UEG

聯合能源

年報

Annual Report 2019

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)

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CORPORATE INFORMATION

Directors

Executive Directors

Zhang Hong Wei *(Chairman)*
Zhang Meiying

Independent Non-Executive Directors

Chau Siu Wai
San Fung
Wang Ying

Company Secretary

Hung Lap Kay

Principal Place of Business

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Registered Office

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2 Church Street,
Hamilton HM11,
Bermuda

Principal Bankers

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

Legal Advisers in Hong Kong

Slaughter and May
Sidney Austin
Angela Ho & Associates in association with
Lang Michener LLP

Auditor

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Bermuda Principal Share Registrar and Transfer Office

Conyers Corporate Services (Bermuda) Limited
Clarendon House,
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Hamilton HM 11,
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Hong Kong Branch Share Registrar and Transfer Office

Tricor Secretaries Limited
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Hong Kong

Website

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KEY FINANCIAL AND OPERATION SUMMARY

Financial Summary

	2019 HK$'000	2018 HK$'000	Change
Results			
Turnover	**7,103,644**	5,279,204	+34.6%
Gross Profit	**3,477,805**	2,957,209	+17.6%
EBITDA (Note 1)	**5,477,288**	4,063,743	+34.8%
Profit for the year	**1,905,947**	1,637,332	+16.4%
Profit for the year attributable to owners of the Company	**1,905,957**	1,637,991	+16.4%
Basic earnings per share from continuing and discontinued operations (HK cents)	**7.26**	6.23	+16.5%
Key items in Consolidated Statement of Financial Position			
Equity attributable to owners of the Company	**12,036,507**	11,263,144	+6.9%
Total assets	**25,743,105**	16,147,438	+59.4%
Net assets	**12,054,089**	11,263,144	+7.0%

Operation Summary

Pakistan Assets	2019	2018	Change
Operation			
Average Daily Working Interest Production (boed)	**66,560**	66,453	+0.2%
Oil & Liquids Ratio (Note 2)	**15.7%**	15.8%	–0.1%
Reserve (Note 3)			
Net Entitlement 1P Reserve at the year end (mmboe)	**83.6**	95.3	–12.3%
Working Interest 2P Reserve at the year end (mmboe)	**130.9**	149.5	–12.4%
Exploration & Development Activity			
Rig workovers	**10**	8	+2
Exploration wells	**17**	22	–5
Development wells	**21**	14	+7

Key Financial and Operation Summary (Continued)

MENA Assets (Note 4)	2019	2018	Change
Operation			
Average Daily Working Interest Production (boed)	27,782	N/A	N/A
Oil & Liquids Ratio (Note 2)	94.5%	N/A	N/A
Reserve (Note 3)			
Net Entitlement 1P Reserve at the year end (mmboe)	169.7	N/A	N/A
– Egypt Assets	5.5	N/A	N/A
– Iraq Assets	164.2	N/A	N/A
Working Interest 2P Reserve at the year end (mmboe)	800.4	N/A	N/A
– Egypt Assets	26.2	N/A	N/A
– Iraq Assets	774.2	N/A	N/A
Exploration & Development Activity			
Rig workovers	9	N/A	N/A
Exploration wells	2	N/A	N/A
Development wells	11	N/A	N/A

Notes:

1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, property, plant and equipment written off, impairment losses on goodwill, share of profits/(losses) of associates, gain/loss on disposals of property, plant and equipment, gain on bargain purchase, impairment losses for trade and other receivables and profit/loss for the year from discontinued operations.

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

3. Working interest reserve represents Group's proportion prior to application of the state share under the concession agreements governing the assets, while net entitlement reserve represents Group's proportion after application of the state share under the concession agreements governing the assets.

4. From 21 March 2019 to 31 December 2019.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

2019 was an exceptional year for United Energy Group Limited ("UEG" or the "Company", and together with its subsidiaries collectively the "Group"), as it moved forward with its growth strategy in the backdrop of a challenging year. The global economy faced pressure due to Sino-US trade tensions and geopolitical uncertainties around the world. Despite these challenges, UEG achieved remarkable results whilst continuing with its growth strategy, strengthened its competitiveness through a well-managed operation and global expansion.

