联合能源

年　報
Annual Report
2017

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)*
Zhang Meiying
Zhu Jun (resigned and effective from 27 December 2017)

Independent Non-Executive Directors

Chau Siu Wai
San Fung
Wang Ying (appointed and effective from 1 July 2017)
Zhu Chengwu (resigned and effective from 6 April 2017)

Company Secretary

Hung Lap Kay

Principal Place of Business

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

Registered Office

Clarendon House,
2 Church Street,
Hamilton HM11,
Bermuda

Principal Bankers

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

Legal Advisers in Hong Kong

Baker Botts LLP
Michael Li & Co.
Simmons & Simmons
Angela Ho & Associates in association with
Lang Michener LLP

Auditor

RSM Hong Kong
29th Floor, Lee Garden Two,
28 Yun Ping Road,
Causeway Bay,
Hong Kong

Bermuda Principal Share Registrar and Transfer Office

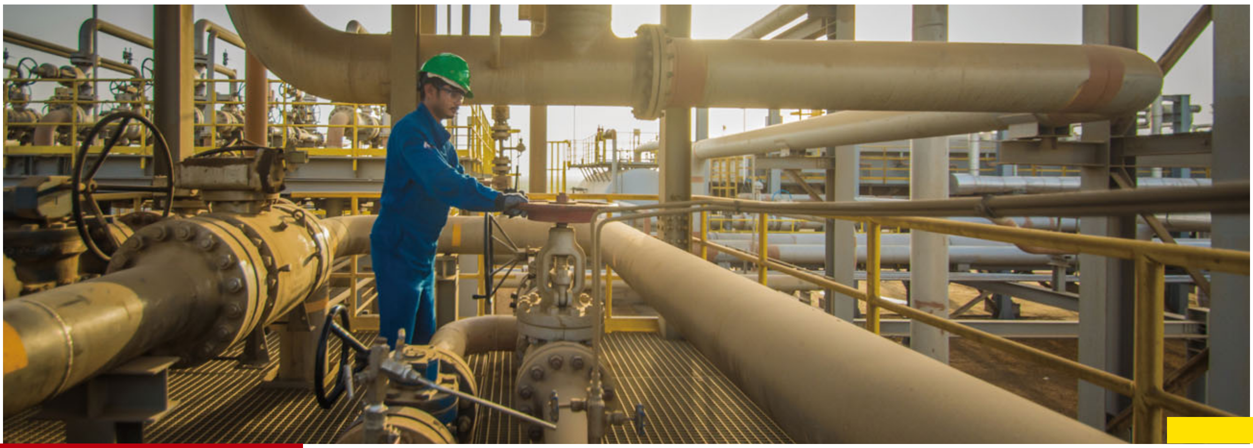
Conyers Corporate Services (Bermuda) Limited
Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Secretaries Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

Website

http://www.uegl.com.hk



KEY FINANCIAL AND OPERATION SUMMARY

Financial Summary

	2017 HK$'000	2016 HK$'000	Change
Results			
Turnover	**4,441,266**	4,061,024	+9.4%
Gross profit	**2,658,242**	2,135,894	+24.5%
EBITDA(note 1)	**3,439,725**	3,043,694	+13.0%
Profit for the year	**1,315,817**	960,353	+37.0%
Profit attributable to owners of the Company	**1,316,340**	965,008	+36.4%
Basic earnings per share (HK cents)	**5.02**	4.90	+2.4%
Final dividend per share (HK cents)	**4.00**	Nil	N/A
Key items in Consolidated Statement of Financial Position			
Equity attributable to owners of the Company	**10,652,469**	10,400,217	+2.4%
Total assets	**13,275,537**	15,496,639	–14.3%
Net assets	**10,677,019**	10,423,544	+2.4%

Operation Summary

Pakistan Assets	2017	2016	Change
Operation			
Average Daily Net Production (boed)	**62,327**	64,252	–3.0%
Oil & Liquids Ratio(Note 2)	**11.7%**	10.8%	+0.9%
Reserve			
Net 1P Reserve at the year end (mmboe)	**96.4**	95.6	+0.8%
Net 1P Reserve Replacement Ratio	**104%**	102%	+2.0%
Exploration & Development Activity			
Rig Workovers	**11**	10	+10.0%
Exploration wells	**13**	17	–23.5%
Development wells	**14**	9	+55.6%

Notes:

1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and property, plant and equipment written off, reversal of allowance for other receivables, share of profits/losses of an associate, gain/loss on disposals of property, plant and equipment and loss for the year from discontinued operations.

2. Oil & Liquids including Crude Oil, Condensate & LPG.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

2017 was another exciting year for United Energy Group Limited ("United Energy" or the "Company", and together with its subsidiaries collectively the "Group"). Investment sentiment continued to improve during the year that fueled the rally in worldwide equity markets. On the commodity front, average Brent oil price has re-gained significant loss from its historical low in 2016 and trended higher in the second half of 2017 contributed by the Organization of the Petroleum Exporting Countries ("OPEC") and non-OPEC members' extension of production cut to the end of 2018. Echoed by higher commodity prices and effective cost optimization measures, the Group delivered stronger net profit compared to 2016. During 2017, the Group successfully seized several acquisition opportunities to expand our footprint in the Pakistan market which are important milestones to support our future growth trajectory.

OUR 2017 PERFORMANCE

The Group reported net profit attributable to owners of the company for the year ended 31 December 2017 (the "reporting period") of approximately HK$1,316,340,000, increased by 36.4% compared to the net profit of approximately HK$965,008,000 for the year ended 31 December 2016 ("last year"). The increase in net profit was mainly due to higher sales prices of oil and gas commodities, lower finance costs and administrative expenses compared to last year. In terms of production, the Pakistan Assets reported 3.0% decline from last year as production of natural gas of some fields was rationalized to meet sales specifications. The average daily net production in Pakistan Assets for the reporting period was approximately 62,327 barrels of oil equivalent ("boe") per day ("boed") compared to approximately 64,252 boed of last year.

On the exploration front, we have drilled a total of 27 exploration and development wells in Pakistan and made 7 discoveries in the Badin and MKK blocks. Net 1P reserve added was of approximately 23.6 million barrels of oil equivalent ("mmboe") for the reporting period, representing a net reserve replacement ratio of approximately 104%. Continued focus has been placed on developing stratigraphic or combination play tests along with conventional structures. In addition, we have initiated the studies for high pressure shale gas to identify sweet spots for future drilling campaign. For the newly accessed Kotri North block, the first well deployed in the fourth quarter of 2017 has shown encouraging result in the drilled section.

To fast track our expansion plan, we have been uninterruptedly searching for quality assets though it has not been very fruitful in the past few years. In fact, completing a successful transaction often comprises a combination of hard work and luck given our strict selection criteria and tremendous uncertainties in a tendering process. Nevertheless our effort has been proved meaningful and a few transactions were materialized in 2017.

In August 2017, we received the approval from the Directorate General of Petroleum Concessions ("DGPC") which marked the completion of the transaction for acquiring 50% working interest along with the operatorship of Kotri North block from Pakistan Petroleum Limited ("PPL").

In October 2017, the Group entered into a series of agreements for the purchase of 100% issued share capital of Asia Resources Oil Limited ("AROL"), which in turn owns 10% working interest in Kotri North and Gambat South blocks respectively. This transaction provides an opportunity for the Group to increase its stake in the Kotri North block and a participating interest in the producing Gambat South block which is located right to the north of MKK. After gaining the right to participate in the Gambat South block, we will be able to access the geological data of the block and help to enhance our understanding of the MKK. The acquisition is currently awaiting the approval of the relevant authorities in Pakistan and we expect it to be completed in the first half of 2018.

After a decade of capital investment into the upstream oil and gas business which has now become the principal activities of the Group, the board of directors (the "Board") of the Company paid out a special dividend of HK$4 cents per ordinary share in December 2017 (the "Special Dividend") to its shareholders as a reward for their longstanding support. It remarks our steadfast commitment to reward shareholders. After assessment of our capital requirement and whenever there is free cash flow for distribution, we are committed to continue to return our shareholders. It is also our goal to maintain a flexible dividend payout policy, without prejudice to the development of the Company. In view of the profits generated in 2017, the Board further recommends a final dividend of HK$4 cents per ordinary share which will be subject to shareholders' approval in the forthcoming annual general meeting.

The Group maintained prudent financial management policies. In light of better utilization of fund, the Group exercised its rights to settle the entire outstanding amount of US$400,000,000 (equivalent to approximately HK$3,120,000,000) of the acquisition loan from China Development Bank Hong Kong Branch ("CDB Loan"). Settlement of the CDB Loan would bring significant savings on interest expenses in light of rising interest rate while the Group can tap into capital markets again should there be any future funding need.

OUTLOOK

Investment sentiment in 2018 continued to firm up but with increased volatility as evidenced from the global equity markets. On the other hand, Brent oil broke the US$70 level in early 2018 reaching a 3-year high on the back of even higher conformity level by OPEC and non-OPEC members but eventually slightly weakened along with the equity markets. We expect oil prices to be stabilized in the current level as global oil inventory is trending towards a rebalancing position.

For our 2018 plan, the Group targets average daily net production level of 62,000 to 64,500 boed and a net 1P reserve replacement ratio of over 100%. Capital expenditure will be approximately US$190 million which is essentially to support our exploration plan. The finding and development costs will be higher, representing a shift of exploration strategy to new play types and the investment in the unconventional high pressure shale gas formation. As new play types and unconventional leads contribute a significant portion of our available resources, these investments are essential to pave the way for our future growth path.

The Group's exploration strategy remains focused on new play concepts as well as proven plays within the existing and new blocks. In 2018, we will carry the success of 2017 and identify extension of new plays in MKK and Badin. For Kotri North, we will undertake fast track data re-processing and interpretation projects to unlock the resource potential while additional 2 wells have been planned for 2018.

Given our debt-free financial position, the Group will consider suitable financial leverage from time to time to support our expansion needs. A suitable gearing level will enable the Group to maximize return for our shareholders.

Pakistan market will continue to be our core revenue driver and the Group will be closely monitoring any expansion opportunities where we can develop significant synergies with our existing operation. As gas consumption accounts for over 40% of the Pakistan's total energy consumption in 2016 and gas supply deficit is predicted to widen in the next few years, there is almost a guaranteed market for domestically produced natural gas and the revenue driver of the Group in the future.

Riding on the "Belt and Road" strategic development of the Chinese government, the Group targets on new oil and gas exploration projects in those countries covered by the "Belt and Road" policies, strive to accelerate business development and eye on new growth and in-depth regional cooperation opportunities. New acquisitions can also diverse geographical concentration of our assets and revenue base in order to achieve risk diversification. Nevertheless, profit contribution and growth opportunity remain to be the key elements in our evaluation process.

Subsequent to the reporting period, the Group entered into a purchase and sale agreement to divest its remaining oilfield support services operation in the PRC. The transaction remarks the entire exit of the Group from the Chinese oil and gas market subsequent to the abandonment of the Liaohe Enhance Oil Recovery Project in year 2016. This divestment allows the Group to direct our resources to focus on the core upstream oil and gas business in Pakistan where we expect to have significant growth potentials.

In summary, the 2017 financial performance was generally in line with our expectation where a lot of efforts have been done to keep costs down and translated that into higher profitability. This was attributed to another year of hard work by our colleagues and I hereby express my sincere gratitude to them. For the years ahead, there are higher targets to achieve and we have to be prepared for these challenges. We are excited to have the new assets coming into our portfolio and extensive studies will be carried out to unlock their potentials and capitalize returns for our shareholders.

Zhang Hong Wei
Chairman
23 February 2018

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

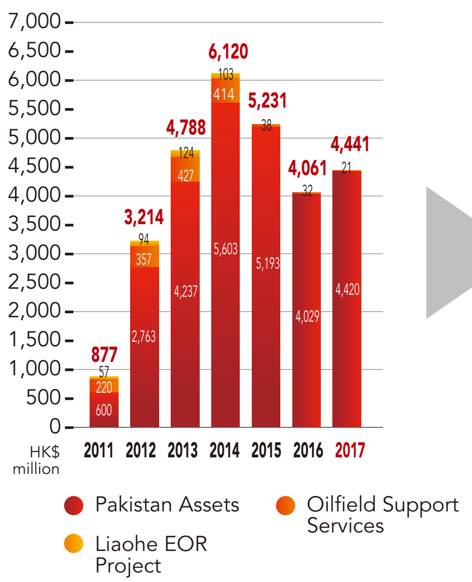
Financial Review

The Group reported a substantial growth in earnings for the year ended 31 December 2017 (the "reporting period"). The profit attributable to the owners of the Company for the reporting period was approximately HK$1,316,340,000 (31 December 2016: approximately HK$965,008,000), representing a substantial increase of 36.4% from the year ended 31 December 2016 (the "last year"). The increase in net profit was mainly due to higher revenue in line with improved sales prices, lower finance costs and administrative expenses, compared to the last year. In terms of production, the Pakistan Assets reported a slight decline of 3.0% over last year as production of natural gas of some fields was rationalized to meet sales specification. The average daily net production in Pakistan Assets for the reporting period was approximately 62,327 barrels of oil equivalent ("boe") per day ("boed") compared to approximately 64,252 boed of the last year.

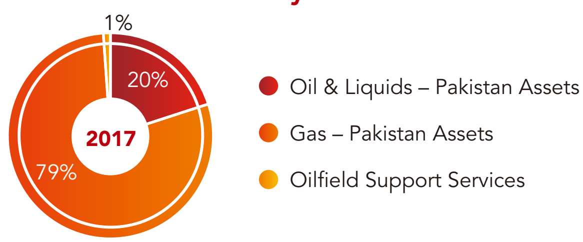
Turnover

The Group's turnover for the reporting period was approximately HK$4,441,266,000, representing an increase of 9.4% as compared with the turnover of approximately HK$4,061,024,000 of last year. The increase in turnover was mainly attributable to a higher Composite Average Sales Price Before Government Take at US$28.6 per boe as aligned with higher international oil prices.

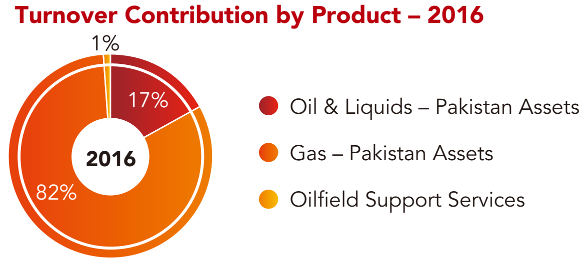
UEG 2017 FY – Turnover



Turnover Contribution by Product – 2017



Turnover Contribution by Product – 2016



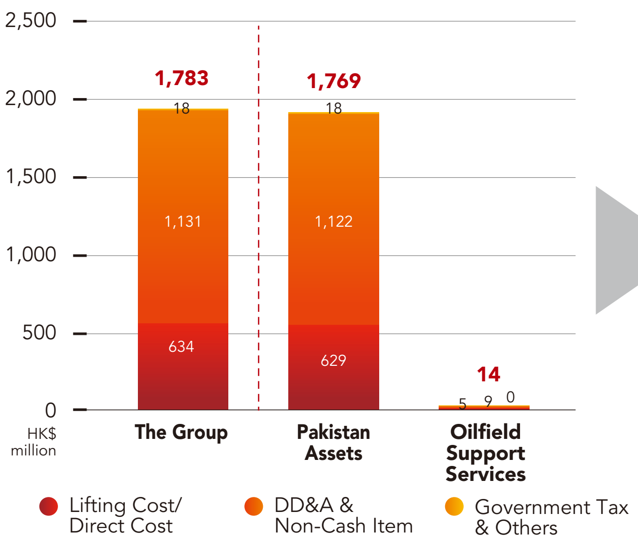
Notes:

1. Turnover represents sales after government take.
2. UEG's Pakistan operation in 2011 only covered the period from 16 September 2011 to 31 December 2011.
3. Liaohe EOR Project was classified as discontinued operation. The turnover in 2015 and 2016 did not include turnover from Liaohe EOR Project (2015: HK$187 million; 2016: HK$23 million).

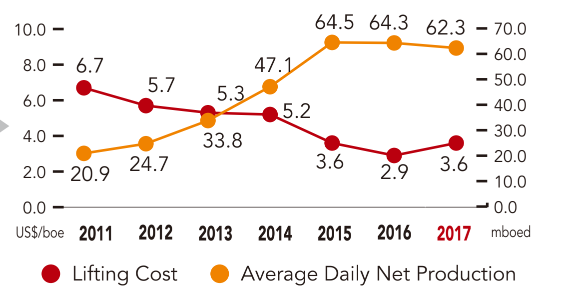
Cost of sales and services rendered

The Group's cost of sales and services rendered decreased from approximately HK$1,925,130,000 of last year to approximately HK$1,783,024,000 for this reporting period. The decrease in cost of sales and services rendered was in line with a lower production level. The cost of sales and services rendered included depreciation and amortisation of approximately HK$1,131,247,000 (31 December 2016: approximately HK$1,361,510,000). The lifting cost, which is defined as the cost of sales excluding depreciation & amortisation, government tax and distribution expenses, of Pakistan Assets was US$3.6 per boe (31 December 2016: US$2.9 per boe). The increase in lifting cost per boe was mainly driven by higher wellwork expenses and material costs.

UEG 2017 FY – Cost of Sales & Services Rendered



Pakistan Assets – Lifting Cost vs Net Production



Notes:

1. Lifting Cost represent cost of sales & services rendered excluding depreciation and amortization, sales expenses and government tax.

2. UEG's Pakistan operation in 2011 only covered the period from 16 September 2011 to 31 December 2011.

Gross profit

The Group's gross profit for the reporting period was approximately HK$2,658,242,000 (gross profit ratio 59.9%) which represented an increase of 24.5% as compared with gross profit of approximately HK$2,135,894,000 (gross profit ratio 52.6%) for the last year. The increase in gross profit was in line with the increase in turnover as a result of improved sales prices during the reporting period.

Exploration expenses

The Group's exploration expenses for the reporting period was approximately HK$366,813,000 (31 December 2016: approximately HK$165,749,000) which was incurred mainly for the performance of geological and geophysical studies and surface use rights in Pakistan Assets. The increase in exploration expenses was mainly due to the written off loss of approximately HK$242,188,000 (2016: approximately HK$132,441,000) arising from dry and abandoned wells in the Pakistan Assets.

Administrative expenses

The Group's administrative expenses for the reporting period was approximately HK$312,185,000 (31 December 2016: approximately HK$380,401,000), representing 7.0% (31 December 2016: 9.4%) of turnover. The decrease in administrative expenses was contributed by the cost control measures implemented during the reporting period.

Finance costs

The Group's finance costs for the reporting period was approximately HK$118,930,000, representing 48.8% decrease as compared with the finance costs of approximately HK$232,447,000 for the last year. The decrease in finance costs was mainly due to lower total borrowings as the Group settled the entire loan from China Development Bank Hong Kong Branch in the second half of 2017. The average interest rate of borrowings for the relevant period was 5.63% (31 December 2016: 5.69%).

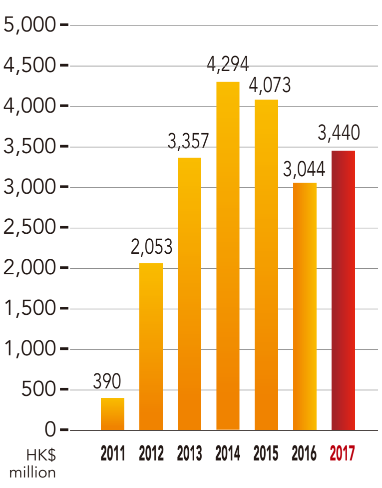
Income tax expense

The Group's income tax expense for the reporting period was approximately HK$440,420,000 (31 December 2016: approximately HK$176,662,000), increased by 149.3% mainly due to increase in deferred tax expenses.

