) 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.

(f) Impairment loss of trade and other receivables

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

(g) 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.

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 and certain bank loans 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 2012, 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$22,749,000 higher/lower, arising mainly as a result of lower/higher interest expenses on the bank loans bearing interest at variable rates.

At 31 December 2011, 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$23,650,000 higher/lower, arising mainly as a result of lower/higher interest expenses on the bank loans 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	Total contracted undiscounted cash outflow	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2012						
Trade and other payables	**1,478,833**	**1,478,833**	**1,478,833**	**–**	**–**	**–**
Due to directors	**8,337**	**8,337**	**8,337**	**–**	**–**	**–**
Bank loans	**4,999,904**	**6,344,713**	**409,569**	**706,142**	**2,425,600**	**2,803,402**
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

5. Financial Risk Management (Continued)

(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 on trade receivables. 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.

(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 2012, 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$346,000 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 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.

(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") and Pakistani Rupees ("PKR") and the functional currencies of the principal operating Group entities are HK$, US$ 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.

5. Financial Risk Management (Continued)

(e) Foreign currency risk (Continued)

At 31 December 2012, 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$1,825,000 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 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.

(f) Categories of financial instruments at 31 December

	2012 **HK$'000**	2011 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss	**3,455**	2,508
Held-to-maturity investments	**–**	30,850
Loans and receivables (including cash and cash equivalents)	**2,644,978**	1,760,066
Financial liabilities:		
Financial liabilities at amortised cost	**6,236,292**	5,806,465

(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 liquefied petroleum gas and provision of patented technology support services to oilfields are as follows:

	2012 **HK$'000**	2011 HK$'000
Sales and production of crude oil, condensate, gas and liquefied petroleum gas	**3,120,289**	819,585
Provision of patented technology support services to oilfields	**93,504**	57,240
	3,213,793	876,825

The turnover from sales and production of crude oil, condensate, gas and liquefied petroleum gas are net of sales tax, royalty to government and sales discounts amounting to HK$188,907,000 (2011: HK$42,399,000), HK$387,733,000 (2011: HK$83,668,000) and HK$217,452,000 (2011: HK$62,505,000) respectively.

7. Other Income

	2012 HK$'000	2011 HK$'000
Fair value gain on financial assets at fair value through profit or loss	**947**	–
Gain on bargain purchase (note 32)	**77,537**	896,606
Interest income	**8,972**	7,039
Liquefied petroleum gas processing fees charged to concessions, net	**5,098**	1,721
Management fees income	**10,465**	5,550
Net foreign exchange gains	**2,071**	4,424
Other payables written back	**22,139**	2,100
Rental income	**312**	356
Reversal of allowance on inventories	**–**	819
Recovery of other receivables written off	**648**	311
Reversal of impairment losses on intangible assets	**172,395**	–
Others	**8,601**	484
	309,185	919,410

8. Segment Information

The Group's reportable segments are as follows:

1. Exploration and production – activities relating to the exploration and production of crude oil and natural gas in Pakistan.

2. Oil exploitation – activities relating to the production of crude oil in PRC utilizing production enhancement technology.

3. Oilfield support services – activities relating to the provision of oilfield support services using patented technology.

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

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

8. Segment Information (Continued)

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

– 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:

– deferred tax assets

– financial assets at fair value through profit or loss

– held-to-maturity investments

– current tax assets

– 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	Oilfield support services HK$'000	Total HK$'000
Year ended 31 December 2012				
Turnover from external customers	2,763,392	356,897	93,504	3,213,793
Segment profit	1,079,426	73,766	25,717	1,178,909
Interest revenue	–	1,792	32	1,824
Interest expenses	5,005	2,178	1,414	8,597
Depreciation and amortisation	1,250,000	63,421	46,665	1,360,086
Income tax credit	97,407	13,331	28,271	139,009
Other material non-cash items:				
Gain on bargain purchase	77,537	–	–	77,537
Reversal of impairment losses of intangible assets	172,395	–	–	172,395
Additions to segment non-current assets	1,547,121	224,492	34,058	1,805,671
As at 31 December 2012				
Segment assets	7,976,949	4,881,535	369,414	13,227,898
Segment liabilities	1,110,709	1,745,969	62,908	2,919,586

8. Segment Information (Continued)

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

	Exploration and production HK$'000	Oil exploitation HK$'000	Oilfield support 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	63,593	(56,498)	806,830
Interest revenue	–	2,059	13	2,072
Interest expenses	1,176	–	–	1,176
Depreciation and amortisation	428,956	69,793	44,698	543,447
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	267,270	22,749	541,582
As at 31 December 2011				
Segment assets	7,222,386	4,629,245	416,240	12,267,871
Segment liabilities	578,039	1,470,812	85,561	2,134,412