UEG successfully completed acquisition of Kuwait Energy Public Limited Company ("KEC") in March 2019 and is now becoming a fast-growing international medium-sized independent energy company. KEC has operations in Egypt and Iraq with access to some very prolific reservoirs. Continuing with its "Reliable Operation plus a Rapid Expansion" strategy, UEG has moved fast and carried out some fast track projects to ramp up KEC operations. After the acquisition, we accomplished such achievements, including the first commercial production of the Siba asset and the commerciality of Faihaa field in Block 9. Operations at its existing assets in Pakistan continue to make progress. Signing of Memorandum of Understanding with national oil companies like Oil and Gas Development Company Limited and Pakistan Petroleum Limited in Pakistan opens up further growth opportunities there. Our successes are recognized by the financial markets as the Hang Seng Indexes Company Limited had earlier in 2019 announced the inclusion of UEG to the Hang Seng Composite Large Cap & Mid Cap Index.

2019 PERFORMANCE

Clear strategy, effective planning and corporate governance, operational excellence and a committed work force continues to underpin our remarkable performance over the years. In 2019, we successfully achieved our production targets, with our average daily gross oil and gas production reaching approximately 146,329 barrels of oil equivalent ("boe") per day ("boed"), and our average working interest oil and gas production reaching approximately 94,342 boed, a 42% increase compared to approximately 66,453 boed of last year. In terms of exploration, 10 commercial discoveries were achieved of which 8 discoveries were made in Pakistan and 2 discoveries in Egypt. The Group's working interest 2P (Proved and Probable) reserve reached 931.3 mmboe, and the reserve-production ratio reached approximately 27.1 (as at 31 December 2018 approximately 6.2). With overall planning and efficient management, we have successfully completed production supporting facility projects for the productivity construction of each asset in 2019. These further strengthened the Group's resource foundation for sustainable future development. Health, Safety, Security and Environment ("HSSE") remained of paramount importance and all our operations were conducted safely.

The newly acquired KEC assets give access to a giant oil field in one of the most prolific oil regions in the world. As per reserve report issued by Gaffney, Cline & Associates as of ended 31 December 2019, working interest 2P reserves of Block 9 in Iraq was 751.8 mmboe, in which, upon the completion of KEC acquisition, the Group now has 60% working interest. The production base and long reserve life of the KEC assets are highly complementary to UEG's existing portfolio and provides a sustainable development profile to the Group for the next two decades. As we embark on this journey to assess the potential, we will provide technical and managemental support required, and more importantly, understand opportunities and challenges that coexist, to ensure we replicate our past success story in these newly acquired assets.

UEG takes pride in its committed work force with extensive experience in oil and gas industry, particularly in managing its existing assets. Addition of KEC team has brought significant depth of experience across KEC countries of operations, and sets UEG well to continue with its remarkable progress in future.

Focus continues to enhance shareholder value. UEG maintains a flexible dividend payout policy, without prejudice to its development agenda. On 3 January 2020, it paid a special dividend of HK$4 cents per ordinary share to its shareholders.

UEG maintains prudent financial management policies. In the reporting period, it moderately used financial leverage to complete KEC acquisition. It will strictly monitor and control total debt amount, closely pay attention to finance cost and cautiously avoid excessive financial burden.

OUTLOOK

In 2020, the global economy would inevitably face significant pressure, due to the COVID-19 pandemic and the plunge of international oil prices. Not only the non-alignment between Saudi Arabia and Russia to manage oil supply, which led to an all-out supply war, but also the significant curtailment of oil demand due to COVID-19, impacts international oil price to hover at a low level of US$25 per barrel with high volatility. Facing these challenges, we will reduce capital investment in large scale, optimize operational expenses and maintain stable healthy cash flow at group level. We implement the low-cost strategy in long run, which ensures the Group's production and operation with more flexibility during the low oil price period. And we will further strengthen our operating strategies, which mainly include promoting high-quality development, maintaining prudent financial policy and investment decision-making and pursuing a sustainable development model.

For our 2020 plan, the Group targets average daily gross production level of 140,000 to 160,000 boed, and average daily working interest production level of 84,000 to 99,000 boed. Capital expenditure is anticipated to reach US$290 million to US$330 million, which is essential to support exploration, development and construction plans to the Group.

In recent years, UEG has moderately utilized financial leverage, to carry out acquisition activities, which effectively enriches our Group's assets portfolio. By applying prudent financial policies, its capital structure will remain stable and manageable in the foreseeable future.