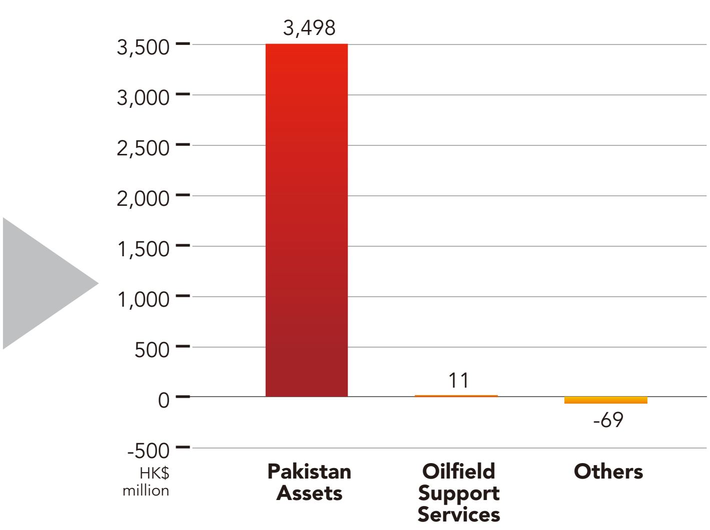
EBITDA

EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and property, plant and equipment written off, reversal of allowance for other receivables, share of profits/ losses of an associate, gain/loss on disposals of property, plant and equipment and loss for the year from discontinued operations. It shall be noted that EBITDA is not a measure of operating performance or liquidity defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies. The EBITDA for the reporting period was approximately HK$3,439,725,000, increased by 13.0% from the last year of approximately HK$3,043,694,000. The increase in EBITDA was mainly attributable to the increase in sales prices of oil and gas commodities as aligned with higher international oil prices.

UEG 2017 FY – EBITDA



UEG 2017 FY – EBITDA by Assets



Notes:

1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and property, plant and equipment written off, reversal of allowance for other receivables, share of profits/losses of an associate, gain/loss on disposals of property, plant and equipment and loss for the year from discontinued operations.

2. Others represent corporate and administrative expenses.

3. UEG's Pakistan operation in 2011 only covered the period from 16 September 2011 to 31 December 2011.

Dividend

During the year, the Group distributed a special dividend of approximately HK$1,050,763,000 to the shareholders of the Company, representing HK$4 cents per ordinary share. A final dividend of HK$4 cents per ordinary share (31 December 2016: HK$ Nil) in relation to profit attributable to the year ended 31 December 2017 is proposed after the end of the reporting period and amounts to approximately HK$1,050,763,000.

Business Review

The Group is one of the largest listed upstream oil and gas corporations in Hong Kong, with business presence in South Asia. The Group is principally engaged in the investment and operation of upstream oil, natural gas and other energy related businesses. Leveraging on management's extensive experience in oil and gas exploration, the Group has successfully grown its business into one of the major players in the upstream oil and gas industry. Based on the latest available information gathered by the Group, the Group is ranked as one of the largest independent upstream oil and gas operators listed on the Hong Kong Stock Exchange in terms of net production volume. The Group has established a sound track record of growing its business through acquisition and aggressive capital investment.

Brent oil prices edged higher in 2017 amid OPEC and non-OPEC members extension of supply cut and higher level of conformity. The average Brent oil price for the reporting period was approximately 24.6% higher than last year, according to data from the U.S. Energy Information Administration ("EIA"). Despite lower production, the Group reported a profit attributable to the owners of the Company for the reporting period of approximately HK$1,316,340,000, representing a robust increase of 36.4% compared to the last year of approximately HK$965,008,000. The increase in net profit was contributed by higher sales prices of oil and gas commodities, lower finance costs as a result of significantly lower borrowings and the effective control of overhead costs which led to lower administrative expense compared to the last year. The Composite Average Sales Price Before Government Take was US$28.6 per boe, representing an increase of 14.9% from last year. In line with higher sales prices, the Group's EBITDA was approximately HK$3,439,725,000 for the reporting period, grew by approximately 13.0% from the last year. The Group delivered an average daily net production of approximately 62,327 boed during the reporting period, reduced by 3.0% from last year as production of natural gas from some fields were strategically rationalized to meet sales specification.

Cost of sales and services rendered by the Group for the reporting period was approximately HK$1,783,024,000 (Pakistan Assets: approximately HK$1,768,343,000, Oilfield Support Services: approximately HK$14,681,000), and the Group invested approximately HK$1,680,309,000 of capital expenditure in oil exploration, development and production activities for Pakistan Assets. The Group drilled 27 new wells in Pakistan Assets during the reporting period.

The net proceeds of the open offer that was completed in August 2016 are earmarked for capital expenditure of the Pakistan Assets (approximately HK$1,033,639,000), repayment of debt and interest expenses (approximately HK$1,033,639,000) as well as reserve for potential acquisition (approximately HK$516,820,000). As at 31 December 2017, the entire net proceeds from the Open Offer have been utilized in capital expenditure of the Pakistan Assets, repayment of debt and interest expenses of the Group and spending on acquisition respectively.

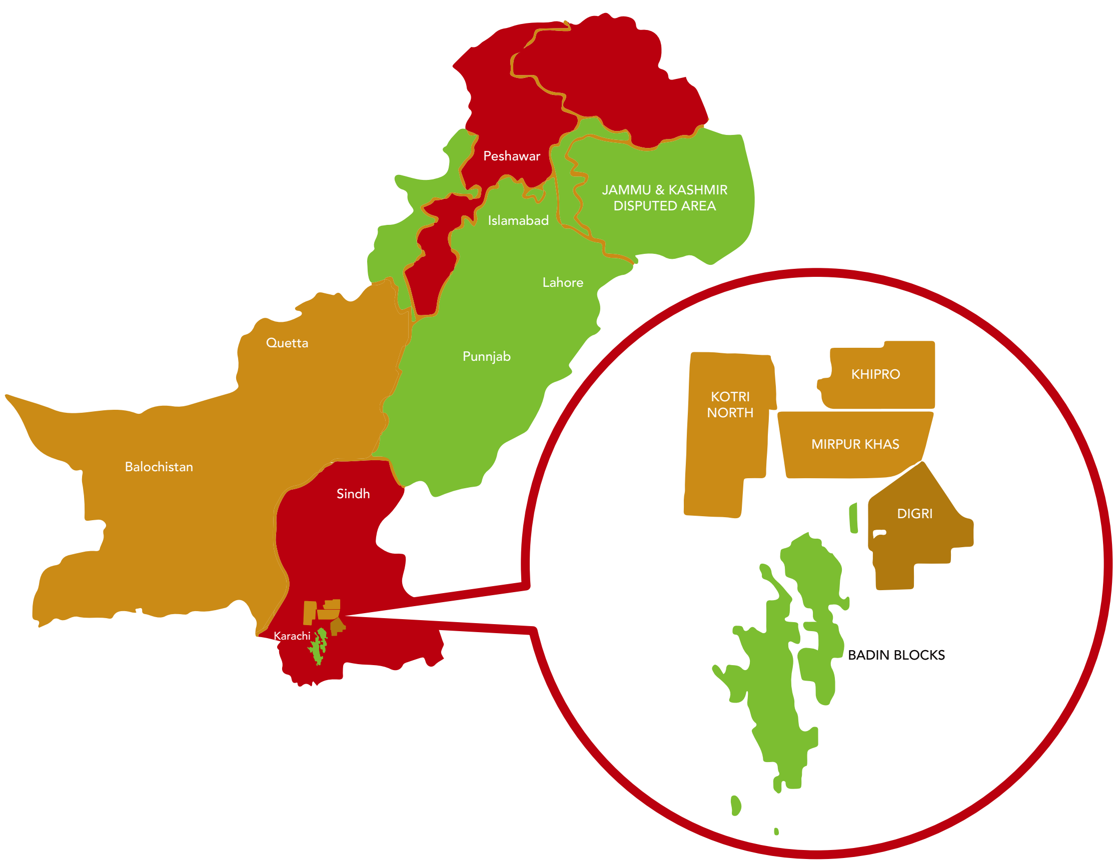
Pakistan Assets:

For the year ended 31 December 2017, the Pakistan Assets achieved an average daily net production of approximately 62,327 boed, slid by 3.0% compared to last year. The Pakistan Assets has an oil and liquids ratio of 11.7% which was slightly higher than last year as we successfully increased production from the mature Badin field through new discoveries and well workovers. During the reporting period, production of natural gas from some fields was strategically rationalized to comply with sales specification. As new facilities were completed in Naimat in the second half of 2017, we were able to ramp up production significantly to catch up with the in-year target.

The Group has been a leading investor in the upstream oil and gas sector in Pakistan since 2012. According to data from Pakistan Petroleum Information Services, an information service provider of Pakistan's upstream exploration activities, the Group had drilled the highest number of exploration wells between 2012 and 2016, significantly higher than those drilled by the Pakistan state-owned peers such as Pakistan Petroleum Limited ("PPL") and Oil & Gas Development Company Limited. Our aggressive investment in exploration has resulted in an accelerated production growth rate that is far outpacing our peers in Pakistan. During the reporting period, the Group completed 13 exploration and appraisal wells and 14 development wells. The Group has made 7 new discoveries in Badin and MKK blocks, representing a success rate of approximately 53.9%. Net 1P reserve addition amounted to approximately 23.6 mmboe, rendering a net 1P reserve replacement ratio of approximately 104%. The total exported sales of oil and condensate was approximately 1,731,000 barrels for the reporting period, increased by approximately 21.1% from last year.

Continued focus has been placed on stratigraphic and combination play tests along with conventional structures. Middle Sand discoveries of Hakro-1, Babarki-1 and Bukhari Deep-7 showed potential extension of stratigraphic and combination play in various parts of existing blocks. Lower Basal Sand Turbite in MKK remained an area of focus where well Bago-2's initial results looked promising with testing being planned in 2018. A success in Bago-2 will pave the way for targeting multiple similar features in MKK. On the other hand, high pressure shale gas play was also pursued in 2017 to evaluate potential shale gas in MKK. We have embarked upon exhaustive data acquisition and evaluation campaign to identify shale gas sweet spots for focused drilling campaign in 2018 and beyond.

Pakistan Assets Location Map



During 2017, the Group continued to invest in surface facilities to enhance gas production. A LPG upgrade project has been carried out in Naimat with an aim to increase its processing capacity from 50 to 100 mmcfd as well as improving the recovery factor from ~50% to ~95% via the construction of a turbo expander. The LPG plant feeds natural gas and which is reprocessed into LPG for higher selling value and it is expected to commission in first quarter of 2018. To increase the processing capacity of natural gas with high carbon dioxide content of our existing Naimat Phase 5A facilities from 60 mmcfd to 100 mmcfd, we have installed an additional amine train in parallel to existing two. In addition, a new hydrogen sulfide ("H2S") solid scavenger was being constructed to process high H2S content gas in order to conform to sales specifications. Both Naimat Phase 5A facilities and H2S solid scavenger have been duly completed and commissioned in the second half of 2017.

In August 2017, we received approval from the Directorate General of Petroleum Concessions ("DGPC") for the assignment of 50% working interest in Kotri North block from PPL. Kotri North is an exploration block which has acreage of approximately 2,400 square kilometers and located adjacent to the MKK block. This new access provides significant exploration potentials in Lower Goru Sands, a reservoir which has been exploited very extensively in MKK and Badin. Post to the assignment, we spud the first well in the end of 2017 and 2 more wells have been planned for 2018 to unlock the potentials.

To further increase our working interest in the Kotri North block, we entered into a series of agreements to acquire 100% issued shares of Asia Resources Oil Limited ("AROL"), a company incorporated in the British Virgin Islands and holds 10% working interest in the Kotri North block and Gambat South block respectively. The Gambat South block is operated by PPL and which is a producing concession located at the north of MKK block. The acquisition will provide instant reserve addition to the Group and strengthen the business collaboration with PPL where it is also a joint venture partner in other concessions of the Group. The acquisition is pending relevant government approval and is estimated to be completed in the first half of 2018.

Oilfield Support Services:

As part of the Group's strategic actions, we divested the oilfield support services business subsequent to the reporting period. The transaction is expected to be completed in the first quarter of 2018. The divestment allows the Group to direct our resources to focus on the core upstream oil and gas business in Pakistan where we expect to have significant growth potentials.

Business and market outlook

Global financial markets extended last year's rally in early 2018 but suffered downswing recently as assets investors are turning more cautious on expensive assets pricing. On the commodity markets, Brent oil retreated from the 3-year-high level along with the equity markets and amid rising crude oil stockpile data in the US market. According to the World Bank Group's Global Economic Prospects released in June 2017, global growth in 2017 is projected to accelerate by 0.3% to 2.7% contributed by the recovery in industrial activity which coincided with a pickup in global trade. Growth rate is expected to strengthen further to 2.9% in 2018 and 2019. The Group is optimistic of the medium to long term performance of international prices on the back of stronger global economic growth and the steadfast commitment of OPEC and non-OPEC members on the supply rebalancing collaboration.

For 2018, the Group target average daily net production in the range of 62,000 to 64,500 boed and net 1P reserve replacement ratio of over 100%. Budget for capital expenditure will be approximately US$190 million which is allocated to support our exploration plan. Finding and development costs is expected to increase reflecting a shift of exploration strategy to new play types and the investment in the unconventional high pressure shale formation. This amount of capital investment is essential to unlock resources in new play types and which account for a significant portion of our available resources. On the other hand, lifting costs will be maintained at a stable level between US$3.5 and US$4.0 per boe.

Subsequent to the settlement of the China Development Bank acquisition loan, the Group continued to maintain a strong financial position as at 31 December 2017 with bank and cash balances of approximately HK$2,747 million and with zero financial indebtedness. This was contributed by the strong cash flow generation of the Pakistan Assets.

Pakistan Assets:

The average oil and gas production for the Pakistan market in 2016 was approximately 90,000 barrels per day and 4 billion cubic feet per day ("bcfd") respectively. United Energy's production (ranked in gross volume) accounted for about 13% share of oil and gas production. National oil companies remained the market leaders where United Energy represented the largest international exploration and development ("E&P") company in the country, according to the Pakistan Energy Outlook 2017 report issued by Petroleum Institute of Pakistan.

With a widening natural gas demand and supply gap of approximately 2 bcfd, the second LNG terminal was brought on-stream in late 2017 and LNG imports are now exceeding 500 million cubic feet per day ("mmcfd"). With the construction of additional LNG terminals and gas pipeline projects underway, Pakistan is poised to cure the supply deficit through more expensive imports. In contrast, local supply of natural gas has absolute advantage in terms of pricing compares to LNG imports and therefore any additional output will be absorbed immediately. In addition to new acreage acquired in 2017, the Group will continue to look for similar opportunities in the market or other access alternatives, such as participating in government bidding process to expand our footprint in Pakistan. On the other hand, we will also look for quality assets outside Pakistan to achieve diversification.

Conclusion

United Energy has achieved upbeat results and seized several important opportunities in 2017. As we stride into 2018, the Group will aim for even more challenging targets in terms of reserve and production targets and we need to delineate a clear plan to succeed. We will continue to seek for quality assets which have immediate contribution to production as well as reserves. In light of our current debt-free financial position, we will consider suitable leverage when required in order to maximize profit for our shareholders.

Material Acquisition and Disposal

On 24 October 2017, the shareholders of AROL (the "Sellers") and KNGS Exploration and Development Limited ("KNGS"), an indirect wholly-owned subsidiary of the Company, entered into the conditional share purchase agreement pursuant to which KNGS agreed to acquire the entire issued share capital of AROL (the "Sale Shares") from the Sellers (the "Acquisition"). AROL is a party to certain petroleum exploration licenses and petroleum concession agreements in Pakistan. The consideration of the Acquisition comprises (i) grant of a loan in an aggregate amount of US$56,000,000 (equivalent to approximately HK$436,800,000) to AROL and (ii) payment of US$7,637,760 (equivalent to approximately HK$59,575,000) to the Sellers for the purchase of Sale Shares. The Acquisition is consistent with the current strategy of the Group for expansion of its operation in upstream oil and gas business. The Acquisition will create strategic synergies within the Group given our existing business presence in South Asia. Details of the Acquisition are set out in the Company's announcement dated 24 October 2017. As at 31 December 2017, as some of the precedent conditions under the conditional share purchase agreement are in progress, the Acquisition is not yet completed.

Except the disclosures in this annual report, the Group and the Company do not have other material acquisition and disposal during the reporting period.

Segment Information

Particulars of the Group's segment information are set out in note 11 of the Notes to the Consolidated Financial Statements in this annual report.

Liquidity and Financial Resources

During the year, in order to make the best use of operating cash inflow, the Group settled the borrowings to lower the financing costs and distributed a special dividend to shareholders as a reward for their continuing support. Subsequent to these non-recurring outflows, the Group still maintained a strong financial position for the reporting period, with bank and cash balances amounting to approximately HK$2,746,793,000 as at 31 December 2017 (2016: approximately HK$5,850,098,000).

The bank loan from China Development Bank Hong Kong Branch (the "CDB Loan") for acquisition of the Pakistan upstream oilfield assets from British Petroleum borrowed in September 2011 with its accrued interest were fully settled on 17 August 2017. As at 31 December 2017, the outstanding balance of the CDB Loan became HK$ Nil (2016: US$400,000,000, equivalent to approximately HK$3,120,000,000).

On 25 June 2015, a facility letter was entered between United Energy International Trading Limited ("UEIT"), a wholly-owned subsidiary of the Company, as borrower (the "Borrower") and Haitong International Securities Company Limited as lender (the "Lender"), pursuant to which the Lender agreed to make available to the Borrower a loan facility of up to HK$150,000,000 (the "Facility") for subscription of a Haitong Multi-Tranche Investment Fund II S.P. (the "Fund") in the amount of HK$199,321,000. UEIT provided remaining balance of HK$50,000,000 from internal resources of the Group. The Fund was fully redeemed on 19 April 2017 and the Facility has been fully repaid on 26 April 2017. As at 31 December 2017, the outstanding amount of the Facility was HK$ Nil (2016: approximately HK$149,268,000).

Subsequent to the repayment of all outstanding borrowings during the year, the gearing ratio was reduced to Nil as at 31 December 2017 (2016: approximately 21.1%, based on borrowings under current liabilities and non-current liabilities of approximately HK$773,268,000 and approximately HK$2,496,000,000 respectively and total assets of approximately HK$15,496,639,000). As at 31 December 2017, the current ratio was approximately 2.67 times (2016: approximately 3.92 times), based on current assets of approximately HK$4,627,008,000 (2016: approximately HK$7,380,487,000) and current liabilities of approximately HK$1,731,469,000 (2016: approximately HK$1,880,386,000).

As at 31 December 2017, the Group's total borrowings reduced to HK$ Nil (2016: approximately HK$3,269,268,000, including secured bank loans of approximately HK$3,120,000,000 and other secured loans of approximately HK$149,268,000).

Capital Structure

During the reporting period, the changes of the share capital structure of the Company are as follows:

On 12 July 2017, the Company resolved to award 27,057,124 new ordinary shares as the scheme shares to Pakistan employees under the employees performance shares schemes adopted by the Company on 28 December 2012. The allotment of the 27,057,124 scheme shares was completed on 21 July 2017.

On 26 October 2017, the Company resolved to award 16,316,450 new ordinary shares as the scheme shares to 536 Pakistan employees under the Share Match Scheme approved and adopted by the Company for Pakistan employees on 16 September 2011. The allotment of the 16,316,450 scheme shares was completed on 15 November 2017.

After completion of the above allotment of shares during the reporting period, the total number of issued shares of the Company was increased from 26,225,691,598 shares as at 1 January 2017 to 26,269,065,172 shares as at 31 December 2017.

Employees

As at 31 December 2017, the Group employed a total of 930 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.

Contingent Liabilities

Particulars of the Group's contingent liabilities are set out in the note 39 of the Notes to the Consolidated Financial Statements in this annual report.

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 Rupee. As i) the exchange rates of United States dollars against Hong Kong dollars were relatively stable, ii) the exchange rate risk of Renminbi and Pakistani Rupee for the Group is relatively insignificant and iii) the Pakistan sales and purchase transactions are mainly settled in United States dollars, the Group did not use financial instruments for hedging purposes during the reporting period but the Group will keep closely monitoring on the effect on the fluctuation of the exchange rates of Renminbi and Pakistani Rupee and apply appropriate action to prevent any impact to the Group.

Major Customers and Suppliers

In 2017, the Group's five largest customers represented 99.0% of total turnover (2016: 98.4%) and the Group's five largest suppliers represented 48.9% of total cost of sales and services rendered (2016: 38.4%).

SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

A. Information on Crude Oil and Natural Gas Reserves

The Group has adopted the SPE/WPC/AAPG/SPEE Petroleum Resources Management System ("SPE-PRMS") in reserves estimation. Reserves are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be economically producible in the future from known and discovered oil and natural gas reservoirs under existing economic and operating conditions. Both deterministic and probabilistic methods are used in reserves estimation. When probabilistic method is used, there should be at least a 90% probability (for Proved Reserve or "1P") that the quantities actually recovered will equal or exceed the estimate. The estimation of reserves is based on the estimation of production for future years from existing wells and new development wells. The estimation is subject to economic limit test to satisfy the commerciality requirements of SPE-PRMS. The selling prices for oil, condensate and LPG used in the economic limit test are based on the forecast of market Brent oil price in future years, subject to discount or premium derived from historical realized price in the reporting period applicable to the particular fields. The gas prices in Pakistan Assets are regulated by Government Authority. The selling prices for gas used in the economic limit test are projected based on the historical realized gas price of each field in the reporting period.

For the year ended 31 December 2017, the Group engaged an independent third party consulting firm ("Consulting Firm") to perform audit and review on the reserves estimates. The Consulting Firm has audited 15 major fields in Pakistan Assets in total representing over 86% of the Group's total 1P reserves. The Consulting Firm also completed a high level review of the reasonableness of the process used by the Group on the remaining 127 fields in Pakistan assets and its opinion stated that the estimates are reasonable.

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

	Pakistan Assets		
Net proved reserves	**Oil, Condensate and LPG** (MMbbl)	**Sales Gas** (Bcf)	**Total** (MMboe)
As at 31 December 2016 and 1 January 2017	15.4	465.0	95.6
Production	(2.7)	(116.5)	(22.7)
Discoveries & revisions	5.6	104.2	23.5
As at 31 December 2017	18.3	452.7	96.4

Supplementary Information on Oil and Gas Exploration, Development and Production Activities (Continued)

Notes:

1. Boe is calculated using a conversion ratio of 5,800 Scf/Boe.

2. The forecast of Brent oil price used in the estimation is provided in following table:

	Brent Market Crude (US$/Bbl)
2018	55.96
2019	60.48
2020	65.00
2021	66.30
2022	67.63
2023	68.98
Thereafter	Escalated at 2% p.a.

3. The Group's net interest reserves represent the Group's net entitlement under fiscal and contractual terms in various concession agreements in Pakistan.

B. Major Exploration, Development and Production Activities

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

	Pakistan Assets
Exploration activities:	• 13 Exploration wells
Development activities:	• 14 Development wells • 11 Rig workovers
Production activities:	• Average daily net production of 62,327 boe

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 31 December 2017:

	Pakistan Assets (HK$'000)
Exploration costs	712,276
Development costs	1,099,034
Production costs(Note)	650,029

Note: Production costs recognized in cost of sales excluding depreciation and amortization and sales 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, openness and accountability to our shareholders. This Corporate Government Report is prepared in material compliance of the reporting requirements as contained in Appendix 14 of the Listing Rules on the Stock Exchange.

Corporate Governance Practices

For the year ended 31 December 2017, the Company has applied the principles and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, 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;

3. The Code A.6.7 – an independent non-executive Director did not attend the annual general meeting; and

4. The Code E.1.2 – the chairman of the Board and the chairmen of the audit, remuneration and nomination committees did not attend the annual general meeting.

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 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.

According to Code Provision A.6.7 of the Code, independent non-executive Directors and other non-executive Directors, as equal Board members, should attend general meetings and develop a balanced understanding of the views of shareholders. Code provision E.1.2 of the Code requires the chairman of the Board to attend the annual general meeting and to invite the chairmen of the audit, remuneration and nomination committees to attend the annual general meeting. Mr. Zhang Hong Wei, an executive Director and the chairman of the Board, was unable to attend the annual general meeting of the Company held on 26 May 2017 (the "2017 AGM") as he got sick. Mr. San Fung, an independent non-executive Director and the chairman of the audit, remuneration and nomination committees, was unable to attend the 2017 AGM as he was out of town for other business. In their absence, Mr. Zhu Jun, being a member of the Board, Ms. Zhang Meiying, being a member of the Board, the remuneration and nomination committees, as well as Mr. Chau Siu Wai, being a member of the Board, the audit, remuneration and nomination committees, attended the 2017 AGM and answered questions raised at the meeting.

Rule 3.10(1) of the Listing Rules requires at least three independent non-executive Directors of the Board and Rule 3.21 of the Listing Rules requires the minimum number of member of audit committee should be three. Mr. Zhu Chengwu resigned as an independent non-executive Director on 6 April 2017. During the period from his resignation to 30 June 2017, the number of independent non-executive Directors of the Company and the number of members of the audit committee of the Company fall below three of the Board. The Company has restored to comply with this ruling while Ms. Wang Ying is appointed as an independent non-executive director and the member of the audit committee of the Company and effective from 1 July 2017. Details of her appointment are set out in the Company's announcement dated 30 June 2017.

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 2017.

Directors and Officers Insurance

Appropriate insurance covers on Directors' and officers' liabilities have been in force to protect the Directors and officers of the Group from their risk exposure arising from the business of the Group.

Board of Directors

Composition

As at 31 December 2017, the Board of Directors (the "Board") of the Company comprises five members and Mr. Zhang Hong Wei acts as the Chairman of the Board. Another executive Director is Ms. Zhang Meiying. The Company has three independent non-executive Directors, Mr. Chau Siu Wai, Mr. San Fung and Ms. Wang Ying, one of whom namely, Ms. Wang Ying has appropriate professional accounting experience and expertise. Ms. Wang Ying has been appointed as independent non-executive Director and the member of Audit Committee of the Company and effective from 1 July 2017. Mr. Zhu Jun has resigned as the executive Director and effective from 27 December 2017 and Mr. Zhu Chengwu has resigned as the independent non-executive Director and the member of Audit Committee of the Company and effective from 6 April 2017.

Board Members	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Zhang Hong Wei	C			
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
Ms. Wang Ying (appointed and effective from 1 July 2017)	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 pages 39 to 40 of this annual report.

During the year ended 31 December 2017, save as disclosed above under the paragraph "Corporate Governance Practices", 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/she 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 report, 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 are formally held 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 16 Board meetings being held during the year ended 31 December 2017 and the attendance of individual Directors is as follows:

	Board Meetings
Zhang Hong Wei	16/16
Zhang Meiying	16/16
Chau Siu Wai	16/16
San Fung	16/16
Wang Ying (appointed and effective from 1 July 2017) (Note 1)	12/12
Zhu Jun (resigned and effective from 27 December 2017) (Note 2)	15/15
Zhu Chengwu (resigned and effective from 6 April 2017) (Note 2)	1/1

The attendance records of individual Directors of the 2017 AGM is set out below:

	AGM
Zhang Hong Wei	0/1
Zhang Meiying	1/1
Chau Siu Wai	1/1
San Fung	0/1
Wang Ying (appointed and effective from 1 July 2017) (Note 1)	N/A
Zhu Jun (resigned and effective from 27 December 2017)	1/1
Zhu Chengwu (resigned and effective from 6 April 2017) (Note 2)	N/A

Notes:

1. Disregarding the meetings prior to Wang Ying's appointment on 1 July 2017.

2. Disregarding the meetings after Zhu Jun's resignation on 27 December 2017 and Zhu Chengwu's resignation on 6 April 2017 respectively.

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 2017, 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 reporting period. 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) attending 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.

Directors' Responsibilities for the Consolidated Financial Statements

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements of the Group. In preparing the accounts for the year ended 31 December 2017, 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, Remuneration Committee and Nomination 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. As at 31 December 2017, the Audit Committee consists of all the independent non-executive Directors, namely Mr. Chau Siu Wai, Mr. San Fung and Ms. Wang Ying. 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, risk management and internal controls. The Audit Committee meets with the Company's external auditor to ensure the objectivity and credibility of financial reporting, risk management and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

During the year ended 31 December 2017, there are 2 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	2/2
San Fung	2/2
Wang Ying (appointed and effective from 1 July 2017) (Note 1)	1/1
Zhu Chengwu (resigned and effective from 6 April 2017) (Note 2)	1/1

Notes:

1. Disregarding the meeting prior to Wang Ying's appointment on 1 July 2017.

2. Disregarding the meeting after Zhu Chengwu's resignation on 6 April 2017.

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 functions during the year ended 31 December 2017: (1) reviewed the annual audit plan of external auditors, their audited reports and matters incidental thereto; (2) approved the appointment of external auditors including the terms of engagement; (3) discussed the risk management and 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 recommendation to the Board for approval and evaluated the performance and independence 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. Chau Siu Wai, Mr. San Fung 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 2 meetings in 2017 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 Ms. 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, the composition of the Board and review the Board Diversity Policy of the Company. The nominations of Directors were made in accordance with the Nomination Policy and the objective criteria (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity under the Board Diversity Policy of the Company. According to the Board Diversity Policy of the Company, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee held 2 meetings in 2017 at which all committee members were present. At the meeting, the Nomination Committee: (1) reviewed the structure, size and composition of the Board; (2) reviewed the Company's board diversity policy; (3) discussed the causal vacancies for the resigned Directors during the year; and (4) assessed the independence of independent non-executive Directors.

Responsibilities and Remuneration of External Auditors

The statement of the external auditors of the Company, Messrs. RSM Hong Kong, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 41 to 45.

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

Services rendered:	HK$
– audit services	2,087,000
– interim financial review	110,000
– non-audit services	77,000

Risk Management and Internal Control

The Board is responsible for maintaining an adequate system of risk management and internal controls within the Group and for reviewing their effectiveness. The system of risk management and internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reportings 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 Group has established an internal audit and risk management department (the "IARM Department"), which will report to the Board, to conduct annual review of the Group's risk management and internal control systems to ensure its effectiveness and the interest of shareholders is safeguarded. During the reporting period, the IARM Department has conducted annual review of the Group's risk management and internal control systems with implementation of stricter and regulated risk management and internal control procedures. After discussing with the IARM Department, the Board considered that the Group's risk management and internal control systems had been implemented effectively. The annual reviews covered all material controls, including financial, operational and compliance controls and risk management functions.

Company Secretary

Mr. Hung Lap Kay is the company secretary of the Company since March 2010. During the year ended 31 December 2017, 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 detailed procedures for conducting a poll have 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 reporting period, 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 consolidated financial statements for the year ended 31 December 2017.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 43 to the Consolidated Financial Statements of this annual report.

Business Review

General

For the review of the business of the Group including the future development in the Group's business and the analysis of financial key performance indicators, please refer to the section headed "Management Discussion and Analysis" on pages 8 to 18 of this annual report.

Principal risks and uncertainties facing the Group

The following section lists out the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks pertaining to the changes in oil and gas prices in international market

Prices for crude oil and natural gas may fluctuate widely in response to changes in the supply and demand for crude oil and natural gas, overall economic and political instability, natural disasters and weather conditions that are beyond our control. Changes in oil and gas prices could have a material effect on the Group's cash flows and earnings. The prolonged low oil and gas prices may also result in the impairment of our oil and gas properties.

Risks pertaining to the oil & gas market in Pakistan

The Group's financial performance is subject to tax and fiscal regime applicable to oil and gas industry in Pakistan. Any changes in the tax and fiscal regime in Pakistan may increase our tax burden and have an adverse effect on our financial performance. The Group's business may also be affected by the economic, political and environmental conditions of the country that are beyond our control.

Risks pertaining to exploration and replacement of reserves

Our exploration and development activities have inherent risk of not discovering commercial oil and gas reserves. Exploration and development of reserves are capital intensive. Failure in discovery of reserves may result in incurring of written off or impairment losses. The reliability of reserve estimates depends on the quality and quantity of technical and economic data, the production performance of reservoir, the market prices of oil and natural gas, extensive engineering judgements, and consistency in tax and fiscal regime. Many of the factors, assumptions and variables involved in estimating reserves are beyond our control. The quantities of crude oil and reserves that are ultimately recovered could differ from the Group's reserve estimates.

Risks pertaining to operation

The Group's exploration, development and production activities involve numerous health, safety, security and environment risks that are common among upstream oil and gas companies. Accidents may happen despite systems and policies set up for their prevention which may lead to financial loss, operation interruption and litigation.

The Group is subject to extensive environmental protection laws and regulations of countries with operation. If there are changes in the environmental protection laws and regulations, we may incur additional costs for environmental compliance matters.

Risks pertaining to mergers and acquisitions

The Group may require acquisitions of new assets under its business development plans to continue its business expansion. There is no assurance that mergers and acquisitions may succeed due to various reasons, such as the availability of external financings and outcomes differing from key assumptions.

Past performance and forward looking statements

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee of future performance. This annual report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

Environmental policies and performance

The Group remains steadfast to its values, of which the commitment to health, safety and environmental ("HSE") performance is a core principle. All operations are conducted in a safe and efficient manner governing by our HSE policy. Key HSE performance indicators are included in the performance appraisal scheme. During the reporting period, all HSE performance objectives were delivered. The Group continues to strive for excellence in HSE in order to remain at par with local as well as international standards.

Compliance with Laws and Regulations

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in Pakistan, the PRC, Hong Kong and Bermuda, applicable to it to ensure compliance. Substantially a majority of the Group's operations are in Pakistan. The Group has been listing on the Stock Exchange of Hong Kong since 8 April 1992. During the reporting period, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

Key relationship with major stakeholders

The Group places value to develop mutually beneficial relationships with its stakeholders, including its shareholders, employees, government and local communities, customers and suppliers. Details of communication with shareholders are included in Corporate Governance Report of this annual report on pages 28 to 29.

Employees are remunerated equitably and competitively. Continuing training and development opportunities are provided to equip them to deliver their performance.

The Group's business strives to create a win-win situation with government and local communities. Our strategic plan to explore new reserves can partially ease the energy supply deficit problem in Pakistan. The local communities also benefit from our sustainable social investment projects. During the reporting period, our strategic areas in the social investment projects were healthcare, education and capacity building.

The Group's major customers are state-owned enterprises. Sales agreement is entered with customers and gas is delivered to customers through pipeline connected to our facilities.

The Group uses suppliers to reflect its value and commitment on HSE performance. Site visit and panel discussion have always been conducted in exchange of technical knowledge and skills.

Results

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 46 to 129 of this annual report.

Major Customers and Suppliers

The information in respect of the sales and purchases attributable to the major customers and suppliers of the Group respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	79.9%	N/A
Five largest customers	99.0%	N/A
The largest supplier	N/A	13.3%
Five largest suppliers	N/A	48.9%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

Share Premium and Reserves

Details of movements in the share premium and reserves and a statement of the reserves available for distribution to shareholders of the Company and the Group during the reporting period are set out in note 34 to the Consolidated Financial Statements and page 50 respectively of this annual report.

Segment Information

The segment information of the Group for the year ended 31 December 2017 is set out in note 11 to the consolidated financial statements of this annual report.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 130 of this annual report. This summary is for information only and does not form part of the audited consolidated financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the reporting period are set out in note 19 to the Consolidated Financial Statements of this annual report.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings during the reporting period are set out in note 30 to the Consolidated Financial Statements of this annual report.

Permitted Indemnity Provision

Under the Bye-laws of the Company, generally, the Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses for acts done, concurred in or omitted in when discharging their duties in the affairs of the Company, other than any matter in respect of any fraud or dishonesty.

In addition, the Company has taken out and maintained insurance for the Directors against liabilities to third parties that maybe incurred in the course of performing their duties as at the date of this report.

Directors and Directors' Service Contracts

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

Executive Directors:

Zhang Hong Wei (*Chairman)*
Zhang Meiying
Zhu Jun (resigned and effective from 27 December 2017)

Independent non-executive Directors:

Chau Siu Wai
San Fung
Wang Ying (appointed and effective from 1 July 2017)
Zhu Chengwu (resigned and effective from 6 April 2017)

Pursuant to Bye-laws 87(1) and 87(2), Mr. Zhang Hong Wei and Ms. Wang Ying shall retire by rotation and being eligible, will offer themselves for re-election at the Annual General Meeting to be held in 2018.

There is no service contract entered into between the Company 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

The Company's share option scheme (the "Old Scheme") with the maximum number of 9,598,537 shares of the Company to be issued upon on the exercise of share options under the Old Scheme (the "Old Scheme Limit") 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. On 3 December 2007, the Old Scheme Limit was approved to be refreshed to the maximum number of 1,277,709,163 shares of the Company to be issued upon on the exercise of share options under the Old Scheme by shareholders of the Company (the "Refreshed Old Scheme Limit"). The corresponding listing approval for the Refreshed Old Scheme Limit was granted by the Stock Exchange on 28 February 2008. The Old Scheme has been expired on 10 May 2016.

The new share option scheme of the Company (the "New Scheme") with the maximum number of 1,308,572,137 shares of the Company to be issued on the exercise of share options under the New Scheme (the "New Scheme Limit") was adopted pursuant to the shareholders' resolution passed on 27 May 2016 for the primary purpose of providing opportunity to Directors, employees and consultants to acquire proprietary interests of the Group.

The total number of shares in respect of which options may be granted under the New 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 reporting period, no share options were granted, exercised, lapsed or cancelled under both the Old Scheme and the New Scheme. As at 31 December 2017, 627,452,526 shares under the Refreshed Old Scheme Limit were not used for granting share option under the Old Scheme ("Unused Refreshed Old Scheme Limit") and the total adjusted outstanding share options granted under the Old Scheme but not exercised was 23,256,637 units of the share options ("Outstanding Option Not Exercised"). The ratio of Unused Refreshed Old Scheme Limit and the Outstanding Option Not Exercised to the total issued shares of the Company of 26,269,065,172 shares as at 31 December 2017 was 2.48%.

As at 31 December 2017, details of outstanding share options granted but not exercised under the Old Scheme are as follows:

Grant Date	Adjusted Exercise Price (Note) HK$	Vesting Period	Exercisable Period	Adjusted Number of Share Options (Note) As at 1.1.2017	Granted	Exercised	Lapsed	Cancelled	As at 31.12.2017
Employees									
29.8.2012	0.93	29.8.2012 to 28.8.2013	29.8.2013 to 28.8.2022	6,976,991	–	–	–	–	6,976,991
29.8.2012	0.93	29.8.2012 to 28.8.2014	29.8.2014 to 28.8.2022	4,651,327	–	–	–	–	4,651,327
29.8.2012	0.93	29.8.2012 to 28.8.2015	29.8.2015 to 28.8.2022	4,651,327	–	–	–	–	4,651,327
29.8.2012	0.93	29.8.2012 to 28.8.2016	29.8.2016 to 28.8.2022	6,976,992	–	–	–	–	6,976,992
Total				23,256,637	–	–	–	–	23,256,637

Note: Upon completion of Open Offer on 30 August 2016, the exercise price and the number of shares that can be subscribed for upon the exercise of the outstanding share options was adjusted from HK$1.20 to HK$0.93 and 18,000,000 shares to 23,256,637 shares respectively.

Disclosure of Interests

Director's interests and short positions in the securities of the Company and its associated corporations

As at 31 December 2017, the following Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) or which were otherwise required to notify the Company and the Stock Exchange pursuant to 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	18,754,300,230	–	71.39 (Note 1)

Note:

1. Out of the 18,754,300,230 shares, 10,657,758,250 shares were beneficially held by He Fu International Limited, 4,447,453,416 shares were beneficially held by United Petroleum & Natural Gas Holdings Limited, and 3,649,088,564 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 18,754,300,230 shares.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives of the Company and their respective associates had or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company are taken or deemed to have under such provisions of the SFO), or were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at 31 December 2017, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity and nature of interest	Number of Shares	Approximate % shareholding
He Fu International Limited (Note 1)	Beneficial owner	10,657,758,250 (L)	40.57% (L)
United Petroleum & Natural Gas Holdings Limited (Note 1)	Beneficial owner	4,447,453,416 (L)	16.93% (L)
United Energy Holdings Limited (Note 1)	Beneficial owner	3,649,088,564 (L)	13.89% (L)
Haitong International Credit Company Limited (Note 2)	Person having a security interest in shares	5,207,718,268 (L)	19.82% (L)
Haitong International Securities Group Limited (Note 2)	Attributable interest of controlled corporation	5,207,718,268 (L)	19.82% (L)
Haitong International Holdings Limited (Note 2)	Attributable interest of controlled corporation	5,207,718,268 (L)	19.82% (L)
Haitong Securities Co., Ltd. (Note 2)	Attributable interest of controlled corporation	5,207,718,268 (L)	19.82% (L)

Notes:

1. These companies are wholly owned by Mr. Zhang Hong Wei.

2. Haitong International Credit Company Limited is wholly owned by Haitong International Securities Group Limited. Haitong International Holdings Limited has an interest in approximately 62.43% of the issued share capital of Haitong International Securities Group Limited and is wholly owned by Haitong Securities Co., Ltd. Therefore, each of Haitong International Securities Group Limited, Haitong International Holdings Limited and Haitong Securities Co., Ltd. is deemed or taken to be interested in the 5,207,718,268 Shares which are owned by Haitong International Credit Company Limited under the Securities and Futures Ordinance ("SFO").