8. Segment Information (Continued)

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

	2012 HK$'000	2011 HK$'000
Profit or loss		
Total profit of reportable segments	**1,178,909**	806,830
Unallocated amounts:		
Other income (except for certain other income included in the exploration and production and oil exploitation segments)	**35,259**	15,532
Corporate expenses	**(171,170)**	(237,333)
Finance costs (except for unwinding of discount on provision for decommissioning costs included in the exploration and production segment)	**(249,487)**	(70,387)
Consolidated profit for the year	**793,511**	514,642
Assets		
Total assets of reportable segments	**13,227,898**	12,267,871
Unallocated amounts:		
Other receivables and other assets	**6,410**	324,188
Deferred tax assets	**177,391**	63,383
Financial assets at fair value through profit or loss	**3,455**	2,508
Held-to-maturity investments	**–**	30,850
Current tax assets	**10,042**	–
Pledged bank deposits	**275,198**	201,207
Bank and cash balances	**1,111,466**	482,323
Consolidated total assets	**14,811,860**	13,372,330
Liabilities		
Total liabilities of reportable segments	**2,919,586**	2,134,412
Unallocated amounts:		
Other liabilities	**85,324**	118,078
Due to directors	**8,337**	8,066
Bank loans	**4,999,904**	5,016,680
Current tax liabilities	**21,476**	11,067
Provisions (except for provision for decommissioning costs included in the exploration and production segment)	**420**	540
Consolidated total liabilities	**8,035,047**	7,288,843

8. Segment Information (Continued)

Geographical information:

	Turnover		Non-current assets	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Hong Kong	–	–	569	978
PRC	450,401	277,463	4,829,612	4,699,807
Pakistan	2,763,392	599,362	6,425,005	5,955,489
Others	–	–	–	993
Consolidated total	3,213,793	876,825	11,255,186	10,657,267

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 is as follows:

	2012 HK$'000	2011 HK$'000
Exploration and production segment		
Customer A	964,097	224,378
Customer B	721,228	152,472
Customer C	641,357	100,825
Customer D	338,452	N/A
Oil exploitation segment		
Customer E	356,897	220,223

9. Finance Costs

	2012 HK$'000	2011 HK$'000
Interest on bank loans	249,487	70,387
Unwinding of discount on provision for decommissioning costs	5,005	1,176
	254,492	71,563

10. Profit for the Year

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

	2012 HK$'000	2011 HK$'000
Depreciation and amortisation (note a)	**1,361,333**	549,847
Allowance for other receivables	**39**	2,255
Allowance for advances, deposits and prepayments	**–**	1,301
Acquisition-related costs (included in administrative expenses)	**1,530**	121,607
Auditors' remuneration		
– Current	**3,638**	2,852
– Under-provision in prior year	**61**	200
	3,699	3,052
Allowance for inventories (included in cost of inventories sold)	**–**	19,500
Cost of inventories sold (note b)	**1,799,710**	543,108
Directors' emoluments (note 12)	**24,273**	18,837
Loss on disposals of property, plant and equipment	**468**	31
Operating lease charges		
– Hire of office equipments and motor vehicles	**9,876**	3,093
– Land and buildings (note c)	**28,591**	10,985
	38,467	14,078
Research and development expenditures	**241**	633
Staff costs including directors' emoluments		
Salaries, bonuses and allowances (note c)	**234,605**	96,249
Retirement benefits scheme contributions	**29,839**	6,461
Equity-settled share-based payments	**7,329**	10,127
	271,773	112,837
Fair value loss on financial assets at fair value through profit or loss	**–**	879
Impairment losses on intangible assets (included in other operating expenses)	**–**	393,650

Note a: Depreciation and amortisation charges include the amortisation charges of intangible assets of approximately nil (2011: HK$5,784,000), HK$737,883,000 (2011: HK$271,396,000) and HK$25,039,000 (2011:HK$29,603,000) which 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$1,399,177,000 (2011: HK$482,785,000) which are included in the amounts disclosed separately above.

Note c: The amounts include the accommodation benefits provided to directors amounting to approximately HK$80,000 (2011: HK$480,000).

11. Income Tax Credit

	2012 HK$'000	2011 HK$'000
Current tax – PRC enterprise income tax		
Provision for the year	**6,623**	4,076
Over-provision in prior years	**(284)**	(573)
	6,339	3,503
Current tax – Overseas		
Provision for the year	**43,954**	7,827
Under-provision in prior years	**215**	–
	50,508	11,330
Deferred tax (note 26)	**(160,372)**	(253,445)
	(109,864)	(242,115)

No provision for profits tax in the Bermuda, Bahamas, Barbados, British Virgin Islands, Singapore, Republic of Panama, Mauritius 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 2012 and 2011.

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.

During the year ended 31 December 2012, the Group's subsidiary in the PRC was approved as a high technology enterprise pursuant to which the PRC subsidiary can enjoy a preferential income tax rate of 15% effective from 2011 to 2013.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

11. Income Tax Credit (Continued)

The reconciliation between the income tax credit and the product of profit before tax multiplied by the weighted average tax rate of the consolidated companies is as follows:

	2012 HK$'000	2011 HK$'000
Profit before tax	**683,647**	272,527
Tax at the weighted average tax rate	**313,940**	212,572
Tax effect of income that is not taxable	**(154,553)**	(545,077)
Tax effect of expenses that are not deductible	**82,218**	83,584
Tax effect of tax losses not recognised	**48,889**	15,711
Tax effect of utilisation of tax losses not previously recognised	**(32,919)**	(26,929)
Tax effect of other temporary differences not recognised	**2,246**	839
Tax effect of tax preferential period	**458**	9,071
Tax effect of withholding tax at 10% on gain derived from the Group's PRC and Mauritius subsidiaries	**27,353**	8,687
Tax effect of depletion allowance	**(203,560)**	–
Tax effect of royalty deduction	**(193,867)**	–
Over-provision in prior years	**(69)**	(573)
Income tax credit	**(109,864)**	(242,115)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