Pakistan market will continue to be our core revenue driver and UEG will be closely monitoring any expansion opportunities where we can develop significant synergies with our existing operation. Iraq is one of the most prolific oil regions in the world. UEG holds interests in two blocks in Iraq, i.e. Block 9 & Siba. We expect addition of a third block in Iraq in 2020. Fast track work is in progress for integrated development plans for these blocks to address energy needs of Iraq and value generation for our shareholders in the coming years. With the approval of the field development plan ("FDP") by Iraqi government, we will conduct rapid oil field development and surface facility construction in the next 2 to 3 years. The production of Iraq assets will grow rapidly, generating significant amount of revenue and cashflow. Egypt is Africa's largest non-OPEC oil producer. UEG holds interests in four blocks, i.e. Burg El Arab, Area A, Abu Sennan and East Ras Qattara. We aim for stable production and seize any potential opportunity to increase our footprint in Egypt.

HSSE remains top priority for UEG. As our business grows, high HSSE standard will be maintained in line with our philosophy of safe operations.

In summary, 2019 was yet another year of remarkable performance in line with our strategy. UEG is committed to "Reliable Operation plus a Rapid Expansion" strategy, managing costs and improving return on investment for our shareholders. We have a great work force committed to our strategy, continue to achieve high goals and deliver better return for our shareholders. I am confident, UEG will continue to progress towards new horizons.

Zhang Hong Wei
Chairman
31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is one of the largest listed upstream oil and gas corporations in Hong Kong, with business presence in South Asia, Middle East and North Africa. 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 as one of the major players in the upstream oil and gas industry. Hang Seng Indexes Company Limited had early in 2019 announced inclusion of the Group on the Hang Seng Composite LargeCap & MiddleCap Index. The Group has established a sound track record of growing its business through acquisition and capital investment.

According to OPEC's 2019 Annual Statistical Bulletin, world oil demand in 2019 increased by 0.9% to 99.77 million barrels per day ("mmbbld") compared to 2018, whilst world oil supply in 2019 decreased by 0.1% to 98.99 mmbbld compared to 2018. During the year of 2019, OPEC and Non-OPEC members reached a relatively high conformity level, which supports international oil prices. Brent Oil Price edged down in the reporting period 2019 by 10.5% compared to the last year, according to data from the Intercontinental Exchange of the United States. Due to the increase in production volume and the full period effect of acquisitions made in last year and current reporting period, the Group reported a revenue for the reporting period of approximately HK$7,103,644,000, representing an increase of 34.6% compared to last year of approximately HK$5,279,204,000.

Cost of sales and services rendered by the Group for the reporting period was approximately HK$3,625,839,000, and the Group invested approximately HK$2,542,471,000 of capital expenditure in oil exploration, development and production activities (inclusive of Kuwait Energy Public Limited Company ("KEC")). The Group drilled 51 wells during the reporting period, including 38 wells in Pakistan Assets and 13 wells in Middle East and North Africa ("MENA") Assets.

Business Strategy

As one of the largest independent upstream oil and gas corporations listed on the Hong Kong Stock Exchange, we mainly engage in the exploration, development, production and sales of oil and natural gas. The principal elements of our strategy are as follows:

Focus on reserve and production rapid growth

As an upstream company, we consider rapid growth in reserves and production as our top priority. After the acquisition of KEC, reserves increased sharply by Iraq assets. We continue to concentrate our exploration efforts in our major operation areas, i.e. Pakistan. We plan to increase our reserves and production through organic growth and value-driven acquisitions.

Meanwhile, we will continue to closely cooperate with our partners to lower capital requirements and mitigate exploration risks. We plan to increase our production through the development of reserves in Iraq, Pakistan and Egypt, among which Iraqi Assets will provide a solid resource base for increasing production in future.

Enlarge and diversify assets portfolios

Over the past few years, our core business was mainly in Pakistan, with high quality assets being managed by a professional management team. After we acquired KEC, we increased our assets portfolios in MENA region and diversified our risks. We plan to replicate our success story in Pakistan to the MENA region. Given the quality of these newly acquired KEC assets and our experience, we are confident to run these assets and expect rapid growth in the near term.