3. (L) denotes long position and (S) denotes short position

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Share Capital

Particulars of the Company's share capital are set out in note 33 to the Consolidated Financial Statements of this annual report. Details of newly issued shares of the Company during the reporting period are set out in the section headed "Management Discussion and Analysis – Capital Structure" on page 18 of this annual report.

Arrangements to Purchase Shares or Debentures

At no time during the reporting period was the Company, its subsidiaries, 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' Material Interests in Transactions, Arrangements and Contracts of Significance

No transactions, arrangements and contracts of significance in relation to the Group's business 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 reporting period or at any time during the reporting period, except as announced.

Emolument Policy

The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence. The Company has adopted the share option scheme as an incentive to qualified employees (with the meanings in the share option scheme of the Company). Details of the scheme are set out in the section headed "Share Option Scheme" on pages 33 to 34 and note 36 to the Consolidated Financial Statements of this annual report.

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. Details of the remuneration of the Directors and those of the five highest paid individuals are set out in note 15 to the Consolidated Financial Statements of this annual report. Save as disclosed in note 15(a) to the Consolidated Financial Statements in this annual report, there has been no arrangement under which any Director has waived or agreed to waive any emoluments.

Management Contracts

Other than Directors' service contracts and employment contracts with the Group's senior management in full-time employment, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2017.

Directors' Interests in Competing Business

During the year ended 31 December 2017, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

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 independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange. 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 2017.

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.

Related Party Transactions

The related party transactions conducted during the reporting period are set out in note 38 to the Consolidated Financial Statements of this annual report.

Save as disclosed below under the paragraph "Connected Transactions", the related party transactions as set out in note 38 to the Consolidated Financial Statements of this annual report do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules during the year ended 31 December 2017.

Connected Transactions

The Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in compliance with the requirements of Chapter 14A of the Listing Rules during the year ended 31 December 2017.

Corporate Governance

In the opinion of the Directors, the Company has complied throughout the financial year for the year ended 31 December 2017 with the Code, except for code provisions A.2.1, A.4.1, A.6.7 and E.1.2 as set out in the Code contained in Appendix 14 to the Listing Rules. Please refer to the Corporate Governance Report on pages 21 to 29 of this annual report for details.

Details of the audit committee, remuneration committee and nomination committee are set out in the Corporate Governance Report of this annual report.

Distributable Reserves

As at 31 December 2017, the aggregate amounts of the Company's reserves available for distribution to equity shareholders of the Company was approximately HK$12,261,803,000 (31 December 2016: approximately HK$13,312,566,000).

Dividends

A special dividend of HK$4 cents per ordinary share was paid on 15 December 2017.

The Board has recommended to declare and payment of a final dividend for the year ended 31 December 2017 at HK$4 cents per ordinary share to the shareholders whose names appear on the register of members of the Company on Monday, 30 April 2018. Subject to approval of the proposed final dividend by the Company's shareholders at the forthcoming annual general meeting to be held on Friday, 20 April 2018 (the "AGM"), the dividend cum-date and ex-date will be Monday, 23 April 2018 and Tuesday, 24 April 2018 respectively, and the final dividend will be paid to the shareholders of the Company on or about Tuesday, 15 May 2018. The proposed final dividend has not been reflected in the financial statements as at 31 December 2017.

Closure of Register of Members

The AGM of the Company will be held on Friday, 20 April 2018. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 17 April 2018 to Friday, 20 April 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Monday, 16 April 2018.

The proposed final dividend is subject to the passing of an ordinary resolution by the Company's shareholders at the AGM. The record date for entitlement to the proposed final dividend is Monday, 30 April 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 26 April 2018 to Monday, 30 April 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 25 April 2018.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the financial year ended 31 December 2017.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2017.

Events After Reporting Period

The events after reporting period are set out in note 45 to the Consolidated Financial Statements of this annual report.

Auditors

At the Company's last annual general meeting held on 26 May 2017, RSM Hong Kong was re-appointed as auditor of the Company. RSM Hong Kong retires, and, being eligible, offers themselves for re-appointment. A resolution for the reappointment of RSM Hong Kong will be put at the forthcoming AGM.

By order of the Board
United Energy Group Limited

Zhang Hong Wei
Chairman
Hong Kong, 23 February 2018

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Hong Wei, aged 63, joined the Company on 27 February 1998. Mr. Zhang is the Chairman of the Group. Mr. Zhang is also the Deputy Chairman of China Minsheng Banking Corporation Ltd., a joint-stock bank listed on the Shanghai Stock Exchange and on the Stock Exchange of Hong Kong Limited. Mr. Zhang has 30 more years of experience in management in the PRC. As at the date of this annual report, Mr. Zhang is beneficially interested in 18,754,300,230 shares of the Company, representing approximately 71.39% 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.

Ms. Zhang Meiying, aged 39, 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 14 years of experience in banking and financial management. Ms. Zhang Meiying holds a BBA degree in Finance and International Business from the George Washington University, USA. Ms. Zhang has not held any directorship with other listed companies in the last 3 years. Ms. Zhang is the daughter of Mr. Zhang Hong Wei, the Chairman, executive Director and controlling shareholder of the Company.

Independent Non-executive Directors

Mr. San Fung, aged 53, joined the Company on 9 November 2004 as an independent non-executive Director. Mr. San Fung completed a course in Master of Business Administration from the International Eastwestern University of the United States and a course of EMBA from Cheung Kong Graduate School of Business and was awarded a master degree. He specialized in financial analysis in infrastructure project and has over 20 years of experience in management and business operation. Mr. San is currently the chairman of Shenzhen Jin Xun Investment Development Company Limited.

Mr. Chau Siu Wai, aged 48, joined the Company on 9 November 2004 as an independent non-executive Director. He obtained a master degree in business administration from Murdoch University in Australia. Mr. Chau has over 14 years of experience in financial reporting and investment analysis and is now the Managing Director of an investment company.

Ms. Wang Ying, aged 40, joined the Company on 1 July 2017 as an independent non-executive Director. Ms. Wang graduated from the Beijing Chemical University with major in Financial Accounting. In 2012, she also obtained a Beijing International MBA (BiMBA) from BiMBA Business School of the National School of Development at Peking University. Ms. Wang joined Pfizer Pharmaceuticals Limited ("Pfizer") since 2001 and is currently the Senior Finance Manager (Internal Compliance & Risk Control, Accounting) of Pfizer. She has more than 16 years of experience in financial accounting, risk management and internal control. Through her past working experience, Ms. Wang 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. The Board considers Ms. Wang possesses appropriate accounting and financial management knowledge, experience and expertise of an independent non-executive director as required under Rule 3.10(2) of the Listing Rules.

Senior Management

Mr. Song Yu, aged 41, joined the Company in October 2009 as Investment Controller and promoted as Chief Operation Officer of the Company in October 2011. Mr. Song graduated from the Tsinghua University and obtained a bachelor's degree in physics and master's degree in law in International Economic Law. Before joining the Company, Mr. Song worked in different subsidiaries of Sinopec Group during the period from 2004 to 2009. During that time, Mr. Song served various positions including the general director in a subsidiary of Sinopec Group and focused on oil trading, procurement and technical services in relation to petroleum exploration and production, and in-house legal consultant and head of legal in other subsidiaries of Sinopec Group.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
UNITED ENERGY GROUP LIMITED
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of United Energy Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 46 to 129, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Impairment of intangible assets and property, plant and equipment

2. Estimate of oil and gas reserves

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of intangible assets and property, plant and equipment of exploration and production segment Refer to Note 19 and Note 20 to the consolidated financial statements and the accounting policies on pages 62 to 64 and 72. The exploration and production segment represents the Group's upstream oil and natural gas businesses in Pakistan. As at 31 December 2017, the Group had intangible assets and property, plant and equipment with carrying values of approximately HK$2,237,061,000 and HK$5,769,062,000 respectively attributable to the exploration and production segment. As at 31 December 2017, management carried out an impairment review on the intangible assets and property, plant and equipment for indicators of possible impairment by considering events or changes in circumstances which could indicate that the carrying amounts of certain assets may not be recoverable. Such events and changes in circumstances indicating possible impairment were mainly resulting from a decline in production and oil and gas reserve and management considered certain oil and gas fields were no longer economical and that the related assets should be fully written off. Write-offs of exploration and production intangible assets and property, plant and equipment of approximately HK$39,932,000 and HK$334,787,000 respectively were recognised during the year.	**Audit procedures performed by the component auditors in Pakistan and by the Group audit engagement team included:** • Understanding management's impairment assessment process. • Meeting with operations and finance management to discuss asset performance, production and reserves data and future plans in order to identify any performance-related indicators of impairment. • For those oil and gas fields which were considered no longer commercially viable with marginal or no production, we obtained the list of written off assets and their carrying values and: – Assessed the mathematical accuracy of the write-off amounts; – Assessed the written off assets performance by inspecting supporting evidence such as reserves estimates, current production information and future production plans; – Reviewed the reserves estimates report and current production information to ensure all cash generating units with indications of no commercial viability had been considered; and – Assessed the adequacy of the disclosures in the financial statements in relation to the write off of exploration and production assets.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Estimate of oil and gas reserves Refer to the key sources of estimation uncertainty on page 74. The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Group's share of reportable volumes. These estimates have a significant impact on the financial statements, in particular in the determination of impairment losses and depreciation, depletion and amortisation charges.	**Audit procedures performed by the component auditors in Pakistan and by the Group audit engagement team included:** • Performing walk through procedures to understand management's internal processes and controls over estimates of oil and gas reserves. • Assessing the professional competence, objectivity and capabilities of the independent external expert engaged by the Group to audit the Group's estimates of oil and gas reserves and ensuring that the scope of work undertaken by the expert was appropriate. • Evaluating whether the methodology adopted by the reserves specialists to estimate the oil and gas reserves was consistent with recognised industry standards. • Reviewing the reports of the independent external experts on their audit of the reserves shared by the Group and ensuring that the updated estimates of oil and gas reserves were properly included in the Group's impairment assessment and in accounting for depreciation, depletion and amortisation.

Other Information

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Poh Weng.

RSM Hong Kong
Certified Public Accountants
29th Floor, Lee Garden Two,
28 Yun Ping Road,
Causeway Bay,
Hong Kong

23 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Continuing operations			
Turnover	8	**4,441,266**	4,061,024
Cost of sales and services rendered		**(1,783,024)**	(1,925,130)
Gross profit		**2,658,242**	2,135,894
Investment and other income	9	**60,484**	31,021
Other gains and losses	10	**(75,139)**	(83,396)
Exploration expenses		**(366,813)**	(165,749)
Administrative expenses		**(312,185)**	(380,401)
Other operating expenses		**(89,474)**	(103,344)
Profit from operations		**1,875,115**	1,434,025
Finance costs	12	**(118,930)**	(232,447)
Share of profits/(losses) of an associate		**52**	(3)
Profit before tax		**1,756,237**	1,201,575
Income tax expense	14	**(440,420)**	(176,662)
Profit for the year from continuing operations	13	**1,315,817**	1,024,913
Discontinued operations			
Loss for the year from discontinued operations	16	**–**	(64,560)
Profit for the year		**1,315,817**	960,353
Attributable to:			
Owners of the Company			
Profit for the year from continuing operations		**1,316,340**	1,029,568
Loss for the year from discontinued operations		**–**	(64,560)
		1,316,340	965,008
Non-controlling interests			
Loss for the year from continuing operations		**(523)**	(4,655)
		1,315,817	960,353
Earnings per share	17		
From continuing and discontinued operations			
Basic (cents per share)		**5.02**	4.90
Diluted (cents per share)		**N/A**	N/A
From continuing operations			
Basic (cents per share)		**5.02**	5.23
Diluted (cents per share)		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	**1,315,817**	960,353
Other comprehensive income after tax:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(27,598)**	20,082
Other comprehensive income for the year, net of tax	**(27,598)**	20,082
Total comprehensive income for the year	**1,288,219**	980,435
Attributable to:		
Owners of the Company		
Profit for the year from continuing operations	**1,286,996**	1,051,383
Loss for the year from discontinued operations	**–**	(64,560)
	1,286,996	986,823
Non-controlling interests		
Profit/(loss) for the year from continuing operations	**1,223**	(6,388)
	1,288,219	980,435

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	19	**5,833,375**	5,350,975
Intangible assets	20	**2,254,061**	2,514,303
Investment in associates	21	**70,049**	69,997
Available-for-sale financial assets	22	**4,914**	4,914
Advances, deposits and prepayments	23	**486,130**	62,072
Deferred tax assets	32	**–**	113,891
		8,648,529	8,116,152
Current assets			
Inventories	24	**209,242**	207,794
Trade and other receivables	25	**1,366,553**	724,587
Financial assets at fair value through profit or loss	26	**3,398**	259,771
Current tax assets		**300,337**	337,114
Pledged bank deposits	27(b)	**685**	1,123
Bank and cash balances	27(a)	**2,746,793**	5,850,098
		4,627,008	7,380,487
Current liabilities			
Trade and other payables	28	**1,656,876**	1,078,943
Due to directors	29	**5,697**	9,558
Borrowings	30	**–**	773,268
Current tax liabilities		**68,896**	18,617
		1,731,469	1,880,386
Net current assets		**2,895,539**	5,500,101
Total assets less current liabilities		**11,544,068**	13,616,253
Non-current liabilities			
Borrowings	30	**–**	2,496,000
Provisions	31	**326,463**	291,268
Deferred tax liabilities	32	**540,586**	405,441
		867,049	3,192,709
NET ASSETS		**10,677,019**	10,423,544

Consolidated Statement of Financial Position (Continued)

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	33	**262,690**	262,256
Reserves	35(a)	**10,389,779**	10,137,961
Equity attributable to owners of the Company		**10,652,469**	10,400,217
Non-controlling interests		**24,550**	23,327
TOTAL EQUITY		**10,677,019**	10,423,544

Approved by the Board of Directors on 23 February 2018 and are signed on its behalf by:

Zhang Hong Wei
Executive Director

Zhang Meiying
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital (note 33) HK$'000	Share premium account (note 35(b)) HK$'000	Merger reserve (note 35(b)) HK$'000	Contributed surplus reserve (note 35(b)) HK$'000	Foreign currency translation reserve (note 35(b)) HK$'000	Share-based capital reserve (note 35(b)) HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016	130,857	17,940	(2,286,000)	13,312,566	32,316	14,121	(4,409,906)	6,811,894	29,715	6,841,609
Total comprehensive income for the year	–	–	–	–	21,815	–	965,008	986,823	(6,388)	980,435
Recognition of share-based payments	–	–	–	–	–	803	–	803	–	803
Issue of shares under employees performance share schemes (note 33(a))	162	10,903	–	–	–	–	–	11,065	–	11,065
Issue of shares under share match scheme (note 33(b))	217	5,317	–	–	–	–	–	5,534	–	5,534
Issue of shares under open offer (note 33(c))	131,020	2,453,078	–	–	–	–	–	2,584,098	–	2,584,098
Changes in equity for the year	131,399	2,469,298	–	–	21,815	803	965,008	3,588,323	(6,388)	3,581,935
At 31 December 2016	262,256	2,487,238	(2,286,000)	13,312,566	54,131	14,924	(3,444,898)	10,400,217	23,327	10,423,544
At 1 January 2017	**262,256**	**2,487,238**	**(2,286,000)**	**13,312,566**	**54,131**	**14,924**	**(3,444,898)**	**10,400,217**	**23,327**	**10,423,544**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(29,344)**	**–**	**1,316,340**	**1,286,996**	**1,223**	**1,288,219**
Issue of shares under employees performance share schemes (note 33(a))	**271**	**10,282**	**–**	**–**	**–**	**–**	**–**	**10,553**	**–**	**10,553**
Issue of shares under share match scheme (note 33(b))	**163**	**5,303**	**–**	**–**	**–**	**–**	**–**	**5,466**	**–**	**5,466**
Special dividend paid (note 18)	**–**	**–**	**–**	**(1,050,763)**	**–**	**–**	**–**	**(1,050,763)**	**–**	**(1,050,763)**
Changes in equity for the year	**434**	**15,585**	**–**	**(1,050,763)**	**(29,344)**	**–**	**1,316,340**	**252,252**	**1,223**	**253,475**
At 31 December 2017	**262,690**	**2,502,823**	**(2,286,000)**	**12,261,803**	**24,787**	**14,924**	**(2,128,558)**	**10,652,469**	**24,550**	**10,677,019**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
Continuing operations		**1,756,237**	1,201,575
Discontinued operations		**–**	(64,560)
		1,756,237	1,137,015
Adjustments for:			
Amount due to directors written back		**(3,880)**	–
Depreciation and amortisation		**1,190,928**	1,420,862
Fair value gains on financial assets at fair value through profit or loss		**(1,402)**	(135)
Finance costs		**118,930**	232,447
(Gain)/loss on disposals of property, plant and equipment		**(1,037)**	3,441
Intangible assets written off		**39,932**	3,383
Investment income		**(49,363)**	(20,047)
Property, plant and equipment written off		**334,787**	184,122
Reversal of allowance for other receivables		**–**	(2,136)
Share-based payments		**10,709**	10,780
Share of (profits)/losses of an associate		**(52)**	3
Operating profit before working capital changes		**3,395,789**	2,969,735
(Increase)/decrease in inventories		**(1,068)**	15,477
(Increase)/decrease in trade and other receivables		**(638,196)**	979,867
Decrease/(increase) in advances, deposits and prepayments		**722**	(55)
Decrease/(increase) in financial assets at fair value through profit or loss		**257,775**	(57,804)
Increase/(decrease) in trade and other payables		**620,988**	(486,877)
Increase in due to directors		**19**	1,234
Increase/(decrease) in provisions		**33,179**	(28,425)
Cash generated from operations		**3,669,208**	3,393,152
Interest paid		**(159,282)**	(229,578)
Income taxes paid		**(92,346)**	(140,166)
Net cash generated from operating activities		**3,417,580**	3,023,408

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase)/decrease in term deposits		**(136,016)**	142,669
Decrease in pledged bank deposits		**503**	172,613
(Increase)/decrease in deposit paid for acquisition of property, plant and equipment	37(a)	**(43,852)**	36,084
Increase in loan receivables		**(436,800)**	–
Refund of restricted deposits		**–**	412,001
Investment in an associate		**–**	(70,000)
Purchases of property, plant and equipment	37(a)	**(1,720,893)**	(1,197,765)
Purchases of available-for-sale financial assets		**–**	(4,914)
Purchases of intangible assets		**(17,000)**	–
Proceeds from disposals of property, plant and equipment		**1,140**	569
Interest received		**49,195**	19,880
Net cash used in investing activities		**(2,303,723)**	(488,863)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under share match scheme		**5,466**	5,534
Net proceeds from issue of shares under open offer		**–**	2,584,098
Dividends received from listed equity investments		**168**	167
Repayment of bank loans	37(b)	**(3,269,268)**	(768,300)
Repayment of medium term notes		**–**	(569,957)
Dividends paid to owners of the Company		**(1,050,756)**	–
Net cash (used in)/generated from financing activities		**(4,314,390)**	1,251,542
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(3,200,533)**	3,786,087
Effect of foreign exchange rate changes		**(45,403)**	49,132
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**5,836,457**	2,001,238
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,590,521**	5,836,457
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**2,746,793**	5,850,098
Less: term deposits matured over 3 months but within 1 year		**(156,272)**	(13,641)
Cash and cash equivalents	27(a)	**2,590,521**	5,836,457

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 43 to the consolidated financial statements.

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

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impacts on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The effect of the amendments on the Group's consolidated financial statements has been the inclusion of additional disclosures in note 37(b).

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 Financial Instruments (Continued)

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at amortised costs, fair value through profit or loss and fair value through other comprehensive income. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their classification and measurements upon the adoption of HKFRS 9. The Group currently measures certain unlisted equity investment at cost less impairment. Under HKFRS 9, these investments held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets.