12. 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 2012					
Executive directors:					
Mr. Zhang Hong Wei	**1,000**	**12,143**	**–**	**–**	**13,143**
Mr. Zhu Jun	**240**	**–**	**–**	**–**	**240**
Ms. Zhang Meiying	**1,950**	**93**	**–**	**14**	**2,057**
Mr. Andrew Leo Kirby (note a)	**4,051**	**1,416**	**2,274**	**440**	**8,181**
	7,241	**13,652**	**2,274**	**454**	**23,621**
Non-executive director:					
Mr. Ho King Fung, Eric (note b)	**292**	**–**	**–**	**–**	**292**
Independent non-executive directors:					
Mr. Chau Siu Wai	**120**	**–**	**–**	**–**	**120**
Mr. San Fung	**120**	**–**	**–**	**–**	**120**
Mr. Zhu Chengwu	**120**	**–**	**–**	**–**	**120**
	360	**–**	**–**	**–**	**360**
	7,893	**13,652**	**2,274**	**454**	**24,273**
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 c)	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 d)	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

Notes:
(a) Resigned on 28 September 2012
(b) Resigned on 25 April 2012
(c) Appointed on 1 June 2011
(d) Appointed on 15 April 2011

12. Directors' and Employees' Emoluments (Continued)

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2011: Nil).

The five highest paid individuals in the Group during the year included three (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2011: two) individuals are set out below:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	**5,431**	5,643
Equity-settled share-based payments	**1,884**	4,529
	7,315	10,172

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
HK$2,000,001 to HK$2,500,000	**1**	1
HK$5,000,001 to HK$5,500,000	**1**	–
HK$7,500,001 to HK$8,000,000	**–**	1
	2	2

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 (2011: Nil).

13. Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$786,412,000 (2011: HK$531,885,000) and the weighted average number of ordinary shares of 12,890,604,909 (2011: 12,777,091,632) in issue during the year.

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$786,412,000 (2011: HK$531,885,000) and the weighted average number of ordinary shares of 13,001,202,818 (2011: 13,021,424,989), being the weighted average number of ordinary shares of 12,890,604,909 (2011: 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 110,597,909 (2011: 244,333,357) assumed to have been issued at no consideration on the deemed exercise of the share options and unlisted warrants (2011: unlisted warrants) outstanding during the year.

14. Dividend

No dividend has been paid or declared by the Company during the year ended 31 December 2012 and 2011.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

15. Property, Plant and Equipment

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Oil and gas properties HK$'000	Construction in progress HK$'000	Total HK$'000
Cost									
At 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 and 1 January 2012	**13,390**	**7,721**	**6,910**	**13,819**	**21,883**	**141,112**	**1,602,607**	**377,412**	**2,184,854**
Additions	**–**	**–**	**–**	**1,072**	**3,250**	**24,533**	**163,203**	**928,986**	**1,121,044**
Acquisition of a business	**–**	**–**	**–**	**271**	**250**	**37,101**	**203,387**	**3,236**	**244,245**
Written off	**–**	**–**	**(872)**	**–**	**(243)**	**(300)**	**–**	**–**	**(1,415)**
Transfers	**–**	**–**	**–**	**5,855**	**110,570**	**23,656**	**707,536**	**(847,617)**	**–**
Exchange differences	**–**	**(43)**	**15**	**(27)**	**(1)**	**(666)**	**(1,531)**	**(640)**	**(2,893)**
At 31 December 2012	**13,390**	**7,678**	**6,053**	**20,990**	**135,709**	**225,436**	**2,675,202**	**461,377**	**3,545,835**
Accumulated depreciation									
At 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 and 1 January 2012	**–**	**1,659**	**1,837**	**4,796**	**3,352**	**77,193**	**218,763**	**–**	**307,600**
Charge for the year	**–**	**456**	**893**	**4,406**	**41,016**	**31,159**	**528,635**	**–**	**606,565**
Written off	**–**	**–**	**(400)**	**–**	**(65)**	**(300)**	**–**	**–**	**(765)**
Exchange differences	**–**	**(9)**	**1**	**(20)**	**(6)**	**(422)**	**(41)**	**–**	**(497)**
At 31 December 2012	**–**	**2,106**	**2,331**	**9,182**	**44,297**	**107,630**	**747,357**	**–**	**912,903**
Carrying amount									
At 31 December 2012	**13,390**	**5,572**	**3,722**	**11,808**	**91,412**	**117,806**	**1,927,845**	**461,377**	**2,632,932**
At 31 December 2011	13,390	6,062	5,073	9,023	18,531	63,919	1,383,844	377,412	1,877,254

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

16. 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 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 and 1 January 2012	**8,180,000**	**4,929,742**	**167,738**	**375,303**	**69,211**	**13,721,994**
Acquisition of a business	**–**	**430,794**	**–**	**–**	**–**	**430,794**
Exchange differences	**–**	**–**	**–**	**(2,068)**	**(381)**	**(2,449)**
At 31 December 2012	**8,180,000**	**5,360,536**	**167,738**	**373,235**	**68,830**	**14,150,339**
Accumulated amortisation and impairment losses						
At 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 and 1 January 2012	**4,227,799**	**416,662**	**167,738**	**123,567**	**23,232**	**4,958,998**
Amortisation for the year	**53,325**	**680,442**	**–**	**25,039**	**9,147**	**767,953**
Reversal of impairment losses	**–**	**(172,395)**	**–**	**–**	**–**	**(172,395)**
Exchange differences	**–**	**–**	**–**	**(685)**	**(129)**	**(814)**
At 31 December 2012	**4,281,124**	**924,709**	**167,738**	**147,921**	**32,250**	**5,553,742**
Carrying amount						
At 31 December 2012	**3,898,876**	**4,435,827**	**–**	**225,314**	**36,580**	**8,596,597**
At 31 December 2011	3,952,201	4,513,080	–	251,736	45,979	8,762,996

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.