Promote high-quality development

We achieved the targets to diversify our assets portfolio in last year. We will continue to develop our assets in a sustainable, efficient, economical, and environment-friendly way, in order to maintain high-quality development status.

Maintain a prudent financial policy

A prudent disciplined financial policy underpinned our success over the years. We plan to continue with this focus. As an essential part of our corporate culture, we continue to promote continuous improvement to our processes, bring efficiencies to our operations, cost management and disciplined investment decision-making across the Group. This helped to maintain a relatively lower lifting cost and keep our competitiveness. Cash flow was managed in order to secure KEC acquisition and maintain a healthy financial position.

Exploration

In 2019, the Group devoted continuous efforts in its oil and gas exploration. Adhering to the philosophy of value-driven and anchoring on exploration and discoveries of small and rich oil and gas fields, several commercial discoveries were made.

Technical capabilities were enhanced, and efficiency of exploration operations improved. The Group continued to maintain a reasonable proportion investment and support high level of exploration activities, in order to ensure sustainable growth. Exploration area in Pakistan is 15,201 Km^2 including 2,436 Km^2 non-operated. In Egypt this is 886 Km^2. In terms of exploration, 10 commercial discoveries were achieved of which 8 were in Pakistan and 2 in Egypt. Exploration breakthroughs were achieved in Kotri North ("KN") new block, as well as decent production discovered on downthrow structures and deep formation in mature blocks in Pakistan. 100% chance of success and high testing production observed in Egypt blocks. Exploration campaign in Pakistan and Egypt continued to improve our production.

Engineering Construction

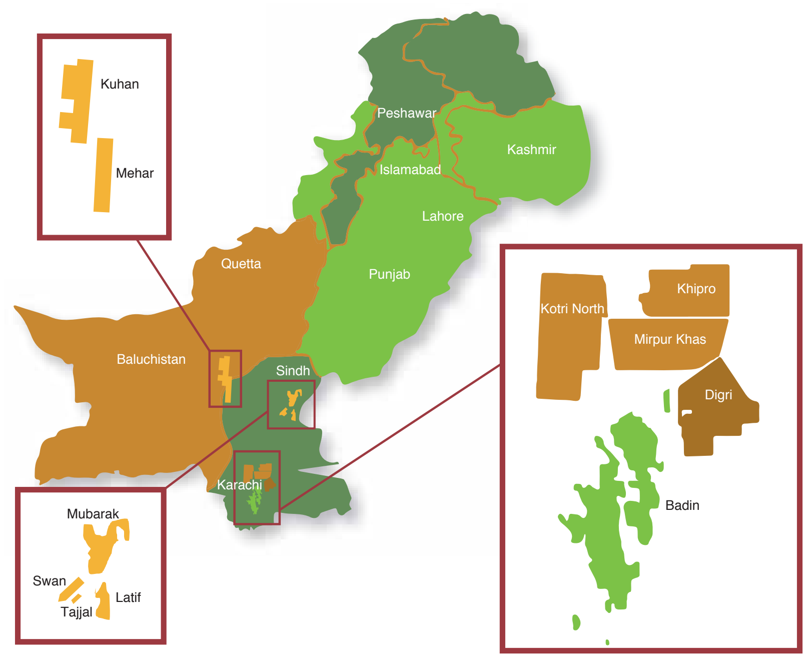
In 2019, the Group carefully organized operational resources and made smooth progress in engineering construction. With detailed planning and efficient management, the Group has successfully completed its production support facility projects in 2019, making a positive contribution to production and reserve targets.

Two key projects in Pakistan, namely facility construction of KN block and surface pipeline of Mulaki oilfield, were completed and put into production ahead of schedule, especially overcoming the flood impacts.

Two key projects in Iraq, namely Siba gathering pipeline project and a major oil exporting pipeline in Block 9, were completed and put into operation ahead of schedule, providing strong support for the reserves and production target of the two oil fields.

Development and Production

In 2019, the Group successfully met its operational targets, with oil and gas production in line with expectations. In 2019, the Group's average daily working interest production was 94,342 barrels of oil equivalent per day ("boed") (Pakistan Assets – 66,560 boed plus MENA Assets – 27,782 boed), a 42% increase compared to approximately 66,453 boed (Pakistan Assets only) of last year, and working interest accumulated annual production was approximately 32.24 million barrels of oil equivalent ("mmboe"), a 33% increase compared to approximately 24.26 mmboe of last year.