Based on historical experience of the Group, the default rate of the outstanding balances with customers is low. Hence, the directors of the Company anticipate that the application of HKFRS 9 would not have material impact on the Group's future consolidated financial statements. The above assessments were made based on an analysis of the Group's financial assets as at 31 December 2017 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of HKFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction Contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from the provision of patented technology support services to oil field is recognised over time, whereas revenue from the sales and production of crude oil and natural gas is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from the provision of patented technology support services to oil fields.

For contracts with customers in which the sales and production of crude oil and natural gas is generally expected to be the only performance obligation, adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Provisional pricing adjustment

Certain sales contracts were entered with customers with the incorporation of provisional pricing. Revenue is recognised when risks and rewards of ownership are transferred to the customer, which would generally be the date of delivery. The amount of revenue to be recognised will be estimated based on applicable prices according to agreements, which may make reference to future market prices after the date of delivery. The Group will need to determine the transaction price, which is the amount of consideration it expects to be entitled to in the transaction. Management's estimate of the transaction price will be reassessed at each reporting period. While the Group continues to assess the potential impact of the new revenue standards, the management of the Company expects the Group will not have significant amount of provisional price adjustment on revenue based on the existing business model.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 41, the Group's future minimum lease payments under non-cancellable operating leases for its offices, staff quarters and property, plant and equipment amounted to approximately HK$26,411,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated 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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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 and any accumulated foreign currency translation reserve relating to that subsidiary.

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.

4. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

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 statement of profit or loss and consolidated statement of profit or loss and other 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.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

4. Significant Accounting Policies (Continued)

(b) Associates (Continued)

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the type of each of its joint arrangements and determined them all to be joint operations.

In relation to its interest in a joint operation, the Group recognises in its consolidated financial statements in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

4. Significant Accounting Policies (Continued)

(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 profit or loss.

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

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in 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 for the period (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 other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to the consolidated profit or loss as part of the gain or loss on disposal.

4. Significant Accounting Policies (Continued)

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

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land, construction in progress and spare parts as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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 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 less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

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

Freehold land is stated at cost less subsequent accumulated impairment losses, if any.

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.

Spare parts are classified as property, plant and equipment rather than inventories when they meet the definition of property, plant and equipment. Upon utilisation, capital spares and serving equipment are depreciated as part of the principal asset.

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 profit or loss.

4. Significant Accounting Policies (Continued)

(f) Oil and gas properties and exploration and evaluation expenditures

Oil and gas properties are accounted for using the successful efforts method of accounting. 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. Exploration and evaluation expenditures are capitalised and no depreciation or amortisation is charged until determination of the related 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.

Exploration and evaluation expenditures are stated at cost less impairment losses. Depreciation begins when the relevant assets are transferred to oil and gas properties and available for use.

Oil and gas properties are stated at cost less subsequent accumulated depreciation and any subsequent impairment losses. The cost of oil and gas properties (including decommissioning cost and future capital expenditures) is depreciated at the field level based on the unit-of-production method over the proved and probable reserves of petroleum.

(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 as part of the cost of oil and gas properties is the estimated cost of decommissioning, discounted to its net present value. The timing and amount of future expenditure are reviewed annually together with the interest rate to be used in discounting the cash flows. Any change in the present value of the estimated expenditure is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment – oil and gas properties.

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

4. Significant Accounting Policies (Continued)

(h) Leases

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.

(i) Intangible assets

Intangible assets that are acquired in business combinations are recognised at fair value on initial recognition. After initial recognition, intangible assets are carried at cost less subsequent accumulated amortisation and any subsequent 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	8 years
Contractual rights in oil exploitation projects	3 years

Both the period and method of amortisation are reviewed annually.

(j) Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories represent purchase or production cost of goods and are determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4. Significant Accounting Policies (Continued)

(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 profit or loss.

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

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(m) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets 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.

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

4. Significant Accounting Policies (Continued)

(m) Financial assets (Continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(o) Cash and cash equivalents

For the purpose of the consolidated 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.

4. Significant Accounting Policies (Continued)

(p) Discontinued operation

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

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

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of profit or loss, which comprises:

- The post-tax profit or loss of the discontinued operation; and

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

(q) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4. Significant Accounting Policies (Continued)

(s) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair value and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

(t) Trade and other payables

Trade and other payables are recognised 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.

(u) Equity instruments

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

(v) Revenue recognition

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

Revenue from the sales and production of crude oil, condensate, gas and liquefied petroleum gas and provision of patented technology support services to oilfield 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, condensate, gas and liquefied petroleum gas are delivered and the title has passed to the customers. This generally occurs when crude oil, condensate, gas and liquefied petroleum gas are physically transferred into an oil tanker, pipe or other delivery mechanism.

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

Dividend income is recognised when the shareholders' rights to receive payment are established.

Management fee income is recognised when the management services are rendered.

Investment income is recognised when the rights to receive payments are established.

4. Significant Accounting Policies (Continued)

(w) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

(x) Share-based payments

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

Equity-settled share-based payments to employees are measured at the 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.

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At the end of each reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

4. Significant Accounting Policies (Continued)

(y) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(z) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 associates, and interests in joint arrangements, 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 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.

4. Significant Accounting Policies (Continued)

(z) Taxation (Continued)

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(aa) Related parties

A 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.

(B) An entity is related to the Group 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.

(viii) The entity, or any member of the Group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

4. Significant Accounting Policies (Continued)

(bb) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(cc) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

4. Significant Accounting Policies (Continued)

(dd) Provisions and contingent liabilities

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

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

(ee) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

(ff) Dividend distribution

Final dividends proposed by the Board of Directors will remain in reserves in the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends (including special dividends during the year) are simultaneously proposed and declared by the Board of Directors. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

5. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Joint control assessment

The Group holds more than 50% of the interests in most of its joint arrangements (note 44). The directors have determined that the Group has joint control over these arrangements as under the contractual agreements, it appears that unanimous consent is required from all parties to the agreements for all relevant activities.

5. Critical Judgements and Key Estimates (Continued)

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 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 concession and lease rights and oil and gas properties related to oil and gas production activities.

Proved and probable reserve estimates 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 tend 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 freehold land, oil and gas properties, construction in progress, exploration and evaluation expenditures and spare parts). 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.

The carrying amount of property, plant and equipment (other than freehold land, oil and gas properties, construction in progress, exploration and evaluation expenditures and spare parts) as at 31 December 2017 was approximately HK$140,348,000 (2016: HK$591,056,000).

(c) 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. 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 or reverse previous impairments, whereas unfavourable changes may cause the assets to be impaired.

During the year, no impairment loss was provided for intangible assets and property, plant and equipment (2016: HK$Nil).

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(d) 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.

The carrying amount of decommissioning cost provisions as at 31 December 2017 was approximately HK$326,043,000 (2016: HK$290,848,000).

(e) Allowance for trade and other receivables

The Group recognises allowance for 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.

No allowance for trade and other receivables was made for the year ended 31 December 2017 (2016: HK$Nil).

(f) 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.

During the year, approximately HK$440,420,000 (2016: HK$176,662,000) of income tax was charged to profit or loss based on the estimated profit from continuing operations.

(g) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

No allowance for slow-moving inventories was made for the year ended 31 December 2017 (2016: HK$Nil).

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(h) Estimation of future capital expenditure

Future capital expenditure represents the future development costs which will be incurred by the Group to access the undeveloped reserves. Such costs are considered for the amortisation of intangible assets and depreciation of oil and gas properties which are being amortised and depreciated using the unit-of-production method over the proved and probable reserves of petroleum. The ultimate future development costs are uncertain and cost estimates can vary in response to many factors including discount rates, inflation factor, changes in economic factors, including contract terms, evolution of technology or development plans. The expected timing and amount of expenditure can also change and as a result, there could be a significant change in the amortisation and depreciation which would affect future financial results.

6. 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, pledged bank deposits and loan receivables.

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

The Group's bank deposits 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 2017, 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$2,823,000 lower/higher and accumulated losses as at 31 December 2017 would have been approximately HK$2,823,000 higher/lower, arising mainly as a result of lower/higher interest income on the bank deposits bearing interest at variable rates.

At 31 December 2016, 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$10,857,000 higher/lower and accumulated losses as at 31 December 2016 would have been approximately HK$10,857,000 lower/higher, arising mainly as a result of lower/higher interest expenses on the bank loans bearing interest at variable rates.

6. Financial Risk Management (Continued)

(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 based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Carrying amount HK$'000	Total contractual undiscounted cash outflow HK$'000	Less than 1 year or on demand HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2017						
Trade and other payables	**1,255,294**	**1,255,294**	**1,255,294**	**–**	**–**	**–**
Due to directors	**5,697**	**5,697**	**5,697**	**–**	**–**	**–**
At 31 December 2016						
Trade and other payables	873,309	873,309	873,309	–	–	–
Due to directors	9,558	9,558	9,558	–	–	–
Borrowings	3,269,268	3,802,168	961,038	761,976	2,079,154	–

(c) Credit risk

As at 31 December 2017, approximately 92% (2016: 92%) of the Group's trade receivables were due from the largest customer within exploration and production segment in Pakistan. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable receivables and there is no history of default for this Group's largest customer.

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 and pledged bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and PRC large state-controlled banks.

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

6. Financial Risk Management (Continued)

(d) Price risk

The Group's financial assets at fair value through profit or loss is measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity price risk. The directors manage this exposure by maintaining a portfolio of investments with different risk profiles.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

At 31 December 2017, if equity prices had been 10% higher/lower, consolidated profit after tax for the year would have been higher/lower by approximately HK$340,000 and accumulated losses as at 31 December 2017 would have been lower/higher by approximately HK$340,000. This is mainly due to the changes in fair value of listed equity securities.

At 31 December 2016, if equity prices had been 10% higher/lower, consolidated profit after tax for the year would have been higher/lower by approximately HK$25,977,000 and accumulated losses as at 31 December 2016 would have been lower/higher by approximately HK$25,977,000. This is mainly due to the changes in fair value of listed equity securities and unlisted investment funds.

(e) Foreign currency risk

The Group has certain 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"), while 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 monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The directors of the Company consider that the foreign currency exposure in respect of PKR for the year ended 31 December 2017 is insignificant to the Group and therefore no sensitivity analysis is presented thereon.

At 31 December 2016, if the HK$ had weakened/strengthened by 5% against the PKR with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$2,377,000 lower/higher and accumulated losses as at 31 December 2016 would have been approximately HK$2,377,000 higher/lower, 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 2017, if the HK$ had weakened/strengthened by 6% against the RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$20,370,000 higher/lower and accumulated losses as at 31 December 2017 would have been approximately HK$20,370,000 lower/higher, arising mainly as a result of the foreign exchange gain/loss on bank and cash balances, trade and other receivables and trade and other payables denominated in RMB.

6. Financial Risk Management (Continued)

(e) Foreign currency risk (Continued)

At 31 December 2016, if the HK$ had weakened/strengthened by 5% against the RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$12,848,000 higher/lower and accumulated losses as at 31 December 2016 would have been approximately HK$12,848,000 lower/higher, arising mainly as a result of the foreign exchange gain/loss on bank and cash balances, trade and other receivables, financial assets at fair value through profit and loss and trade and other payables denominated in RMB.

The directors of the Company consider that the foreign currency exposure in respect of US$ for the years ended 31 December 2017 and 2016 are insignificant to the Group and therefore no sensitivity analysis is presented thereon.

(f) Categories of financial instruments at 31 December

	2017 HK$'000	2016 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss:		
Held for trading	3,398	259,771
Available-for-sale financial assets	4,914	4,914
Loans and receivables (including cash and cash equivalents)	4,470,141	6,499,242
Financial liabilities:		
Financial liabilities at amortised cost	1,260,991	4,152,135

(g) Fair values

Except as disclosed in note 22 to the consolidated financial statements, 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.

7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2017:

Description	**Fair value measurements using:** **Level 1** **HK$'000**	 **Level 3** **HK$'000**	**Total** **2017** **HK$'000**
Recurring fair value measurements:			
Financial assets			
Financial assets at fair value through profit or loss			
Listed equity securities	**3,398**	**–**	**3,398**

Description	Fair value measurements using: Level 1 HK$'000	 Level 3 HK$'000	Total 2016 HK$'000
Recurring fair value measurements:			
Financial assets			
Financial assets at fair value through profit or loss			
Listed equity securities	2,646	–	2,646
Unlisted investment funds	–	257,125	257,125
Total	2,646	257,125	259,771

7. Fair Value Measurements (Continued)

(b) Reconciliation of financial assets at fair value through profit or loss measured at fair value based on level 3:

Description	**Unlisted investment funds HK$'000**
At 1 January 2017	**257,125**
Total gains or losses recognised in profit or loss	**650**
Purchases	**151,095**
Settlement	**(408,870)**
At 31 December 2017	**–**
Include gains or losses for assets held at end of reporting period	**650**

Description	Unlisted investment funds HK$'000
At 1 January 2016	199,201
Total gains or losses recognised in profit or loss	120
Purchases	57,804
At 31 December 2016	257,125
Include gains or losses for assets held at end of reporting period	120

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other gains and losses in the consolidated statement of profit or loss.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

Fair values of the Group's financial instruments which are categorised into Level 3 of the fair value hierarchy were valued by the directors with the reference to the redeemed price and discounted cash flows of the unlisted investment fund. The directors review the fair value measurements at least once a year.

7. Fair Value Measurements (Continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements: (Continued)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2017 HK$'000	Fair value 2016 HK$'000
Unlisted investment fund – overseas	Net asset value	Net asset value per unit	HK$780 (equivalent to US$100)	Increase	–	199,321
Unlisted investment fund – PRC	Discounted cash flows	Expected interest yield	5.1%	Increase	–	57,804
		Discount rate	3.55%	Decrease		

There were no changes in the valuation techniques used.

8. Turnover

An analysis of the Group's turnover for the year is as follows:

	2017 HK$'000	2016 HK$'000
Continuing operations		
Sales and production of crude oil, condensate, gas and liquefied petroleum gas	**4,420,508**	4,028,839
Provision of patented technology support services to oilfields	**20,758**	32,185
	4,441,266	4,061,024

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 approximately HK$642,106,000 (2016: HK$674,319,000), HK$612,737,000 (2016: HK$559,022,000) and HK$20,925,000 (2016: HK$17,877,000) respectively.

9. Investment and Other Income

	2017 HK$'000	2016 HK$'000
Continuing operations		
Dividends income from listed equity investments	168	167
Interest income on:		
Bank deposits	39,392	18,035
Loan receivables	8,138	–
Total investment income for financial assets that are not at fair value through profit or loss	47,530	18,035
Investment income from financial assets at fair value through profit or loss	1,665	1,845
Liquefied petroleum gas processing fees charged to concessions, net	1,427	2,494
Management fees income	4,448	2,402
Others	5,246	6,078
	60,484	31,021

10. Other Gains and Losses

	2017 HK$'000	2016 HK$'000
Continuing operations		
Amount due to directors written back	3,880	–
Fair value gains on financial assets at fair value through profit or loss	1,402	135
Gain/(loss) on disposals of property, plant and equipment	1,037	(3,441)
Intangible assets written off	(39,932)	(3,383)
Net foreign exchange gains/(losses)	51,073	(27,162)
Property, plant and equipment written off	(92,599)	(51,681)
Reversal of allowance for other receivables	–	2,136
	(75,139)	(83,396)

11. Segment Information

The Group has two operating segments as follows:

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

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

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

An operating segment regarding the oil exploitation of crude oil in PRC was discontinued in 2016. The discontinued operation has resulted in a change in the Group's structure and therefore its composition of reporting segment. The segment information reported below does not include any amounts for this discontinued operation, which is described in more details in note 16.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements.

Segment profit or loss does not include the following items:

– unallocated investment and other income

– unallocated other gains and losses

– unallocated corporate expenses

– finance costs (except for provisions – unwinding of discounts included in the exploration and production segment)

Segment assets do not include the following items:

– investment in associates

– available-for-sale financial assets

– deferred tax assets

– financial assets at fair value through profit or loss

– current tax assets

– pledged bank deposits

– bank and cash balances

– other unallocated assets

11. Segment Information (Continued)

Segment liabilities do not include the following items:

– due to directors

– borrowings

– deferred tax liabilities

– current tax liabilities

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

– other unallocated liabilities

Information about operating segment profit or loss, assets and liabilities from continuing operations:

	Exploration and production HK$'000	Oilfield support services HK$'000	Total HK$'000
Year ended 31 December 2017			
Turnover from external customers	4,420,508	20,758	4,441,266
Segment profit/(loss)	1,541,450	(1,750)	1,539,700
Interest revenue	6,568	304	6,872
Interest expenses	8,790	–	8,790
Depreciation and amortisation	1,163,312	14,031	1,177,343
Share of profits of an associate	–	–	–
Income tax expense	409,745	–	409,745
Other material non-cash items:			
Intangible assets written off	39,932	–	39,932
Property, plant and equipment written off	334,787	–	334,787
Additions to segment non-current assets	1,757,345	–	1,757,345
As at 31 December 2017			
Segment assets	9,556,194	46,201	9,602,395
Segment liabilities	1,902,194	9,121	1,911,315
Investment in associates	–	–	–

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

11. Segment Information (Continued)

Information about operating segment profit or loss, assets and liabilities from continuing operations: (Continued)

	Exploration and production HK$'000	Oilfield support services HK$'000	Total HK$'000
Year ended 31 December 2016			
Turnover from external customers	4,028,839	32,185	4,061,024
Segment profit/(loss)	1,513,581	(17,794)	1,495,787
Interest revenue	5,371	470	5,841
Interest expenses	8,938	–	8,938
Depreciation and amortisation	1,393,176	26,363	1,419,539
Share of losses of an associate	–	–	–
Income tax expense	149,168	–	149,168
Other material non-cash items:			
Reversal of allowance for other receivables	2,136	–	2,136
Intangible assets written off	3,383	–	3,383
Property, plant and equipment written off	184,122	–	184,122
Additions to segment non-current assets	1,220,451	5,435	1,225,886
As at 31 December 2016			
Segment assets	8,715,284	41,919	8,757,203
Segment liabilities	1,176,640	13,461	1,190,101
Investments in associates	–	–	–

11. Segment Information (Continued)

Reconciliations of segment profit or loss from continuing operations, assets and liabilities:

	2017 HK$'000	2016 HK$'000
Profit or loss		
Total profit of reportable segments	1,539,700	1,495,787
Share of profits/(losses) of an associate	52	(3)
Unallocated amounts:		
Investment and other income	44,553	18,018
Other gains and losses	46,234	(28,122)
Corporate expenses	(204,582)	(237,258)
Finance costs (except for provisions – unwinding of discounts included in the exploration and production segment)	(110,140)	(223,509)
Consolidated profit from continuing operations	1,315,817	1,024,913
Assets		
Total assets of reportable segments	9,602,395	8,757,203
Assets relating to discontinued operations	–	19,604
Unallocated amounts:		
Other receivables and other assets	546,966	82,924
Investment in associates	70,049	69,997
Available-for-sale financial assets	4,914	4,914
Deferred tax assets	–	113,891
Financial assets at fair value through profit or loss	3,398	259,771
Current tax assets	300,337	337,114
Pledged bank deposits	685	1,123
Bank and cash balances	2,746,793	5,850,098
Consolidated total assets	13,275,537	15,496,639
Liabilities		
Total liabilities of reportable segments	1,911,315	1,190,101
Liabilities relating to discontinued operations	–	66,937
Unallocated amounts:		
Other liabilities	71,604	112,753
Due to directors	5,697	9,558
Borrowings	–	3,269,268
Deferred tax liabilities	540,586	405,441
Current tax liabilities	68,896	18,617
Provisions (except for provision for decommissioning costs included in the exploration and production segment)	420	420
Consolidated total liabilities	2,598,518	5,073,095

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

11. Segment Information (Continued)

Geographical information:

The Group's turnover from continuing operations from external customers by location of operations and information about its non-current assets (excluding loan and other receivables, available-for-sale financial assets and deferred tax assets) by location of assets are detailed below:

	Turnover		Non-current assets	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**–**	–	**132,299**	126,289
PRC except Hong Kong	**20,758**	32,185	**19,717**	33,853
Pakistan	**4,420,508**	4,028,839	**8,050,279**	7,837,205
Consolidated total	**4,441,266**	4,061,024	**8,202,295**	7,997,347

Turnover from major customers:

Turnover derived from major customers who contributed 10% or more of total turnover of the Group are as follows:

	2017	2016
	HK$'000	HK$'000
Exploration and production segment		
Customer A	**3,549,859**	3,331,218
Customer B (note i)	**620,681**	N/A

(i) Customer B did not contribute over 10% of the total turnover of the Group for the year ended 31 December 2016.