16. Intangible Assets (Continued)

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.

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.

Technical know-how represents the oil exploitation patented techniques for the Group's production of crude oil and provision of patented technology support services business. The remaining amortisation period of the technical know-how is 9 years (2011: 10 years).

Contractual rights in oil exploitation projects represent the contractual arrangement in relation to the production of crude oil and provision of patented technology support services to the oilfields in PRC. The remaining amortisation period of contractual rights in oil exploitation projects is 4 years (2011: 5 years).

Technical know-how and contractual rights in oil exploitation projects are used in the Group's oilfield support 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 Group carried out reviews of the recoverable amount of its intangible assets in 2012, having regard to the changes in market conditions. The review led to the recognition of a reversal of impairment losses of approximately HK$172,395,000 for concession and lease rights that have been recognised in consolidated profit or loss in the previous years. 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 rate used in measurement for concession and lease rights is 15.43 percent.

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. Besides, 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 rights are 15.05 percent and 22.44 percent respectively.

17. Advances, Deposits and Prepayments

	2012 HK$'000	2011 HK$'000
Advances to staff	**1,686**	1,717
Deposits and prepayments	**23,971**	15,300
	25,657	17,017

18. Inventories

	2012 HK$'000	2011 HK$'000
Finished goods	**93,450**	70,729
Spares parts and consumables	**673,804**	509,871
Less: allowance for inventories	**(85,415)**	(85,415)
	681,839	495,185

During the year ended 31 December 2011, the Company received an amount of HK$819,000 (equivalent to US$105,000) 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 was reversed. No such reversal was made for the year ended 31 December 2012.

19. Trade and Other Receivables

	2012 HK$'000	2011 HK$'000
Trade receivables (note a)	**1,185,994**	778,170
Other receivables (note b)	**111,289**	661,437
Total trade and other receivables	**1,297,283**	1,439,607

19. Trade and Other Receivables (Continued)

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit term is generally range from 30 to 45 days (2011: range from 30 to 45 days). In 2012, a new oilfield support services contract was entered with a credit term of 300 days. The contract value of that particular services contract is approximately HK$16,509,000 (equivalent to RMB13,450,000). 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:

	2012 HK$'000	2011 HK$'000
0 to 30 days	1,145,941	668,522
31 to 60 days	40,053	59,094
61 to 90 days	–	11,936
91 to 180 days	–	31,170
181 to 365 days	–	7,448
	1,185,994	778,170

As of 31 December 2012, trade receivables of approximately HK$40,053,000 (2011: HK$109,648,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2012 HK$'000	2011 HK$'000
0 to 30 days	40,053	59,094
31 to 60 days	–	11,936
61 to 90 days	–	13,292
91 to 180 days	–	17,878
181 to 365 days	–	7,448
	40,053	109,648

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

	2012 HK$'000	2011 HK$'000
RMB	397,805	336,212
US$	759,975	410,817
PKR	28,214	31,141
Total	1,185,994	778,170

19. Trade and Other Receivables (Continued)

(b) Other receivables

	2012 HK$'000	2011 HK$'000
Amounts due from joint venture partners	**23,857**	35,010
Advances to staff	**8,086**	9,143
Central excise duty receivables	**5,713**	5,806
Prepayments to non-controlling shareholder of a subsidiary (note (a))	**–**	315,825
Deposits and prepayments	**26,310**	13,980
Excess consideration receivables (note 32 (b))	**–**	251,794
Sales tax receivables	**41,764**	27,630
Others	**5,559**	2,249
	111,289	661,437

(a) 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. The dissolution was completed during the year and such amounts had been recognised in equity.

20. Financial Assets at Fair Value through Profit or Loss

	2012 HK$'000	2011 HK$'000
Held for trading:		
Equity securities, listed in Hong Kong at market value	**3,455**	2,508

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.

21. Pledged Bank Deposits and Bank and Cash Balances

At 31 December 2012, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$468,890,000 (2011: HK$197,141,000). 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 2012, the Group's cash at bank of approximately HK$110,947,000 (2011: HK$201,207,000) was pledged to banks for the issuance of performance bonds relating to the production of crude oil sharing contracts. The pledged bank deposits were in US$ and at fixed interest rates of 0.59% per annum (2011: 1% per annum). The pledged bank deposits in US$ of approximately HK$110,947,000 (2011: HK$201,207,000) were therefore subject to foreign currency risk and fair value interest rate risk.

At 31 December 2012, the Group's cash at bank of approximately HK$105,406,000 (2011: Nil) was pledged to a bank for the issuance of bank guarantees in favour of the President of the Islamic Republic of Pakistan in relation to the performance of the Group's financial and works obligations as stipulated in the concession and production sharing agreements. The pledged bank deposits were in US$ and at fixed interest rate of 0.29% per annum (2011: Nil). The pledged bank deposits in US$ of approximately HK$105,406,000 (2011: Nil) were therefore subject to foreign currency risk and fair value interest rate risk.

The Group's pledged bank deposits of approximately HK$58,845,000 (2011: Nil) were pledged as security for the Group's bills payables. The pledged bank deposits were in RMB and at fixed interest rate of ranging from 3.05% per annum to 3.08% per annum (2011: Nil) and were therefore subject to foreign currency risk and fair value interest rate risk.