Pakistan

As of 31 December 2019, the Group holds interests in 5 Blocks and 14 development concessions for oil and gas production in Pakistan.

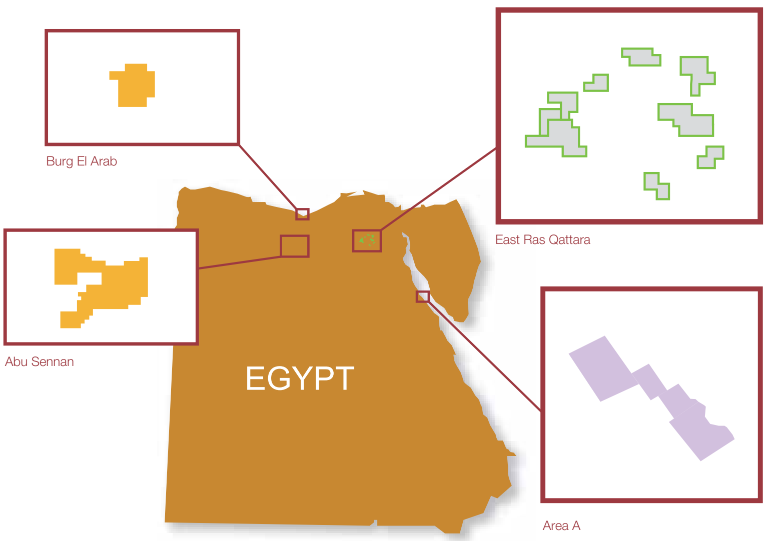
In 2019, the Pakistan Assets achieved an average daily working interest production of approximately 66,560 boed, increased by 0.2% compared to last year. The Pakistan Assets has an oil and liquids ratio of 15.7% which was close to the number of last year. The accumulated gross production and working interest production of the full year was approximately 35.72 mmboe and 24.29 mmboe respectively.

Iraq

The Group holds a 60% participating interest in the Exploration Development and Production Service Contract ("EDPSC") of Block 9 in Iraq and is the Operator of this block. In 2019, the Group devoted more efforts to its production enhancement measures of Faihaa oil field, resulting in a steady increase in daily production. The Field Development Plan was submitted to Iraqi Government for approval, which will support Faihaa oil field to increase production in the coming four years. In 2019, the average daily gross production was approximately 16,364 boed, and the average daily working interest production was approximately 9,818 boed. The accumulated gross production and working interest production from 21 March 2019 to 31 December 2019 was approximately 4.68 mmboe and 2.81 mmboe respectively. Block 9 has an oil and liquids ratio of 100%.

The Group holds a 30% participating interest in the Gas Development and Production Service Contract for the Siba contract area in Iraq and is the Operator of this block. The average daily gross production in 2019 was approximately 11,725 boed, and the average daily working interest production was approximately 3,518 boed. The accumulated gross and working interest production from 21 March 2019 to 31 December 2019 was approximately 3.35 mmboe and 1.01 mmboe respectively. Siba has an oil and liquids ratio of 63.8%. First commercial production ("FCP") of Siba was approved on 17 April 2019. This is a major milestone for Siba block. The pre-FCP production from 5 September 2018 to 16 April 2019 and relevant revenue were approved to be took account into the year of 2019 by Basra Oil Company ("BOC") in December 2019. So the total booked 2019 gross accumulative production of Siba was approximately 5.23 mmboe, including approximately 1.27 mmboe of 2018.

On 4 June 2018, a preliminary development and production contract ("DPC") was signed with BOC of the Iraqi Ministry of Oil to conduct development and production operations in Sindbad block located in Basra Province, Iraq. DPC has a term of 20 years and require the Group to carry out general exploration and development activities on behalf of BOC, including the acquisition of 3D seismic, conducting geophysical and geological studies and demining works. DPC entitles the Group remuneration of 4.55% of all net deemed revenues, after taking into account petroleum cost recovery for costs incurred in the exploration, development and production as well as 25% of royalty payment due to the BOC. Formal DPC is expected to be signed in 2020.