12. Finance Costs

	2017	2016
	HK$'000	HK$'000
Continuing operations		
Interest on bank loans	**110,140**	187,538
Interest on medium term notes	**–**	35,971
Provisions – unwinding of discounts (note 31)	**8,790**	8,938
	118,930	232,447

13. Profit for the Year from Continuing Operations

The Group's profit for the year from continuing operations is stated after charging/(crediting) the following:

	2017 HK$'000	2016 HK$'000
Continuing operations		
Amount due to directors written back	(3,880)	–
Auditors' remuneration	3,357	3,341
Depreciation and amortisation (note a)	1,190,928	1,420,862
Cost of inventories sold (note b)	1,734,617	1,889,332
Intangible assets written off	39,932	3,383
Operating lease charges		
– Hire of office equipment, machineries and motor vehicles	14,010	20,568
– Land and buildings	59,028	39,383
	73,038	59,951
Property, plant and equipment written off (included in other gains and losses of approximately HK$92,599,000 (2016: HK$51,681,000) and exploration expenses of approximately HK$242,188,000 (2016: HK$132,441,000))	334,787	184,122
Reversal of allowance for other receivables	–	(2,136)
Staff costs excluding directors' emoluments		
– Salaries, bonuses and allowances	218,351	236,960
– Retirement benefits scheme contributions	42,797	31,406
– Share-based payments	13,583	13,695
	274,731	282,061

Note a: Depreciation and amortisation charges include the amortisation charges on intangible assets of approximately HK$237,310,000 (2016: HK$264,146,000) which are included in the costs of sales and services rendered.

Note b: Cost of inventories sold includes staff costs, depreciation and amortisation and operating lease charges of approximately HK$1,358,982,000 (2016: HK$1,558,418,000) which are included in the amounts disclosed separately above.

14. Income Tax Expense

Income tax relating to continuing operations has been recognised in profit or loss as following:

	2017 HK$'000	2016 HK$'000
Continuing operations		
Current tax – Overseas		
Provision for the year	165,587	139,284
Under/(over)-provision in prior years	13,821	(24,545)
	179,408	114,739
Deferred tax (note 32)	261,012	61,923
	440,420	176,662

14. Income Tax Expense (Continued)

No provision for profits tax in Cayman Islands, Bermuda, British Virgin Islands, Republic of Panama, Mauritius Singapore or Hong Kong is required as the Group has no assessable profit for the year arising in or derived from these jurisdictions for the years ended 31 December 2017 and 2016.

PRC Enterprise Income Tax and Pakistan Income Tax are calculated at 25% and 50% respectively on the 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 2016, the Group's subsidiary in the PRC was approved as a high technology enterprise pursuant to which a PRC subsidiary can enjoy a preferential income tax rate of 15% during the financial year.

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.

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

	2017 HK$'000	2016 HK$'000
Continuing operations		
Profit before tax	**1,756,237**	1,201,575
Tax at the weighted average tax rate of 46% (2016: 50%)	**799,822**	605,493
Tax effect of income that is not taxable	**(28,755)**	(222,326)
Tax effect of expenses that are not deductible	**65,928**	195,793
Tax effect of tax losses not recognised	**22,264**	18,497
Tax effect of utilisation of tax losses not previously recognised	**–**	(204)
Tax effect of other temporary differences not recognised	**(9,214)**	(256,389)
Tax effect of tax preferential period	**–**	1,551
Tax effect of withholding tax at 10% on gain derived from the Group's Mauritius subsidiary	**30,675**	27,493
Tax effect of depletion allowance	**(236,753)**	(141,786)
Tax effect of royalty deduction	**(217,368)**	(26,915)
Under/(over)-provision in prior years	**13,821**	(24,545)
Income tax expense	**440,420**	176,662

15. Directors' and Employee Benefits

(a) Directors' emoluments

Pursuant to the Listing Rule and the disclosure requirements of the Hong Kong Companies Ordinance, the emoluments of each director were as follows:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiaries undertaking					
	Fees HK$'000	Salaries HK$'000	Discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Housing allowance HK$'000	Total HK$'000
Year ended 31 December 2017						
Executive directors:						
Mr. Zhang Hong Wei	**–**	**1,000**	**–**	**–**	**10,033**	**11,033**
Mr. Zhu Jun (Note (i))	**–**	**–**	**–**	**–**	**–**	**–**
Ms. Zhang Meiying	**3,350**	**–**	**7,000**	**18**	**840**	**11,208**
	3,350	**1,000**	**7,000**	**18**	**10,873**	**22,241**
Independent non-executive directors:						
Mr. Chau Siu Wai	**120**	**–**	**–**	**–**	**–**	**120**
Mr. San Fung	**120**	**–**	**–**	**–**	**–**	**120**
Mr. Zhu Chengwu (Note (ii))	**–**	**–**	**–**	**–**	**–**	**–**
Ms. Wang Ying (Note (iii))	**60**	**–**	**–**	**–**	**–**	**60**
	300	**–**	**–**	**–**	**–**	**300**
	3,650	**1,000**	**7,000**	**18**	**10,873**	**22,541**
Year ended 31 December 2016						
Executive directors:						
Mr. Zhang Hong Wei	–	1,000	–	–	8,380	9,380
Mr. Zhu Jun (Note (i))	240	–	–	–	–	240
Ms. Zhang Meiying	3,250	–	–	18	655	3,923
	3,490	1,000	–	18	9,035	13,543
Independent non-executive directors:						
Mr. Chau Siu Wai	120	–	–	–	–	120
Mr. San Fung	120	–	–	–	–	120
Mr. Zhu Chengwu (Note (ii))	120	–	–	–	–	120
	360	–	–	–	–	360
	3,850	1,000	–	18	9,035	13,903

Notes:
(i) Resigned on 27 December 2017
(ii) Resigned on 6 April 2017
(iii) Appointed on 1 July 2017

During the year, Mr. Zhu Jun and Mr. Zhu Chengwu waived their emoluments which amounted to approximately HK$240,000 and HK$30,000 respectively (2016: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

15. Directors' and Employee Benefits (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included two (2016: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2016: three) individuals are set out below:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**17,842**	18,421
Share-based payments	**5,611**	5,611
	23,453	24,032

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1
HK$8,500,001 to HK$9,000,000	**1**	1
HK$10,500,001 to HK$11,000,000	**1**	–
HK$11,000,001 to HK$11,500,000	**–**	1
	3	3

No emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2016: Nil).

(c) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

16. Discontinued Operations

On 23 February 2016, the Group issued a notice to China National Petroleum Corporation ("CNPC"), a joint venture partner of the Enhanced Oil Recovery ("EOR") contract, to propose abandonment of the EOR contract (the "Abandonment"). Such Abandonment has been confirmed by CNPC on 20 May 2016.

As the business operation of EOR contract is considered as a separate major line of business which was previously classified as the oil exploitation business segment of the Group, it is accounted for as discontinued operations for the year ended 31 December 2016. Details of the Abandonment were set out in the Company's announcements dated 23 February 2016 and 20 May 2016.

Loss for the year from discontinued operations:

	2017 HK$'000	2016 HK$'000
Turnover	–	23,432
Cost of sales and services rendered	–	(36,690)
Gross loss	–	(13,258)
Investment and other income	–	1,561
Other gains and losses	–	(41,512)
Administrative expenses	–	(5,932)
Other operating expenses	–	(5,419)
Loss before tax	–	(64,560)
Income tax credit	–	–
Loss for the year from discontinued operations (attributable to owners of the Company)	–	(64,560)

16. Discontinued Operations (Continued)

Loss for the year from discontinued operations include the following:

	2017 HK$'000	2016 HK$'000
Auditors' remuneration		
– Current	–	27
Cost of inventories sold (note a)	–	35,420
Operating lease charges		
– Hire of office equipment, machineries and motor vehicles	–	89
– Land and buildings	–	3
	–	92
Staff costs excluding directors' emoluments		
– Salaries, bonuses and allowances	–	2,215
– Retirement benefits scheme contributions	–	502
	–	2,717

Note a: Cost of inventories sold includes staff costs, depreciation and amortisation and allowance for inventories of HK$Nil (2016: approximately HK$289,000) which are included in the amounts disclosed separately above.

Cash flows from discontinued operations:

	2017 HK$'000	2016 HK$'000
Net cash outflows from operating activities	–	(112,807)
Net cash inflows from investing activities	–	29,564
Net cash inflows from financing activities	–	8,913
Effect of foreign exchange rate changes	–	15,365
Net cash outflows	–	(58,965)

17. Earnings Per Share

(a) Basic earnings per share from continuing and discontinued operations

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$1,316,340,000 (2016: HK$965,008,000) and the weighted average number of ordinary shares of 26,239,949,794 (2016: 19,695,424,431) in issue during the year.

(b) Basic earnings per share from continuing operations

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$1,316,340,000 (2016: HK$1,029,568,000) and the weighted average number of ordinary shares of 26,239,949,794 (2016: 19,695,424,431) in issue during the year.

(c) Basic loss per share from discontinued operations

Basic loss per share from discontinued operations for the year ended 31 December 2016 is HK$0.33 cent per share based on the loss for the year from discontinued operations attributable to owners of the Company of approximately HK$64,560,000 and the denominator used is the same as the above for basic earnings per share.

(d) Diluted earnings per share

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary share for the years ended 31 December 2017 and 2016.

18. Dividend

	2017 **HK$'000**	2016 HK$'000
2017 Special dividend of HK$4 cents (2016: HK$Nil) per ordinary share paid	**1,050,763**	–

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of HK$4 cents per ordinary share has been proposed by the directors and is subject to approval by shareholders at the forthcoming general meeting.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

19. Property, Plant and Equipment

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Vessels HK$'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$'000	Exploration and Evaluation Expenditures HK$'000	Spare part HK$'000	Total HK$'000
Cost												
At 1 January 2016	15,844	7,470	10,195	–	61,947	223,469	888,121	8,417,190	426,392	378,076	461,911	10,890,615
Additions	–	–	–	–	–	193	972	10,233	381,686	637,235	172,700	1,203,019
Addition due to revision in decommissioning costs estimate	–	–	–	–	–	–	1,667	21,392	–	–	–	23,059
Disposals	–	–	–	–	(4,332)	(2,602)	(141,255)	(819,678)	(14,459)	–	–	(982,326)
Written off	–	–	–	–	–	–	–	(110,938)	–	(132,441)	–	(243,379)
Transfers	–	–	–	–	1,136	63,024	51,429	1,150,683	(548,733)	(506,794)	(210,745)	–
Exchange differences	–	(489)	(606)	–	(406)	(893)	(9,632)	(18,918)	(121)	–	–	(31,065)
At 31 December 2016 and 1 January 2017	15,844	6,981	9,589	–	58,345	283,191	791,302	8,649,964	244,765	376,076	423,866	10,859,923
Additions	–	–	262	55,918	–	456	–	–	809,804	587,652	282,853	1,736,945
Addition due to revision in decommissioning costs estimate	–	–	–	–	–	–	–	33,179	–	–	–	33,179
Disposals	–	(147)	–	–	(1,673)	(64)	(4,514)	–	–	–	–	(6,398)
Written off	–	–	–	–	–	–	–	(237,224)	(1,201)	(242,188)	–	(480,613)
Transfers	–	–	–	–	7,411	(974)	(632,783)	1,405,377	(323,320)	(166,481)	(289,230)	–
Exchange differences	–	525	657	–	269	915	7,032	1,043	–	–	–	10,441
At 31 December 2017	15,844	7,359	10,508	55,918	64,352	283,524	161,037	9,852,339	730,048	555,059	417,489	12,153,477
Accumulated depreciation and impairment losses												
At 1 January 2016	–	5,469	8,320	–	34,792	158,852	343,580	4,845,900	14,582	–	–	5,411,495
Charge for the year	–	137	838	–	10,862	38,729	104,711	1,002,550	–	–	–	1,157,827
Disposals	–	–	–	–	(4,284)	(2,590)	(132,050)	(819,678)	(14,459)	–	–	(973,061)
Written off	–	–	–	–	–	–	–	(59,257)	–	–	–	(59,257)
Exchange differences	–	(364)	(521)	–	(374)	(432)	(7,323)	(18,919)	(123)	–	–	(28,056)
At 31 December 2016 and 1 January 2017	–	5,242	8,637	–	40,996	194,559	308,918	4,950,596	–	–	–	5,508,948
Charge for the year	–	136	914	11,184	11,443	33,910	19,685	877,344	–	–	–	954,616
Disposals	–	(147)	–	–	(1,520)	(64)	(4,477)	–	–	–	–	(6,208)
Written off	–	–	–	–	–	–	–	(145,826)	–	–	–	(145,826)
Transfers	–	–	–	–	–	–	(194,596)	194,596	–	–	–	–
Exchange differences	–	398	619	–	262	523	5,728	1,042	–	–	–	8,572
At 31 December 2017	–	5,629	10,170	11,184	51,181	228,928	135,258	5,877,752	–	–	–	6,320,102
Carrying amount												
At 31 December 2017	15,844	1,730	338	44,734	13,171	54,596	25,779	3,974,587	730,048	555,059	417,489	5,833,375
At 31 December 2016	15,844	1,739	952	–	17,349	88,632	482,384	3,699,368	244,765	376,076	423,866	5,350,975

19. Property, Plant and Equipment (Continued)

During the year, the Group has written off oil and gas properties, construction in progress and exploration and evaluation expenditures attributable to the exploration and production segment which amounted to approximately HK$334,787,000 (2016: HK$184,122,000). Details of the assessment are disclosed in note 20 to the consolidated financial statements.

20. Intangible Assets

	Oil exploitation rights HK$'000	Concession and lease rights HK$'000	Technical know-how HK$'000	Contractual rights in oil exploitation projects HK$'000	Club membership HK$'000	Total HK$'000
Cost						
At 1 January 2016	8,180,000	5,245,610	363,168	66,973	–	13,855,751
Written off	(8,180,000)	(126,023)	–	–	–	(8,306,023)
Exchange differences	–	–	(23,783)	(4,386)	–	(28,169)
At 31 December 2016 and 1 January 2017	**–**	**5,119,587**	**339,385**	**62,587**	**–**	**5,521,559**
Additions	**–**	**–**	**–**	**–**	**17,000**	**17,000**
Written off	**–**	**(52,725)**	**–**	**–**	**–**	**(52,725)**
Exchange differences	**–**	**–**	**25,791**	**4,756**	**–**	**30,547**
At 31 December 2017	**–**	**5,066,862**	**365,176**	**67,343**	**17,000**	**5,516,381**
Accumulated amortisation and impairment losses						
At 1 January 2016	8,180,000	2,463,777	363,168	66,973	–	11,073,918
Amortisation for the year	–	264,147	–	–	–	264,147
Written off	(8,180,000)	(122,640)	–	–	–	(8,302,640)
Exchange differences	–	–	(23,783)	(4,386)	–	(28,169)
At 31 December 2016 and 1 January 2017	**–**	**2,605,284**	**339,385**	**62,587**	**–**	**3,007,256**
Amortisation for the year	**–**	**237,310**	**–**	**–**	**–**	**237,310**
Written off	**–**	**(12,793)**	**–**	**–**	**–**	**(12,793)**
Exchange differences	**–**	**–**	**25,791**	**4,756**	**–**	**30,547**
At 31 December 2017	**–**	**2,829,801**	**365,176**	**67,343**	**–**	**3,262,320**
Carrying amount						
At 31 December 2017	**–**	**2,237,061**	**–**	**–**	**17,000**	**2,254,061**
At 31 December 2016	–	2,514,303	–	–	–	2,514,303

20. Intangible Assets (Continued)

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. As referred to note 16, the EOR contract had been discontinued during the year ended 31 December 2016. As such, the carrying amount of oil exploitation rights had been fully written off in the financial statements.

Concession and lease rights represent the rights for oil and gas exploration and production 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 2017 and 2039. The amortisation of concession and lease rights is determined using the unit-of-production method over the proved and probable reserves of petroleum.

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 carrying amount of the technical know-how had been fully impaired.

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 carrying amount of contractual rights in oil exploitation projects had been fully impaired.

Due to the depletion of commercial oil and gas reserves and the results of technical evaluation, the management considered that future economic benefits of certain property, plant and equipment and intangible assets in the exploration and production segment are no longer expected. As such, the carrying amounts of property, plant and equipment (note 19) and intangible assets of approximately HK$334,787,000 (2016: HK$184,122,000) and HK$39,932,000 (2016: HK$3,383,000) respectively had been written off during the year.

21. Investment in Associates

	2017 **HK$'000**	2016 HK$'000
Unlisted investment:		
Share of net assets	**70,049**	69,997

21. Investment in Associates (Continued)

Details of the Group's associates at 31 December 2017 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Orient Art Limited	British Virgin Islands	350,000,000 ordinary shares of HK$1 each	20%	Investment in artworks
東方藝術品有限公司	PRC	Registered capital of RMB100,000,000 (Note 40(c))	20%	Not yet commenced business

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2017 HK$'000	2016 HK$'000
At 31 December:		
Carrying amounts of the Group's investments in associates	**70,049**	69,997
Year ended 31 December:		
Share of the associate's profit/(loss) for the year	**52**	(3)
Share of the associate's other comprehensive income	**–**	–
Share of the associate's total comprehensive income	**52**	(3)

22. Available-For-Sale Financial Assets

	2017 HK$'000	2016 HK$'000
Unlisted equity securities	**4,914**	4,914

Unlisted equity securities were carried at cost as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

Available-for-sale financial assets are denominated in the US dollars.

None of these financial assets is either past due or impaired.

23. Advances, Deposits and Prepayments

	2017 HK$'000	2016 HK$'000
Advances to staff	**1,399**	1,567
Deposits and prepayments	**3,420**	3,974
Deposits paid for acquisition of property, plant and equipment	**44,511**	56,531
Loan receivables (note a)	**436,800**	–
	486,130	62,072

Note a: On 24 October 2017, KNGS Exploration and Development Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into a conditional share purchase agreement with 15 individuals (the "Vendors"), pursuant to which the Purchaser has agreed to purchase and the Vendors have agreed to sell the entire issued share capital of Asia Resources Oil Limited ("AROL"). The total consideration payable comprises a loan amounting to US$56,000,000 (equivalent to approximately HK$436,800,000) to AROL and a cash consideration of US$7,637,760 (equivalent to approximately HK$59,575,000) (the "Acquisition"). AROL is principally engaged in oil and gas production and exploration activities in Pakistan.

Prior to the entering into of the conditional share purchase agreement, AROL entered into risk participation agreement and an option agreement with X-Petroleum Limited ("X-Petroleum") as potential acquirer pursuant to which, X-Petroleum would have certain participation rights and an option to acquire shares in the paid up share capital of AROL. The Purchaser has entered into a discharge agreement with X-Petroleum and its individual representative (collectively "Arrangers") on 24 October 2017. Pursuant to the discharge agreement, the Arrangers shall discharge and relinquish their rights under the option agreement and the risk participation agreement and to provide the arrangement services and other services related to the Acquisition. The Purchaser shall pay the Arrangers a fee of up to approximately US$12,093,000 (equivalent to approximately HK$94,325,000) upon the completion of the Acquisition.

In October 2017, loan receivables of approximately HK$436,800,000 (equivalent to approximately US$56,000,000) were made to AROL pursuant to the conditional share purchase agreement. The loan receivables bearing interest at a rate of 10% per annum, secured by the entire issued share capital of AROL and is repayable on 24 April 2019.

The Acquisition has not yet been completed as at the date of issuance of these financial statements. Details of the Acquisition are set out in the Company's announcement on 24 October 2017.

The carrying amounts of the Group's advances, deposits and prepayments are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
HK$	**–**	1,365
RMB	**653**	613
British Pound ("GBP")	**–**	54,553
US$	**436,800**	–
PKR	**48,677**	5,541
Total	**486,130**	62,072

24. Inventories

	2017 HK$'000	2016 HK$'000
Finished goods	**38,329**	16,732
Spare parts and consumables	**190,413**	210,562
Less: allowance for inventories	**(19,500)**	(19,500)
	209,242	207,794

25. Trade and Other Receivables

	2017 HK$'000	2016 HK$'000
Trade receivables (note a)	**1,292,623**	882,101
Allowance for price adjustments (note b)	**(214,371)**	(402,815)
	1,078,252	479,286
Other receivables (note c)	**290,925**	247,740
Allowance for other receivables	**(2,624)**	(2,439)
	288,301	245,301
Total trade and other receivables	**1,366,553**	724,587

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit term generally ranges from 30 to 45 days (2016: 30 to 45 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2017 HK$'000	2016 HK$'000
0 to 30 days	**875,350**	464,690
31 to 60 days	**328,362**	320,725
61 to 90 days	**88,623**	83,022
Over 90 days	**288**	13,664
	1,292,623	882,101

25. Trade and Other Receivables (Continued)

(a) Trade receivables (Continued)

As at 31 December 2017, no allowance was made for estimated irrecoverable trade receivables (2016: HK$Nil).