22. Trade and Other Payables

	2012 HK$'000	2011 HK$'000
Trade payables (note a)	**280,020**	189,225
Other payables (note b)	**1,198,813**	753,597
	1,478,833	942,822

22. 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:

	2012 HK$'000	2011 HK$'000
0 to 30 days	**267,798**	175,095
31 to 45 days	**6,805**	8,809
Over 45 days	**5,417**	5,321
	280,020	189,225

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

	2012 HK$'000	2011 HK$'000
RMB	**148,757**	122,721
US$	**86,036**	39,316
PKR	**45,227**	27,188
Total	**280,020**	189,225

(b) Other payables

	2012 HK$'000	2011 HK$'000
Amount due to joint venture partners	**169,534**	66,451
Accrual for operating expenses	**639,431**	489,127
Bills payables	**116,832**	–
Salaries and welfare payables	**3,222**	3,200
Deposits received	**9,374**	10,043
Temporary receipts	**–**	22,139
Other tax payables	**250,782**	161,104
Others	**9,638**	1,533
	1,198,813	753,597

23. Due to Directors

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

24. Bank Loans

The secured bank loans are repayable as follows:

	2012 HK$'000	2011 HK$'000
On demand or within one year	163,904	102,680
In the second year	468,000	78,000
In the third to fifth years, inclusive	1,872,000	1,716,000
After five years	2,496,000	3,120,000
	4,999,904	5,016,680
Less: Amount due for settlement within 12 months (shown under current liabilities)	(163,904)	(102,680)
Amount due for settlement after 12 months	4,836,000	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
2012			
Bank loans	85,904	4,914,000	4,999,904
2011			
Bank loans	24,680	4,992,000	5,016,680

The average interest rate of the secured bank loans as at 31 December 2012 was 4.92% (2011: 4.73%).

Bank loans of HK$4,975,360,000 (2011: HK$5,016,680,000) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The remaining bank loans (2011: Nil) are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

At 31 December 2012, bank loans with carrying amount of HK$4,914,000,000 (2011: HK$4,992,000,000) are secured or guaranteed by the following:

(a) account charges over bank and cash balances held by United Energy Group (Hong Kong) Limited ("UEG (HK)") and United Energy Pakistan Limited ("UEPL") with a total carrying amount at the end of the reporting period of approximately HK$185,695,000 (2011: HK$166,729,000);

(b) share charge over the entire equity interests of UEG (HK), UEPL, United Energy Pakistan Holdings Limited ("UEPHL") and Gold Trade International Limited ("GTI");

(c) a corporate guarantee executed by the China Development Bank Corporation, Beijing Branch which is counter guaranteed by a related company of the Group (note 33(c)), to the extent of HK$4,914,000,000 (2011: HK$4,992,000,000).

24. Bank Loans (Continued)

At 31 December 2012, bank loans of HK$24,544,000 (2011: HK$24,680,000) denominated in RMB are guaranteed by a corporate guarantee executed by a related company of the Group (note 33(c)), to the extent of HK$24,544,000 (equivalent to RMB20,000,000) and secured by the entire equity interests of the Group's subsidiary in PRC.

At 31 December 2012, bank loans of HK$61,360,000 (2011: Nil) denominated in RMB are guaranteed by a corporate guarantee executed by a related company of the Group (note 33(c)), to the extent of HK$134,992,000 (equivalent to RMB110,000,000).

25. Provisions

	Dismantling costs in respect of leasehold improvements HK$'000	Decommissioning costs HK$'000	Total HK$'000
At 1 January 2012	540	250,909	251,449
Add:			
Acquisition of a business	–	20,962	20,962
Provisions recognised during the year	–	918	918
Less:			
Actual costs incurred during the year	(120)	(11,293)	(11,413)
Add:			
Unwinding of discount	–	5,005	5,005
At 31 December 2012	420	266,501	266,921

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.

26. Deferred Tax

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

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Allowance for inventories HK$'000	Tax losses HK$'000	Total HK$'000
At 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 and 1 January 2012	**363,265**	**641,861**	**(9,750)**	**–**	**995,376**
Acquisition of a business	**62,498**	**215,397**	**–**	**(30,329)**	**247,566**
Credit to profit or loss for the year (note 11)	**(135,324)**	**(25,048)**	**–**	**–**	**(160,372)**
Exchange differences	**–**	**(385)**	**–**	**–**	**(385)**
At 31 December 2012	**290,439**	**831,825**	**(9,750)**	**(30,329)**	**1,082,185**

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

	2012 HK$'000	2011 HK$'000
Deferred tax liabilities	**1,259,576**	1,058,759
Deferred tax assets	**(177,391)**	(63,383)
	1,082,185	995,376

At the end of reporting period, the Group has unused tax losses and other deductible temporary differences of approximately HK$185,670,000 and HK$44,659,000 respectively (2011: HK$303,503,000 and HK$39,610,000 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.

27. Share Capital

	Note	Number of shares	Amount HK$'000
Authorised:			
Ordinary shares of HK$0.01 each			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012		60,000,000,000	600,000
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
At 1 January 2011, 31 December 2011 and 1 January 2012		12,777,091,632	127,771
Issue of shares upon exercise of share options	(a)	2,000,000	20
Issue of shares upon exercise of unlisted warrants	(b)	250,000,000	2,500
Issue of shares under share match scheme	(c)	11,404,018	114
At 31 December 2012		13,040,495,650	130,405

Notes:

(a) On 1 June 2012 and 5 July 2012, 1,000,000 and 1,000,000 share options of the Company at par value of HK$0.01 were exercised at exercise price of HK$1.15 per share and HK$0.9 per share respectively. The excess of the exercise price over the par value of the shares issued has been credited to the share premium account of the Company.