Egypt

The Group holds interests in four blocks in Egypt. It has a 100% participating interest in Burg El Arab and act as the Operator of this block. The participating interest in Area A, Abu Sennan, East Ras Qattara are 70%, 25% and 49.5% respectively. In 2019, the Group devoted more efforts in production enhancement measures, resulting in a steady increase in daily production. The average daily gross production was approximately 20,396 boed, and the average daily working interest production was approximately 14,446 boed. The accumulated gross production and working interest production from 21 March 2019 to 31 December 2019 was approximately 5.83 mmboe and 4.13 mmboe respectively.

Sales and Marketing

Sales of Crude Oil

The Group sells crude oil, condensates and LPG produced in Pakistan and Iraq mainly through Trafigura Pte. Ltd in international markets. The Group's crude oil sales price is mainly determined by the prices of international benchmark crude oil of similar quality, with certain adjustments subject to prevailing market conditions. The prices are quoted in US dollars and settled in US dollars with Brent Oil Price as basis. With regard to Egyptian Assets, as per the articles of Profit Sharing Contract ("PSC") in Egypt, the Group sells crude oil to Egyptian General Petroleum Corporation ("EGPC") at a price determined under the PSC, generally at a small discount to Brent Oil Price.

In 2019, the Group's average realised oil price (before government royalty, windfall levy and government take at working interest production) was approximately US$61.94/barrel, representing a year-on-year decrease of 4.4%.

Sales of Natural Gas

The Group's natural gas sales prices are based on negotiated long term sales agreements. Contract terms normally include a price review mechanism which links the price of natural gas sold to crude oil prices. The Group's natural gas customers are primarily located in Pakistan and are government owned entities namely Sui Southern Gas Company Limited ("SSGCL") and Sui Northern Gas Pipelines Limited ("SNGPL").

In 2019, the Group's average realised gas price (before government royalty, windfall levy and government take at working interest production) was approximately US$27.22/boe, representing a year-on-year increase of 5.4%.

Trading of LNG

The Group tested LNG trading business in year 2019. The customer of the first transaction is Sinopec and the sales are approximately US$20.2 million. The LNG sales prices are mainly determined by negotiation with customers, considering the international benchmark. The sales of LNG will be carried out in back-to-back way with low volatility and relatively reasonable margin.

Financial Results

Financial Review

The Group reported a continuous substantial growth in earning for the year ended 31 December 2019 (the "reporting period"). The profit attributable to the owners of the Company for the reporting period was approximately HK$1,905,957,000 (31 December 2018: approximately HK$1,637,991,000), representing an increase of 16.4% from the year ended 31 December 2018 (the "last year"). The increase in net profit was mainly due to higher turnover resulting from improved sales volume and sales prices. During the reporting period, the Group completed the acquisition of KEC on 21 March 2019 (the "KEC Acquisition"). In terms of production, the average daily working interest production was approximately 94,342 boed (Pakistan Assets – 66,560 boed plus MENA Assets – 27,782 boed) compared to approximately 66,453 boed (Pakistan Assets only) of the last year, representing an increase of 42%. The average realised oil and gas price (before government royalty, windfall levy and government take at working interest production) was approximately US$39.25/boe, compared to approximately US$31.93/boe of the last year, representing an increase of 22.9%.

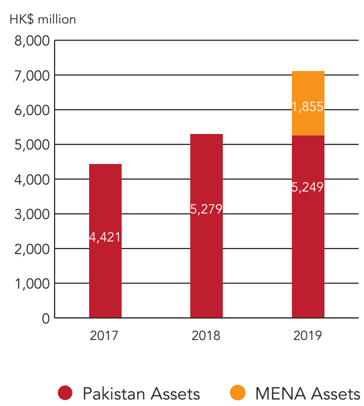
Turnover

The Group's turnover for the reporting period was approximately HK$7,103,644,000, representing an increase of 34.6% as compared with the turnover of approximately HK$5,279,204,000 of last year. The increase in turnover was mainly attributable to the increase of working interest production post KEC acquisition and the overall realised sales prices.