	2017 HK$'000	2016 HK$'000
At 1 January	–	2,165
Amounts written off	–	(2,165)
At 31 December	–	–

As of 31 December 2017, trade receivables of approximately HK$423,127,000 (2016: HK$417,411,000) 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:

	2017 HK$'000	2016 HK$'000
0 to 30 days	334,216	320,725
31 to 60 days	88,623	83,022
Over 90 days	288	13,664
	423,127	417,411

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

	2017 HK$'000	2016 HK$'000
RMB	29,288	12,414
US$	1,249,479	854,836
PKR	13,856	14,851
Total	1,292,623	882,101

(b) Allowance for price adjustments

It represents the provision for the possible price adjustment in gas prices as per the draft gas price notifications submitted to the relevant regulatory authorities in Pakistan in respect of certain gas sales agreements. Since the final price notification has not yet been received from the regulatory authorities, the management had estimated the potential price differential based on the draft notifications and a possible price reduction (excluding royalty expenses) of approximately HK$214,371,000 (2016: HK$402,815,000) was provided.

25. Trade and Other Receivables (Continued)

(c) Other receivables

The details of other receivables, and net of allowance, are as follows:

	2017 HK$'000	2016 HK$'000
Due from joint operators	173,930	131,427
Advances to staff	8,223	9,027
Central excise duty receivables	12,150	10,123
Deposits and prepayments	18,050	22,079
Sales tax receivables	59,398	53,759
Interest receivables	8,138	–
Others	8,412	18,886
	288,301	245,301

As at 31 December 2017, an allowance was made for estimated irrecoverable other receivables of approximately HK$2,624,000 (2016: HK$2,439,000).

	2017 HK$'000	2016 HK$'000
At 1 January	2,439	17,082
Amounts written off	–	(12,337)
Reversals	–	(2,136)
Exchange differences	185	(170)
At 31 December	2,624	2,439

As of 31 December 2017 and 2016, none of the other receivables were past due but not impaired.

The carrying amounts of the Group's other receivables, and net of allowance, are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
HK$	10,437	4,812
RMB	20,810	21,508
US$	213,608	73,685
Singapore dollars ("S$")	12	12
PKR	43,434	145,284
Total	288,301	245,301

26. Financial Assets at Fair Value through Profit or Loss

	2017 HK$'000	2016 HK$'000
Equity securities, at fair value		
Listed in Hong Kong at market value (note a)	**3,398**	2,646
Investment funds, at fair value		
Unlisted in Overseas at market value (note b)	**–**	199,321
Unlisted in PRC at market value (note c)	**–**	57,804
	3,398	259,771

The carrying amounts of the above financial assets are classified as held for trading.

(a) 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 (level 1 fair value measurements). The carrying amount of the investment is denominated in Hong Kong dollar.

(b) The fair value of the unlisted investment fund is determined based on statement issued by the independent financial institution, which reflect the Group's share of the fair value of the net asset value of the fund (level 3 fair value measurements). It is the price that the financial institution is willing to pay to redeem the fund at 31 December 2016. The unlisted investment fund is pledged as security for certain of the Group's borrowings (note 30(b)). The carrying amount of the investment is denominated in United States dollar and has been fully redeemed during the reporting period.

(c) It represents investments in financial products issued by a PRC financial institution with no predetermined or guaranteed return. The fair value is determined based on discounted cash flow of the investments with future cash flows that are estimated based on expected recoverable amounts, discounted at a rate that reflect management's best estimation of the expected risk level (level 3 fair value measurements). The carrying amount of the investment is denominated in RMB and has been fully redeemed during the reporting period.

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 there is no concentration of credit risk in respect of the financial assets at fair value through profit or loss.

27. Pledged Bank Deposits and Bank and Cash Balances

(a) Bank and cash balances

	2017 HK$'000	2016 HK$'000
Cash at bank and on hand	578,601	516,928
Term deposits matured within 3 months	2,011,920	5,319,529
Cash and cash equivalents	2,590,521	5,836,457
Term deposits matured over 3 months but within 1 year	156,272	13,641
Total	2,746,793	5,850,098

At 31 December 2017, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$226,624,000 (2016: HK$253,367,000). 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.

(b) Pledged bank deposits

At 31 December 2017, the Group's pledged bank deposits of approximately HK$685,000 (2016: HK$1,123,000) represent the term deposits in the bank matured within 1 year and were pledged as security for the Group's bills payables (note 28(b)). The pledged bank deposits were denominated in RMB and at fixed interest rate of 1.30% per annum (2016: 1.30% per annum) and were therefore subject to foreign currency risk and fair value interest rate risk.

28. Trade and Other Payables

	2017 HK$'000	2016 HK$'000
Trade payables (note a)	287,579	136,508
Other payables (note b)	1,369,297	942,435
Total trade and other payables	1,656,876	1,078,943

(a) Trade payables

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

	2017 HK$'000	2016 HK$'000
0 to 30 days	250,407	80,781
31 to 45 days	11,345	38,711
Over 45 days	25,827	17,016
	287,579	136,508

28. Trade and Other Payables (Continued)

(a) Trade payables (Continued)

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

	2017 HK$'000	2016 HK$'000
RMB	**7,550**	15,771
US$	**196,665**	84,520
PKR	**83,364**	36,217
Total	**287,579**	136,508

(b) Other payables

	2017 HK$'000	2016 HK$'000
Accrual for operating and capital expenses	**810,556**	543,221
Bills payables	**685**	46,474
Deposits received	**83,420**	5,300
Salaries and welfare payables	**103,420**	109,898
Other tax payables	**317,653**	200,459
Others	**53,563**	37,083
	1,369,297	942,435

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

	2017 HK$'000	2016 HK$'000
HK$	**2,195**	2,160
RMB	**70,629**	78,679
US$	**982,746**	667,125
PKR	**313,727**	194,471
Total	**1,369,297**	942,435

29. Due to Directors

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

30. Borrowings

	2017 HK$'000	2016 HK$'000
Bank loans, secured (note a)	–	3,120,000
Other loans, secured (note b)	–	149,268
	–	3,269,268

The borrowings are repayable as follows:

	2017 HK$'000	2016 HK$'000
On demand or within one year	–	773,268
In the second year	–	624,000
In the third to fifth years, inclusive	–	1,872,000
After five years	–	–
	–	3,269,268
Less: Amount due for settlement within 12 months (shown under current liabilities)	–	(773,268)
Amount due for settlement after 12 months	–	2,496,000

The carrying amounts of the Group's borrowings in 2016 are denominated in the following currencies:

	HK$ HK$'000	US$ HK$'000	Total HK$'000
2016			
Bank loans, secured	–	3,120,000	3,120,000
Other loans, secured	149,268	–	149,268
	149,268	3,120,000	3,269,268

30. Borrowings (Continued)

(a) Bank loans, secured

The average effective interest rate of the secured bank loans as at 31 December 2017 was 5.63% (2016: 5.35%).

At 31 December 2016, bank loans of approximately HK$3,120,000,000 are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

At 31 December 2016, bank loans with carrying amount of approximately HK$3,120,000,000 are secured or guaranteed by the following:

(i) 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$236,911,000;

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

(iii) a corporate guarantee executed by the China Development Bank Corporation, Beijing Branch which is counter guaranteed by a related company of the Group (note 38(b)), to the extent of approximately HK$3,169,142,000.

The bank loans were fully settled on 17 August 2017.

(b) Other loans, secured

In June 2015, the Group entered into a facility letter with an independent financial institution. Pursuant to the facility letter, the financial institution agreed to provide a loan facility of up to approximately HK$150,000,000 for the subscription of unlisted investment fund. The other loans are secured by the unlisted investment fund (note 26(b)) and repayable on demand. The interests are charged at (i) 5% per annum or (ii) the amount of the total redemption proceeds entitled by the Group in excess of the total subscription price of the unlisted investment fund subscribed, whichever is lower.

The other loans were fully settled on 26 April 2017.

31. Provisions

	Dismantling costs in respect of leasehold improvements HK$'000	Decommissioning costs HK$'000	Total HK$'000
At 1 January 2016	420	287,276	287,696
Less:			
Actual costs incurred during the year	–	(28,425)	(28,425)
Add:			
Provisions recognised during the year	–	23,059	23,059
Unwinding of discounts	–	8,938	8,938
At 31 December 2016	420	290,848	291,268
At 1 January 2017	**420**	**290,848**	**291,268**
Less:			
Actual costs incurred during the year	**–**	**(6,774)**	**(6,774)**
Add:			
Provisions recognised during the year	**–**	**33,179**	**33,179**
Unwinding of discounts	**–**	**8,790**	**8,790**
At 31 December 2017	**420**	**326,043**	**326,463**

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.

32. Deferred Tax

Deferred tax liabilities and assets

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Allowance for inventories HK$'000	Finance costs HK$'000	Allowance for price adjustments HK$'000	Pre-commercial expenditure for concession rights surrendered HK$'000	Total HK$'000
At 1 January 2016	856,762	23,009	(9,750)	(382,800)	(257,823)	–	229,398
Charge/(credit) to profit or loss for the year (note 14)	76,916	(92,894)	–	(13,294)	91,195	–	61,923
Exchange differences	229	–	–	–	–	–	229
At 31 December 2016 and 1 January 2017	**933,907**	**(69,885)**	**(9,750)**	**(396,094)**	**(166,628)**	**–**	**291,550**
Charge/(credit) to profit or loss for the year (note 14)	**(64,717)**	**137,637**	**–**	**13,739**	**59,598**	**114,755**	**261,012**
Exchange differences	**(11,976)**	**–**	**–**	**–**	**–**	**–**	**(11,976)**
At 31 December 2017	**857,214**	**67,752**	**(9,750)**	**(382,355)**	**(107,030)**	**114,755**	**540,586**

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

	2017 HK$'000	2016 HK$'000
Deferred tax liabilities	**540,586**	405,441
Deferred tax assets	**–**	(113,891)
	540,586	291,550

At the end of the reporting period, the Group has unused tax losses and other deductible temporary differences of approximately HK$638,528,000 and HK$65,958,000 respectively (2016: HK$506,486,000 and HK$58,923,000 respectively) that are available for offsetting against future taxable profits. No deferred tax assets have been recognised to that effect due to unpredictability of future profit streams. Included in unrecognised tax losses are of approximately HK$506,671,000 (2016: HK$399,445,000) that will expire from 2019 to 2022 (2016: from 2018 to 2021). Other tax losses and other deductible temporary differences may be carried forward indefinitely.

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

33. Share Capital

	Note	2017 Number of shares '000	2017 Amount HK$'000	2016 Number of shares '000	2016 Amount HK$'000
Authorised:					
Ordinary shares of HK$0.01 each		**60,000,000**	**600,000**	60,000,000	600,000
Issued and fully paid:					
Ordinary shares of HK$0.01 each					
At 1 January		**26,225,692**	**262,256**	13,085,721	130,857
Issue of shares under employees performance share schemes	(a)	**27,057**	**271**	16,273	162
Issue of shares under share match scheme	(b)	**16,316**	**163**	21,704	217
Issue of shares under open offer	(c)	**–**	**–**	13,101,994	131,020
At 31 December		**26,269,065**	**262,690**	26,225,692	262,256

Notes:

(a) During the year ended 31 December 2017, 27,057,124 (2016: 16,272,730) ordinary shares of HK$0.01 each pursuant to the employees performance share schemes of the Company were issued and allotted to the employees in Pakistan.

(b) During the year ended 31 December 2017, 16,316,450 (2016: 21,703,384) ordinary shares of HK$0.01 each pursuant to the share match scheme of the Company were issued and allotted to the employees in Pakistan.

(c) Pursuant to a resolution passed in the special general meeting held on 22 July 2016, the Board approved the proposed open offer issue on the basis of one offer share for every one existing share held by each qualifying shareholder on 4 August 2016 at the subscription price of HK$0.20 per offer share ("Open Offer"). On 30 August 2016, the Open Offer was completed and 13,101,994,107 new shares were issued and allotted, resulting in proceeds of approximately HK$2,620,399,000. On the same day, the premium on the issue of Open Offer shares amounted to approximately HK$2,453,078,000 (net of share issue expenses amounting to approximately HK$36,301,000) was credited to the Company's share premium account.

33. Share Capital (Continued)

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 positive 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, issue new shares, buy back shares and raise new debts.

The Group's strategy is to maintain a solid base to support the operations and development of its business in the long term. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

The Group monitors its capital structure with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there are adequate working capital to service its debt obligations. The Group's debt to asset ratio, being the Group's total liabilities over its total assets, at 31 December 2017 was 20% (2016: 33%).

The externally imposed capital requirement for the Group are: (i) in order to maintain its listing on The Stock Exchange it has to have a public float of at least 25% of the issued shares; and (ii) to meet financial covenants attached to the interest-bearing borrowings.

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 2017, 28.61% (2016: 28.49%) of the shares were in public hands.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing for the years ended 31 December 2017 and 2016.

34. Statement of Financial Position of the Company and Reserve Movement of the Company

(a) Statement of financial position of the Company

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Investments in subsidiaries		**69,814**	66,965
Intangible assets		**17,000**	–
		86,814	66,965
Current assets			
Trade and other receivables		**9,475**	1,829
Financial assets at fair value through profit or loss		**3,398**	2,646
Due from subsidiaries		**1,466,302**	1,924,832
Bank and cash balances		**1,745,712**	2,292,587
		3,224,887	4,221,894
Current liabilities			
Trade and other payables		**2,358**	2,401
Financial guarantee contracts		**–**	21,480
Due to directors		**5,697**	9,558
		8,055	33,439
Net current assets		**3,216,832**	4,188,455
Total assets less current liabilities		**3,303,646**	4,255,420
Capital and reserves			
Share capital		**262,690**	262,256
Reserves	34(b)	**3,040,956**	3,993,164
TOTAL EQUITY		**3,303,646**	4,255,420

The Company's statement of financial position was approved by the Board of Directors on 23 February 2018 and signed on its behalf by:

Zhang Hong Wei
Executive Director

Zhang Meiying
Executive Director

34. Statement of Financial Position of the Company and Reserve Movement of the Company (Continued)

(b) Reserve movement of the Company

	Share premium account HK$'000	Contributed surplus reserve HK$'000	Share-based capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	17,940	13,312,566	14,121	(11,745,089)	1,599,538
Recognition of share-based payments	–	–	803	–	803
Issue of shares under employees performance share schemes (note 33(a))	10,903	–	–	–	10,903
Issue of shares under share match scheme (note 33(b))	5,317	–	–	–	5,317
Issue of shares under open offer (note 33(c))	2,453,078	–	–	–	2,453,078
Loss and other comprehensive income for the year	–	–	–	(76,475)	(76,475)
At 31 December 2016	2,487,238	13,312,566	14,924	(11,821,564)	3,993,164
At 1 January 2017	**2,487,238**	**13,312,566**	**14,924**	**(11,821,564)**	**3,993,164**
Issue of shares under employees performance share schemes (note 33(a))	**10,282**	**–**	**–**	**–**	**10,282**
Issue of shares under share match scheme (note 33(b))	**5,303**	**–**	**–**	**–**	**5,303**
Special dividend paid (note 18)	**–**	**(1,050,763)**	**–**	**–**	**(1,050,763)**
Profit and other comprehensive income for the year	**–**	**–**	**–**	**82,970**	**82,970**
At 31 December 2017	**2,502,823**	**12,261,803**	**14,924**	**(11,738,594)**	**3,040,956**

35. Reserves

(a) Group

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

(b) 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 utilised 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) Contributed surplus reserve

Contributed surplus reserve represents the amount available for distribution to the shareholders of the Company. It was transferred from share premium account pursuant to the special resolution passed at the annual general meeting held on 29 May 2015.

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

(v) 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 employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 4(x) to the consolidated financial statements.

36. Share-Based Payments

(a) Share option scheme

The Company's share option 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 was expired on 10 May 2016 (the "Old Scheme").

On 27 May 2016, a new share option scheme (the "New Scheme") was adopted by the shareholders of the Company pursuant to the shareholders' resolution. Under the New 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 New Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue from time to time.

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

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

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

As a result of the completion of the Open Offer on 30 August 2016 and pursuant to (i) the Old Scheme; and (ii) the supplementary guidance issued by Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price of the outstanding share options granted by the Company (the "Share Options") and the total number of shares of the Company comprised in the outstanding Share Options which may be allotted and issued upon exercise of all such Share Options there under were adjusted.

During the year ended 31 December 2017, no share options were granted, exercised, lapsed or cancelled under the Old Scheme and New Scheme.

36. Share-Based Payments (Continued)

(a) Share option scheme (Continued)

Details of the specific categories of options under the Old Scheme are as follows:

Grantee	Date of grant	Vesting period	Exercise period	Adjusted exercise price HK$	Number of share options outstanding as at 31 December 2017
Employees	29.08.2012	29.08.2012 to 28.08.2013	29.08.2013 to 28.08.2022	0.93	6,976,991
	29.08.2012	29.08.2012 to 28.08.2014	29.08.2014 to 28.08.2022	0.93	4,651,327
	29.08.2012	29.08.2012 to 28.08.2015	29.08.2015 to 28.08.2022	0.93	4,651,327
	29.08.2012	29.08.2012 to 28.08.2016	29.08.2016 to 28.08.2022	0.93	6,976,992
					23,256,637

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

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

	2017 Number of share options	**2017** Weighted average exercise price HK$	2016 Number of share options	2016 Weighted average exercise price HK$
Outstanding at the beginning of the year	**23,256,637**	**0.930**	18,000,000	1.200
Adjustment for open offer	**–**	**–**	5,256,637	0.930
Outstanding at the end of the year	**23,256,637**	**0.930**	23,256,637	0.930
Exercisable at the end of the year	**23,256,637**	**0.930**	23,256,637	0.930

The options outstanding at the end of the year have a weighted average remaining contractual life of 4.66 years (2016: 5.66 years) and the exercise price is HK$0.93 (2016: HK$0.93). The Group recognised the total expenses of HK$Nil (2016: approximately HK$803,000) for the year ended 31 December 2017 in relation to the Old Scheme.

36. Share-Based Payments (Continued)

(a) Share option scheme (Continued)

The estimated fair values of the share options granted on 29 August 2012 is determined using the Binomial models. The respective fair value and significant inputs to the models were as follows:

	Share option grant date 29 August 2012
Model	Binomial
Fair value at measurement date	HK$14,924,000
Number of share options granted	18,000,000
Grant date share price	HK$1.16
Exercise price	HK$1.20
Expected volatility	97.91%
Risk free rate	0.676%
Expected life	10 years

Expected volatility was based on the historical volatility of the Company's share price over the previous 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.

(b) Employees performance shares schemes

Pursuant to the three separate announcements of the Company dated 28 December 2012, the Company introduced and adopted the performance share scheme, executive performance share scheme and deferred annual bonus scheme (collectively referred as the "Employees Performance Shares Schemes") for the primary purpose of driving success and growth in the shareholder value of the Group and creating long-term value for the eligible employees of the Group. A trustee, as an independent third party, is appointed by the Company for the administration of the Employees Performance Shares Schemes. The trustee shall purchase the shares ("Scheme Shares") to be awarded to the eligible employees by way of either share allotment or acquisition from the market out of cash contributed by the Company. The trustee shall hold the Scheme Shares and the related income derived from the relevant Scheme Shares (the "Related Income") in trust until they are vested to the eligible employees in accordance to the rules as set forth under the Employees Performance Shares Schemes and the trust deeds.

The Scheme Shares would be vested over a period of three years commencing from the first calendar day of the year in which the grant is made. The unvested Scheme Shares and the Related Income granted to the eligible employees shall automatically lapse upon the resignation of the employees.