(b) On 31 July 2012, 250,000,000 unlisted warrants were exercised at exercise price of HK$0.8 per share, resulting in the issue of 250,000,000 shares of HK$0.01 each for the total cash consideration of approximately HK$200,000,000.

(c) During the year ended 31 December 2012, 6,783,880 and 4,620,138 ordinary shares pursuant to the share match scheme of the Company were issued and allotted to the employees in Pakistan at the subscription price of HK$0.82 per share and HK$1.14 per share respectively, resulting in the issue of 11,404,018 shares of HK$0.01 each for the total cash consideration of approximately HK$10,829,000.

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 2012 and 2011.

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 2012, 28.98% (2011: 27.51%) of the shares were in public hands.

28. Statement of Financial Position of the Company

	Note	2012 HK$'000	2011 HK$'000
Investments in subsidiaries		**4,231,700**	4,410,666
Trade and other receivables		**1,340**	1,029
Financial assets at fair value through profit or loss		**3,455**	2,508
Due from subsidiaries		**1,787,428**	1,757,458
Bank and cash balances		**178,519**	95,727
Trade and other payables		**(7,913)**	(48,336)
Financial guarantee contracts		**(33,344)**	(33,344)
Due to directors		**(8,337)**	(8,066)
NET ASSETS		**6,152,848**	6,177,642
Capital and reserves			
Share capital		**130,405**	127,771
Reserves	29(b)	**6,022,443**	6,049,871
TOTAL EQUITY		**6,152,848**	6,177,642

29. 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.

(b) Company

	Share premium account HK$'000	Share-based capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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
At 1 January 2012	**13,027,326**	**110,524**	**(7,087,979)**	**6,049,871**
Recognition of equity-settled share-based payments	**–**	**7,329**	**–**	**7,329**
Forfeiture of equity-settled share-based payments	**–**	**(4,554)**	**4,554**	**–**
Lapse of share options	**–**	**(21,036)**	**21,036**	**–**
Issue of shares upon exercise of share options (note 27(a))	**3,497**	**(1,467)**	**–**	**2,030**
Issue of shares upon exercise of unlisted warrants (note 27(b))	**237,943**	**(40,443)**	**–**	**197,500**
Issue of shares under share match scheme (note 27(c))	**10,715**	**–**	**–**	**10,715**
Expiry of unlisted warrants	**–**	**(40,443)**	**40,443**	**–**
Loss for the year	**–**	**–**	**(245,002)**	**(245,002)**
At 31 December 2012	**13,279,481**	**9,910**	**(7,266,948)**	**6,022,443**

29. Reserves (Continued)

(c) Nature and purpose of reserves

(i) Share premium account

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

(ii) Merger reserve

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

(iii) Capital reserve

Capital reserve represents the 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.

(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.

30. 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.

30. Share-Based Payments (Continued)

Equity-settled share option scheme (Continued)

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

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

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

Details of the specific categories of options are as follows:

Grantee	Date of grant	Vesting period	Exercise period	Exercise price HK$	Number of share options outstanding as at 31 December 2012
Employees	03.11.2010	03.11.2010 to 02.11.2011	03.11.2011 to 02.11.2015	0.90	2,000,000
	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
	29.08.2012	29.08.2012 to 28.08.2013	29.08.2013 to 28.08.2022	1.20	5,400,000
	29.08.2012	29.08.2012 to 28.08.2014	29.08.2014 to 28.08.2022	1.20	3,600,000
	29.08.2012	29.08.2012 to 28.08.2015	29.08.2015 to 28.08.2022	1.20	3,600,000
	29.08.2012	29.08.2012 to 28.08.2016	29.08.2016 to 28.08.2022	1.20	5,400,000
					29,000,000

The options granted in 2012 and 2010 had exercisable period of 10 years and 5 years respectively from the date of grant. If the options granted remain unexercised after the exercisable period, the options expire. Options are forfeited if the employee leaves the Group.

30. Share-Based Payments (Continued)

Equity-settled share option scheme (Continued)

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

	2012		2011	
	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	**47,500,000**	**1.334**	39,500,000	1.392
Granted during the year	**18,000,000**	**1.200**	10,000,000	1.150
Forfeited during the year	**(9,500,000)**	**(1.172)**	(2,000,000)	(1.560)
Exercised during the year	**(2,000,000)**	**(1.025)**	–	–
Expired during the year	**(25,000,000)**	**(1.560)**	–	–
Outstanding at the end of the year	**29,000,000**	**1.131**	47,500,000	1.334
Exercisable at the end of the year	**5,000,000**	**1.030**	29,100,000	1.492

The options outstanding at the end of the year have a weighted average remaining contractual life of 7.09 years (2011: 2.40 years) and the exercise prices are ranging from HK$0.90 to HK$1.55 (2011: HK$0.90 to HK$1.56). In 2012, option was granted on 29 August 2012. The estimated fair value of the option granted on this date is approximately HK$14,924,000. In 2011, option was granted on 17 May 2011. The estimated fair value of the option granted on this date is approximately HK$7,894,000.