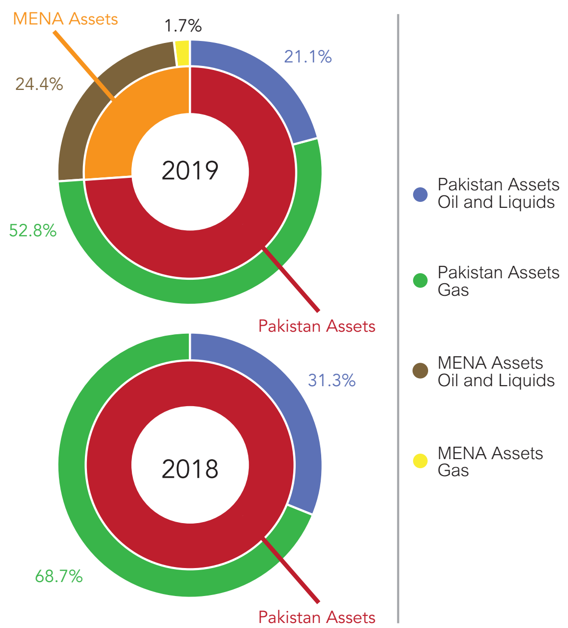
Exploration and Production Category		Year 2019	Year 2018	Change
Oil and gas sales*	USD'000	**1,263,821**	777,451	62.6%
Crude oil and liquids	USD'000	**688,112**	241,564	184.9%
Natural gas	USD'000	**569,330**	527,795	7.9%
LPG	USD'000	**6,379**	8,092	–21.2%
Sales Volume	mmboe	**32.2**	24.3	7.9
Crude oil and liquids	mmboe	**11.1**	3.7	7.4
Natural gas	mmboe	**20.9**	20.4	0.5
LPG	mmboe	**0.2**	0.2	–
Realised prices*	US$/boe	**39.25**	31.93	22.9%
Crude oil and liquids	US$/bbl	**61.94**	64.76	–4.4%
Natural gas	US$/boe	**27.22**	25.84	5.4%
LPG	US$/boe	**35.79**	43.10	–17.0%

* before government royalty, windfall levy and government take

UEG 2019 FY – Turnover



Turnover contribution by product



Notes:

1. Turnover represents sales after government take.

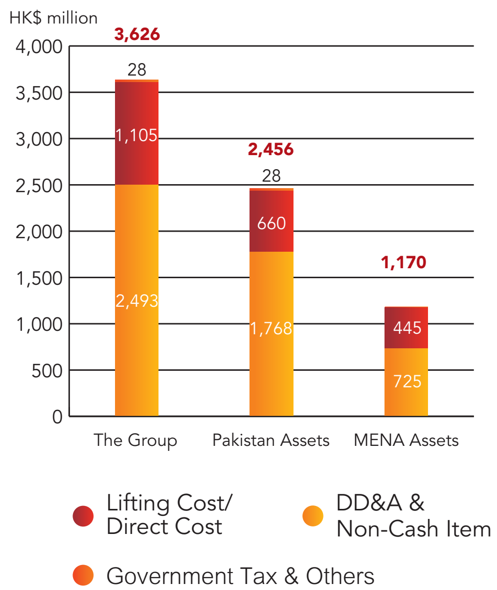
2. MENA Assets operation in 2019 only covered the period from 21 March 2019 to 31 December 2019.

Cost of sales and services rendered

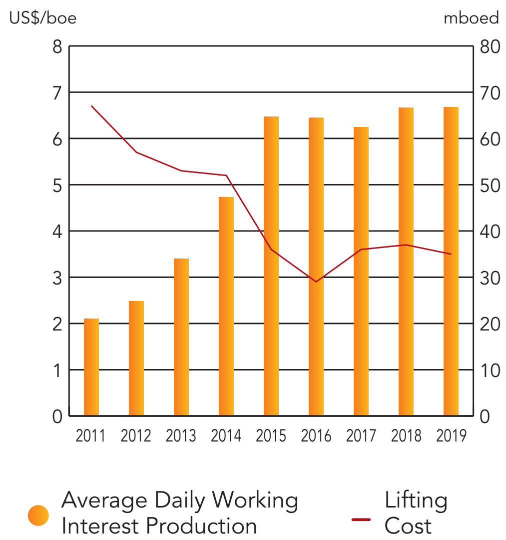
Operating expenses

The Group's operating expenses (which is defined as the cost of sales excluding depreciation and amortisation, government tax and distribution expenses) increase 55.5% to approximately HK$1,104,491,000 in 2019, compared with approximately HK$710,301,000 in 2018. The operating expenses per boe (at working interest production) was approximately US$4.4 in 2019, compared with approximately US$3.7 in 2018, increase by 18.9%. For Pakistan Assets, operating expenses per boe was approximately US$3.5 in 2019, representing a decrease of 5.4% compared with approximately US$3.7 in 2018. For MENA Assets, operating expense per boe was approximately US$7.2 in 2019.