36. Share-Based Payments (Continued)

(b) Employees performance shares schemes (Continued)

The aggregate number of the Company's shares which may be granted to the employees of the Group (including the eligible employees) under the Employee Performance Shares Schemes together with other share schemes is not permitted to exceed 10% of the total issued share capital of the Company from time to time. The maximum number of Company's shares which may be vested in an employee of the Group (including the eligible employees) under the Employees Performance Shares Schemes together with other share schemes shall not exceed 1% of the total issued share capital of the Company from time to time.

The grant of the Scheme Shares and the number of Scheme Shares awarded or to be awarded to each eligible employee under the performance share scheme and executive performance share scheme shall be determined annually at the sole and absolute discretion of UEPL, considering inter alia but not exclusively the individual performance rating achieved by the eligible employees. The eligible employees will be assessed in each year starting from 1 January to 31 December (the "Assessment Year") and if any Scheme Shares are to be granted under the performance share scheme and executive performance share scheme, the Scheme Shares will be granted in the following year.

The grant of the Scheme Shares under the deferred annual bonus scheme and the number of Scheme Shares awarded or to be awarded to each eligible employee shall be determined annually based on the results of the variable pay plan (the "VPP") and the rewards of the performance unit in the corresponding Assessment Year. The VPP refers to an annual cash bonus scheme and rewards subject to the annual business of the UEPL and the individual performance of the eligible employees. Each eligible employee who is entitled to any cash bonus under the VPP in the Assessment Year shall automatically be entitled to a grant of the Scheme Shares under the deferred annual bonus scheme. The eligible employees will be assessed in each Assessment Year and if any Scheme Shares are to be granted under the deferred annual bonus scheme, the Scheme Shares will be granted in the following year.

Fair value of the Scheme Shares at the grant date is determined with reference to the closing market price of the Company's ordinary share at the date of grant. The Group recognised the total expenses of approximately HK$10,709,000 (2016: HK$9,977,000) for the year ended 31 December 2017 in relation to the Employees Performance Shares Schemes.

Subject to any early termination as may be determined by the board of the directors of the Company (the "Board") pursuant to the scheme rules, the Employees Performance Shares Schemes shall be valid and effective for a term of ten years commencing from 28 December 2012.

36. Share-Based Payments (Continued)

(b) Employees performance shares schemes (Continued)

Movements in the number of Scheme Shares granted under the Employees Performance Shares Schemes during the year are as follows:

Name of the scheme	Date of grant	Fair value per share	Number of Scheme Shares: Outstanding as at 1 January 2017	Granted during the year	Vested during the year	Lapsed during the year	Outstanding as at 31 December 2017	Vesting period
Performance share scheme	2 January 2014	HK$1.13	3,964,662	–	(3,964,662)	–	–	2 January 2014 to 1 January 2017
Executive performance share scheme	2 January 2014	HK$1.13	1,730,064	–	(1,730,064)	–	–	2 January 2014 to 1 January 2017
Deferred annual bonus scheme	2 January 2014	HK$1.13	2,122,932	–	(2,122,932)	–	–	2 January 2014 to 1 January 2017
Performance share scheme	2 January 2015	HK$1.12	4,571,149	–	(91,339)	(45,670)	4,434,140	2 January 2015 to 1 January 2018
Executive performance share scheme	2 January 2015	HK$1.12	1,727,835	–	–	–	1,727,835	2 January 2015 to 1 January 2018
Deferred annual bonus scheme	2 January 2015	HK$1.12	2,877,451	–	–	–	2,877,451	2 January 2015 to 1 January 2018
Performance share scheme	4 January 2016	HK$0.66	8,585,870	–	(150,441)	–	8,435,429	4 January 2016 to 3 January 2019
Executive performance share scheme	4 January 2016	HK$0.66	2,845,845	–	–	–	2,845,845	4 January 2016 to 3 January 2019
Deferred annual bonus scheme	4 January 2016	HK$0.66	4,841,015	–	–	–	4,841,015	4 January 2016 to 3 January 2019
Performance share scheme	3 January 2017	HK$0.42	–	15,169,042	–	–	15,169,042	3 January 2017 to 2 January 2020
Executive performance share scheme	3 January 2017	HK$0.42	–	4,961,987	–	–	4,961,987	3 January 2017 to 2 January 2020
Deferred annual bonus scheme	3 January 2017	HK$0.42	–	6,926,095	–	–	6,926,095	3 January 2017 to 2 January 2020
			33,266,823	27,057,124	(8,059,438)	(45,670)	52,218,839	

36. Share-Based Payments (Continued)

(c) Share match scheme

Pursuant to the announcement of the Company dated 16 September 2011, the Company adopted the share match scheme with the objective to provide the employees in Pakistan with incentives in order to retain them for the continual operation and development of the Group in Pakistan and to attract suitable personnel for the growth and further development of the Group.

UEPL will issue an invitation letter to each of the eligible employees inviting them to enroll and participate in the share match scheme. Each eligible employee may indicate in the prescribed form to determine the sum of money contributing to the scheme (the "Employee Contribution Amount") applicable to the coming scheme year starting from 1 September to 31 August (the "Scheme Year of Share Match Scheme"). The Company would also contribute its resources equivalent to the sum of the Employee Contribution Amount to the scheme (the "Employer Contribution Amount").

For the purpose of the scheme, UEPL will refer to the closing price of the Company's share as at the first calendar day of the Scheme Year of Share Match Scheme (the "Reference Date") as reference price for ascertaining the number of the shares to which all the eligible employees are entitled (the "Ascertained Scheme Shares") given the payment of the total sum of the Employee Contribution Amount and the Employer Contribution Amount (the "Ascertained Scheme Shares in Aggregate").

The Company shall pay the aggregate sum of the Employee Contribution Amount and the Employer Contribution Amount of each of the eligible employee and the related acquisition expenses to the trustee for the acquisition of the Ascertained Scheme Shares in Aggregate. A trustee, as an independent third party, is appointed by the Company for the administration of the share match scheme. The trustee shall purchase the Ascertained Scheme Shares to be awarded to the eligible employees by way of share allotment or otherwise subject to and in accordance with the listing rule of the Stock Exchange. The trustee shall hold the Ascertained Scheme Shares in trust until they are vested to the eligible employees in accordance to the rules of the share match scheme and the trust deed.

The Ascertained Scheme Shares from the Employer Contribution Amount would be vested over a period of three years in accordance with the timetable and conditions as imposed by the Board at its absolute direction, provided that the eligible employee remains under the employment of UEPL at all times after the Reference Date and on the relevant vesting date.

The aggregate number of the Company's shares which may be granted to the employees of the Group (including the eligible employees) under the share match scheme together with other share schemes is not permitted to exceed 10% of the total issued share capital of the Company from time to time. The maximum number of Company's shares which may be vested in an employee of the Group (including the eligible employees) under the share match scheme together with other share schemes shall not exceed 1% of the total issued share capital of the Company from time to time.

Subject to any early termination as may be determined by the Board pursuant to the scheme rules, the share match scheme shall be valid and effective for a term of ten years commencing from 1 September 2011.

Fair value of the Ascertained Scheme Shares at the grant date is determined with reference to the closing market price of the Company's ordinary share as at the date of grant. The Group recognised the total expenses of approximately HK$2,874,000 (2016: HK$2,914,000) for the year ended 31 December 2017 in relation to the share match scheme.

36. Share-Based Payments (Continued)

(c) Share match scheme (Continued)

Movements in the number of Ascertained Scheme Shares from the Employer Contribution Amount granted under the share match scheme during the year are as follows:

		Number of Ascertained Scheme Shares from the Employer Contribution Amount					
Date of grant	Fair value per share	Outstanding as at 1 January 2017	Granted during the year	Vested during the year	Lapsed during the year	Outstanding as at 31 December 2017	Vesting period
2 September 2014	HK$1.15	2,617,344	–	(2,595,641)	(21,703)	–	2 September 2014 to 1 September 2017
2 September 2015	HK$0.85	3,500,895	–	(54,879)	(47,379)	3,398,637	2 September 2015 to 1 September 2018
1 September 2016	HK$0.26	10,851,692	–	(156,016)	–	10,695,676	1 September 2016 to 31 August 2019
1 September 2017	HK$0.34	–	8,158,225	–	–	8,158,225	1 September 2017 to 31 August 2020
		16,969,931	8,158,225	(2,806,536)	(69,082)	22,252,538	

37. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transaction

During the year, additions of vessels amounted to approximately HK$55,918,000 were transferred from deposits paid for acquisition of property, plant and equipment.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2017 HK$'000	Cash flows HK$'000	Interest expenses HK$'000	31 December 2017 HK$'000
Borrowings (note 30)	3,269,268	(3,379,408)	110,140	–

38. 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 (Orient Group Co. Ltd. ("Orient Group"))	Mr. Zhang Hong Wei has significant influence over the Orient Group

The English translation of the company name is for reference only. The official name of the company is in Chinese.

(b) Orient Group Industrial has provided counter guarantees and corporate guarantees in favour of the Group against the bank loans made to the Group totalling approximately HK$3,169,142,000 at 31 December 2016. Such guarantees was fully released on 22 August 2017.

(c) On 23 September 2016, the Company and Orient Group entered into a banking facility commitment letter with the amount up to approximately HK$9,828,000,000 (equivalent to US$1,260,000,000) ("Loan Facility"). The Loan Facility would be available upon the fulfilment of conditions as set out in the facility commitment letter. Details of the Loan Facility are set out in the Company's announcement dated 19 September 2016. The Loan Facility was lapsed during the year as the conditions set out in the facility commitment letter was not fulfilled within the specified period.

(d) The details of the remuneration paid to the key management personnel are set out in note 15 to the consolidated financial statements.

39. Contingent Liabilities

(a) For the years ended 31 December 2017 and 2016, the Company issued various unlimited corporate guarantees in favour of the President of the Islamic Republic of Pakistan for providing UEPL with all necessary financial and other means to enable UEPL to fully perform its obligations as stipulated in the concession agreements.

(b) As at 31 December 2016, the Company has issued an unlimited cross guarantee to a bank in respect of a banking facility granted to a subsidiary of the Company, UEG (HK). As at 31 December 2016, the directors do not consider it probable that a claim will be made against the Company under the above guarantee. The maximum liability of the Company as at 31 December 2016 is the amount of bank loans drawn under the cross guarantee at that date of approximately HK$3,169,142,000. Such cross guarantee has been fully released in 2017.

(c) For the years ended 31 December 2017 and 2016, the Group had issued corporate guarantees granted to the collector of customs of Pakistan in case of any dispute arising on claim of exemptions of levies including custom duties and sales tax on import of machinery, equipment, materials, specialised vehicles, spares, chemicals and consumables under the petroleum concession agreement amounting to approximately HK$4,107,000 (2016: HK$3,857,000).

39. Contingent Liabilities (Continued)

(d) During the year ended 31 December 2016, certain subsidiaries of the Group had disputes with the Pakistan government on the applicability of windfall levy on its production of oil and condensate. The execution of windfall levy was subject to series of government's approval process and was still not effective at 31 December 2016.

On 27 December 2017, the government's approval for the execution of windfall levy was granted and the windfall levy became applicable on the subsidiaries. Based on a legal advice from an external lawyer, the management believes that the applicability of the windfall levy is prospective, i.e. from the date of the government's approval. If the applicability of windfall levy is retrospective, further provision for the windfall levy of approximately HK$194,261,000 (2016: HK$179,229,000) would be required to be made in the consolidated financial statements for the year ended 31 December 2017.

40. Capital Commitments

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

(a)

	2017 HK$'000	2016 HK$'000
Contracted but not provided for:		
Acquisition of property, plant and equipment	**582**	509
Commitments for capital expenditure	**285,622**	367,656
Acquisition of working interest in concession	**–**	125,580
Acquisition of a subsidiary	**59,575**	–
	345,779	493,745

(b) On 20 October 2014, the Group established a wholly owned subsidiary, United Energy (Beijing) Limited ("UEBL") in the PRC with registered capital of approximately HK$120,070,000 (equivalent to approximately RMB100,000,000) (2016: HK$111,590,000 (equivalent to approximately RMB100,000,000)). At 31 December 2017, the Group has contributed approximately HK$14,704,000 (equivalent to approximately RMB12,246,000) (2016: HK$13,665,000 (equivalent to approximately RMB12,246,000)) to UEBL. In accordance with the memorandum of association of UEBL, the remaining balance of approximately HK$105,366,000 (equivalent to approximately RMB87,754,000) (2016: HK$97,925,000 (equivalent to approximately RMB87,754,000)) shall be contributed to UEBL within twenty years from the date of its establishment.

(c) On 25 May 2017, the Company, UEBL, Orient Group Investment Holding Limited and Orient Group established a company, 東方藝術品有限公司 ("東方藝術品") in the PRC with registered capital of approximately HK$120,070,000 (equivalent to approximately RMB100,000,000). In accordance with the memorandum of association of 東方藝術品, UEBL is committed to contribute approximately HK$24,014,000 (equivalent to approximately RMB20,000,000) as 20% registered share capital of 東方藝術品. At 31 December 2017, UEBL has not yet contributed any capital to 東方藝術品. In accordance with the memorandum of association of 東方藝術品, capital contribution shall be made to 東方藝術品 on or before 30 June 2045.

41. Operating Lease Commitments

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

	2017 HK$'000	2016 HK$'000
Within one year	13,615	17,447
In the second to fifth years inclusive	12,796	18,925
	26,411	36,372

Operating lease payments represent rentals payable by the Group for certain of its offices, staff quarters, motor vehicles and plant and machinery. Leases are negotiated for an average term of 2.2 years (2016: 2.7 years) and rentals are fixed over the lease terms and do not include contingent rentals.

42. 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 2017 amounted to approximately HK$201,000 (2016: HK$144,000).

PRC

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

The Group's contribution under the respective schemes for the year ended 31 December 2017 amounted to approximately HK$9,909,000 (2016: HK$10,434,000).

42. Retirement Benefits Scheme (Continued)

Pakistan

(a) Defined Contribution Gratuity Fund

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 the employee's level or grade.

The Group's contribution under the scheme for the year ended 31 December 2017 amounted to approximately HK$22,027,000 (2016: HK$17,585,000).

(b) Defined 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 2017 amounted to approximately HK$10,678,000 (2016: HK$11,248,000).

43. Subsidiaries

Particulars of the subsidiaries as at 31 December 2017 are as follows:

			Proportion of ownership interest			
Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Fine Profit Corporation Limited	Hong Kong	HK$10,000	100%	100%	–	Provision of administrative services
United Energy Group (HK) Limited	Hong Kong	HK$100	100%	100%	–	Investment holding
United Energy International Finance Limited	Hong Kong	HK$1	100%	100%	–	Provision of group financing supporting services
Bright Advance International Investment Limited	Hong Kong	HK$1	100%	100%	–	Investment holding
Dragon Prime Hong Kong Limited	Hong Kong	HK$1	100%	100%	–	Investment holding
Universe Oil & Gas (China), LLC (note a)	PRC	US$10,000,000	70%	–	100%	Engaged in provision of patented technology support services to oilfields

43. Subsidiaries (Continued)

Particulars of the subsidiaries as at 31 December 2017 are as follows: (Continued)

			Proportion of ownership interest			
Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
United Petroleum & Natural Gas (Panjin) Limited # (note a)	PRC	RMB100,000,000	100%	–	100%	Provision of group financing supporting services
United Energy (Beijing) Limited # (note a)	PRC	RMB12,246,200	100%	–	100%	Provision of administrative services
United Petroleum & Natural Gas Investments Limited	British Virgin Islands	US$50,000	100%	100%	–	Investment holding
Merry Year Investments Limited	British Virgin Islands	US$100	100%	100%	–	Investment holding
Universe Energy International Investment Limited	British Virgin Islands	US$100	70%	–	70%	Investment holding
Gold Trade Group Limited	British Virgin Islands	US$10	100%	100%	–	Investment holding
Classic Trade Holdings Limited	British Virgin Islands	US$100	100%	100%	–	Investment holding
United Energy International Trading Limited	British Virgin Islands	US$100	100%	–	100%	Investment holding
Vision Peak Investments Limited	British Virgin Islands	US$10	100%	100%	–	Investment holding
United Energy (China) Limited	British Virgin Islands	US$1,000	100%	100%	–	Investment holding
United Energy International Finance Limited	British Virgin Islands	US$1,000	100%	100%	–	Dormant
KNGS Exploration and Development Limited	Cayman Islands	US$100	100%	–	100%	Investment holding
Dragon Prime Holding Limited	Cayman Islands	US$100	100%	–	100%	Not yet commenced business

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

43. Subsidiaries (Continued)

Particulars of the subsidiaries as at 31 December 2017 are as follows: (Continued)

			Proportion of ownership interest			
Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Oasis Natural Energy Inc	Republic of Panama	US$10,000	100%	–	100%	Investment holding
BowEnergy Resources (Pakistan) SRL	Barbados	US$9,775,568	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
United Energy Financing (Bermuda) Limited	Bermuda	US$100	100%	100%	–	Provision of group financing supporting services
United Energy Pakistan Holdings Limited	Mauritius	US$1	100%	100%	–	Investment holding
United Energy Pakistan Limited	Mauritius	US$1	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
Gold Trade International Limited	Mauritius	US$1	100%	–	100%	Provision of group financing supporting services
Super Success International Holdings Limited	Mauritius	US$1	100%	100%	–	Investment holding
United Energy Global Trading Limited	Mauritius	US$1	100%	100%	–	Dormant
United Energy (Singapore) Resources Pte. Limited	Singapore	S$10,000,000	100%	–	100%	Not yet commenced business

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.

44. Joint Operations

As at 31 December 2017, the particulars of the joint arrangements of the Group, all of which are not structured through separate vehicles, are set out as follows:

Concession/project name	Place of business	Proportion of participating interest held by the Group 2017	2016	Principal activities
Badin II	Pakistan	**51%**	51%	Exploration and production of crude oil and natural gas
Badin II Revised	Pakistan	**76%**	76%	Exploration and production of crude oil and natural gas
Badin III	Pakistan	**60%**	60%	Exploration and production of crude oil and natural gas
Mehran	Pakistan	**75%**	75%	Exploration and production of crude oil and natural gas
Mirpurkhas	Pakistan			Exploration and production of crude oil and natural gas
– exploration		**95%**	95%	
– development and production		**75%**	75%	
Khipro	Pakistan			Exploration and production of crude oil and natural gas
– exploration		**95%**	95%	
– development and production		**75%**	75%	
Offshore Block "U" (surrendered on 6 April 2017)	Pakistan	**–**	72.5%	Exploration of crude oil and natural gas
Offshore Block "S" (surrendered on 6 April 2017)	Pakistan	**–**	50%	Exploration of crude oil and natural gas
Digri	Pakistan	**75%**	75%	Exploration of crude oil and natural gas
Kotri North	Pakistan	**50%**	–	Exploration of crude oil and natural gas

45. Events After the Reporting Period

On 30 January 2018, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 70% equity interests held in Universe Energy International Investments Limited and its subsidiary. Based on the latest estimation, the consideration would be approximately HK$39,087,000 (equivalent to approximately RMB31,509,000), subject to adjustments as described in the agreement. The disposal is expected to be completed in the first quarter of 2018.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**4,441,266**	4,061,024	5,231,023	6,120,229	4,787,556
Profit before tax	**1,756,237**	1,201,575	641,704	2,118,457	1,200,318
Income tax expenses	**(440,420)**	(176,662)	(117,429)	(304,011)	(27,128)
Profit for the year from continuing operations	**1,315,817**	1,024,913	524,275	1,814,446	1,173,190
Loss for the year from discontinued operations	**–**	(64,560)	(3,474,895)	–	–
Attributable to:					
Owners of the Company	**1,316,340**	965,008	(2,943,674)	1,827,887	1,215,211
Non-controlling interests	**(523)**	(4,655)	(6,946)	(13,441)	(42,021)
	1,315,817	960,353	(2,950,620)	1,814,446	1,173,190

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total Assets	**13,275,537**	15,496,639	13,713,810	18,540,265	16,756,548
Total Liabilities	**(2,598,518)**	(5,073,095)	(6,872,201)	(8,722,893)	(8,773,617)
Net Assets	**10,677,019**	10,423,544	6,841,609	9,817,372	7,982,931
Equity attributable to owners of the Company	**10,652,469**	10,400,217	6,811,894	9,778,958	7,930,771
Non-controlling interests	**24,550**	23,327	29,715	38,414	52,160
Total equity	**10,677,019**	10,423,544	6,841,609	9,817,372	7,982,931

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