The estimated fair values of the share options granted on 3 November 2010, 31 December 2010 and 29 August 2012 are determined using the Binomial models. The respective fair values and significant inputs to the models were as follows:

	Share option grant date		
	3 November 2010 HK$'000	31 December 2010 HK$'000	29 August 2012 HK$'000
Model	Binomial	Binomial	Binomial
Fair value at measurement date	HK$8,079,000	HK$2,043,000	HK$14,924,000
Number of share options granted	10,000,000	2,000,000	18,000,000
Grant date share price	HK$1.17	HK$1.55	HK$1.16
Exercise price	HK$0.90	HK$1.55	HK$1.20
Expected volatility	93.50%	94.37%	97.91%
Risk free rate	1.074%	1.763%	0.676%
Expected life	5 years	5 years	10 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 and 31 December 2010 and 10 years for the share options granted on 29 August 2012. 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.

31. 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:

	2012		2011	
	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	**500,000,000**	**0.8**	1,000,000,000	0.8
Repurchased during the year	**–**	**–**	(500,000,000)	(0.8)
Exercised during the year	**(250,000,000)**	**(0.8)**	–	–
Expired during the year	**(250,000,000)**	**(0.8)**	–	–
Outstanding at the end of the year	**–**	**–**	500,000,000	0.8
Exercisable at the end of the year	**–**	**–**	500,000,000	0.8

The Unlisted Warrants outstanding at the end of the year 2011 has a weighted average remaining contractual life of 0.5 years.

31. 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.

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.

On 31 July 2012, 250,000,000 (2011: none) Unlisted Warrants were exercised and converted into shares of the Company.

32. Notes to the Consolidated Statement of Cash Flows

(a) Acquisition of a business

On 31 December 2012, the Group acquired 100% issued share capital of Oasis Natural Energy, Inc. (the "Oasis") and the shareholder's loan owned by the Oasis for a cash consideration of approximately HK$287,274,000 (equivalent to US$36,830,000). Oasis is an investment holding company which holds entire issued share capital of BowEnergy Resources (Pakistan) SRL ("BowEnergy"). BowEnergy holds 26.32% working interest in the licence in the areas under the Mirpur Khas and Khipro Concessions ("MKK Concessions") and 19.74% working interest in the lease in the areas under the MKK Concessions and 40% working interests in Sakhi Sarwar Concession.

As referred in note 32(b) to the financial statements, the Group owned 68.42% working interest in the licence in the areas under the MKK Concessions and 51.31% working interest in the lease in the areas under the MKK Concessions upon the completion of the acquisition on 16 September 2011. After the completion of the acquisition of the Oasis, the Group owned total 94.74% working interest in the licence in the areas under MKK Concessions and 71.05% working interest in the lease in the areas under the MKK Concessions. The acquisition is for the purpose of facilitating the implementation of the Group's business plan in respect of the MKK Concessions.

32. Notes to the Consolidated Statement of Cash Flows (Continued)

(a) Acquisition of a business (Continued)

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	**244,245**
Intangible assets	**430,794**
Inventories	**22,591**
Trade and other receivables	**20,988**
Current tax assets	**10,042**
Bank and cash balances	**6,729**
Other payables	**(102,050)**
Provisions	**(20,962)**
Deferred tax liabilities	**(247,566)**
Total net assets	**364,811**
Gain on bargain purchase (note 7)	**(77,537)**
Total cash consideration	**287,274**
Net cash outflow arising on acquisition:	
Total cash consideration	**287,274**
Cash and cash equivalents acquired	**(6,729)**
	280,545

The Group recognised a gain on bargain purchase of HK$77,537,000 in the business combination which is mainly attributable to the increase of fair value in the intangible assets due to the increase of crude oil and gas reserves resulting from the exploration works during the period from the date at which the purchase contract was agreed upon to the completion date.

The business neither contributed the Group's turnover nor profit for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2012, total Group's turnover for the year would have been HK$3,313,904,000, and profit for the year would have been HK$795,684,000. 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 2012, nor is intended to be a projection of future results.

32. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) Acquisition of a business

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 19(b) to the financial statements.

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 19(b))	251,794
Deposit paid	(780,000)
Cash and cash equivalents acquired	(186)
	5,063,123

32. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) Acquisition of a business (Continued)

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. 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 the 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 the 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 the 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 the ultimate controlling party and authorised representative of Orient Group

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2012

33. 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:

	2012 HK$'000	2011 HK$'000
Rental expenses paid to Orient Group Energy for rental of office equipment	**129**	133

(c) The Orient Group Industrial has provided a counter guarantee and corporate guarantees in favour of the Group against the bank loans made to the Group totalling HK$4,999,904,000 at 31 December 2012 (2011: HK$4,992,000,000).

(d) For the year ended 31 December 2011, the Orient Group and Orient Group – Beijing office had paid rental expenses on behalf of the Group for which no charges were made.

34. Contingent Liabilities

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, as 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.

35. Capital Commitments

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

	2012 HK$'000	2011 HK$'000
Contracted but not provided for:		
Acquisition of property, plant and equipment	**12,326**	28,160
Commitments for capital expenditure	**1,311,999**	793,088
	1,324,325	821,248

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:

	2012 HK$'000	2011 HK$'000
Within one year	**15,486**	13,712
In the second to fifth years inclusive	**39,831**	42,720
After five years	**3,433**	6,638
	58,750	63,070

Operating lease payments represent rentals payable by the Group for certain of its offices, staff and directors' quarters, motor vehicles and plant and machinery. Leases are negotiated for an average term of 3.86 years (2011: 3.83 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:

	2012 HK$'000	2011 HK$'000
Within one year	**267**	268
In the second to fifth years inclusive	**267**	537
	534	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 2012 amounted to approximately HK$127,000 (2011: HK$85,000).

Notes to the Financial Statements (Continued)
For the year ended 31 December 2012

37. Retirement Benefits Scheme (Continued)

PRC

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

The Group's contribution under the respective schemes for the year ended 31 December 2012 amounted to approximately HK$3,387,000 (2011: HK$901,000).

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 2012 amounted to approximately HK$18,468,000 (2011: HK$2,838,000).

(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 2012 amounted to approximately HK$6,130,000 (2011: HK$2,263,000).

38. Subsidiaries

Particulars of the subsidiaries as at 31 December 2012 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# (note a)	PRC	US$9,245,500	100%	–	100%	Dormant

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012

38. Subsidiaries (Continued)

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Universe Oil & Gas (China) LLC (note a)	PRC	US$10,000,000	70%	–	100%	Engaged in provision of patented technology support services to oilfields
United Petroleum & Natural Gas (Panjin) Limited# (note a)	PRC	RMB50,000,000	100%	–	100%	Provision of group financing supporting services
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%	–	Investment holding
PC (NAD) International Limited	Bahamas	US$100	100%	–	100%	Investment holding
Oasis	Republic of Panama	US$10,000	100%	–	100%	Investment holding

38. Subsidiaries (Continued)

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
BowEnergy	Barbados	US$9,775,568	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
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
Super Success International Holdings Limited	Mauritius	US$1	100%	100%	–	Investment holding
Super Success Investments Limited	Mauritius	US$1	100%	–	100%	Dormant
United Energy Group Service Pte Limited	Singapore	SGD100	100%	100%	–	Provision of services to headquarter on corporate development and technical support

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

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

39. Events After Reporting Period

(a) On 31 January 2013, the Company resolved to award a total of 3,179,282 new shares as the scheme shares to 14 employees in Pakistan pursuant to the deferred annual bonus scheme, executive performance scheme and performance share scheme adopted by the Company on 28 December 2012. Under the respective schemes, (i) 889,198 scheme shares are awarded to 2 employees under the deferred annual bonus scheme; (ii) 1,301,334 scheme shares are awarded to 2 employees under the executive performance share scheme; and (iii) 988,750 scheme shares are awarded to 12 employees under the performance share scheme. The objectives of these three separate employees share reward schemes are to (i) drive success and growth in the shareholder value of the Group and (ii) create long-term value for the eligible employees of the Group. The allotment was completed on 7 February 2013 and the number of issued share capital of the Company was increased from 13,040,495,650 shares to 13,043,674,932 shares. Details are set out in the Company's announcement dated 31 January 2013.

(b) On 5 March 2013, BowEnergy, a wholly-owned subsidiary of the Company, entered into a purchase and sale agreement with Zaver Petroleum Corporation Limited to acquire 5.26% working interest in the licence in the areas under the MKK Concessions and 3.95% working interest in the lease in the areas under the MKK Concessions in Pakistan. The consideration for the acquisition is US$4,000,000 (equivalent to approximately HK$31,200,000) subject to the adjustments as described in the agreement. Details of the transaction are set out in the Company's announcement dated 5 March 2013.

40. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2013.

Financial Summary

RESULTS

	Year ended 31 December			For the nine months 31 December	Year ended 31 March
	2012 **HK$'000**	2011 HK$'000	2010 HK$'000	2009 HK$'000 (Restated)	2009 HK$'000 (note)
Turnover					
From continuing operations	**3,213,793**	876,825	22,373	25,357	–
From discontinued operations	**–**	–	–	–	5,178
	3,213,793	876,825	22,373	25,357	5,178
Profit/(loss) before tax	**683,647**	272,527	289,267	327,819	(528,386)
Income tax credit/(expenses)	**109,864**	242,115	(146,003)	(98,791)	(234)
Profit/(loss) for the year/period from continuing operations	**793,511**	514,642	143,264	229,028	(528,620)
(Loss)/profit for the year/period from discontinued operations	**–**	–	(41,196)	10,948	(30,305)
Profit/(loss) for the year/period	**793,511**	514,642	102,068	239,976	(558,925)
Attributable to:					
Owners of the Company	**786,412**	531,885	112,256	237,060	(550,438)
Non-controlling interests	**7,099**	(17,243)	(10,188)	2,916	(8,487)
	793,511	514,642	102,068	239,976	(558,925)

	As at 31 December				As at 31 March
	2012 **HK$'000**	2011 HK$'000	2010 HK$'000	2009 HK$'000 (Restated)	2009 HK$'000 (note)
Total Assets	**14,811,860**	13,372,330	6,861,514	6,334,982	2,737,006
Total Liabilities	**8,035,047**	7,288,843	(1,338,438)	(991,553)	(53,051)
Net Assets	**6,776,813**	6,083,487	5,523,076	5,343,429	2,683,955
Equity attributable to owners of the Company	**6,685,135**	5,686,347	5,125,420	5,047,845	2,496,931
Non-controlling interests	**91,678**	397,140	397,656	295,584	187,024
Total equity	**6,776,813**	6,083,487	5,523,076	5,343,429	2,683,955

Note:

The financial figures for the year ended 31 March 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 2009.

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

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