UEG 2019 FY – Cost of Sales & Services Rendered



Pakistan Assets – Lifting cost vs Working Interest Production



Note:

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

2. MENA Assets operation in 2019 only covered the period from 21 March 2019 to 31 December 2019.

Depreciation, depletion and amortisation

Included in the cost of sales and services rendered, the depreciation, depletion and amortisation was approximately HK$2,493,491,000, representing an increase of 57.7% as compared with the amount of approximately HK$1,581,568,000 in last year.

Gross profit

The Group's gross profit for the reporting period was approximately HK$3,477,805,000 (gross profit ratio 49.0%) which represented an increase of 17.6% as compared with gross profit of approximately HK$2,957,209,000 (gross profit ratio 56.0%) for the last year. The increase in gross profit was attributed to the effect of KEC acquisitions and in line with the increase in sales volume and overall realised prices during the reporting period.

Exploration expenses

The Group's exploration expenses for the reporting period was approximately HK$350,286,000 (31 December 2018: approximately HK$103,068,000) which was mainly for the performance of geological and geophysical studies and surface use rights & wells drilled in Pakistan and Egypt. The increase in exploration expenses was mainly due to the written off loss of approximately HK$322,140,000 (2018: approximately HK$78,114,000) arising from dry exploration wells in the Pakistan Assets.

Administrative expenses

The Group's administrative expenses for the reporting period was approximately HK$505,215,000 (31 December 2018: approximately HK$459,768,000) representing 7.1% (31 December 2018: 8.7%) of the turnover. The increase in administrative expenses was attributed to the new acquisition of KEC during the reporting period.

Finance costs

The Group's finance costs for the reporting period was approximately HK$440,960,000, sharply increased as compared with the finance costs of approximately HK$54,337,000 for the last year. The increase in finance costs was mainly due to the higher average borrowings as the Group arranged certain bank borrowings for the acquisition of KEC during the reporting period. The weighted average interest rate of borrowings for the reporting period was 8.64% (31 December 2018: 7.82%)

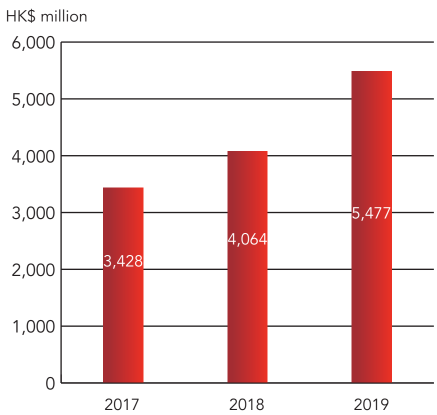
Income tax expense

The Group's income tax expense for the reporting period was approximately HK$352,124,000. This included the current income tax of approximately HK$389,133,000 and partially net of deferred tax income of approximately HK$37,009,000, compared with current income tax of approximately HK$223,405,000 and deferred tax expenses of approximately HK$456,740,000 for the last year respectively. The Group's effective tax rate for the reporting period was approximately 15.6%, representing a decrease 14.2 percentage points as compared with 29.8% for the last year, which was mainly because of lower rates applicable in KEC countries of operations and written off of dry exploration wells.

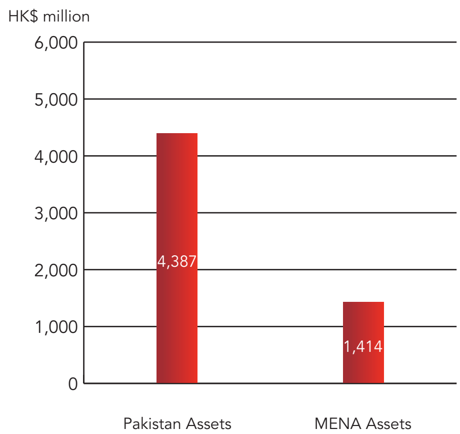
EBITDA

EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, property, plant and equipment written off, impairment losses on goodwill, share of profits/losses of associates, gain/loss on disposals of property, plant and equipment, gain on bargain purchase, impairment losses for trade and other receivables and profits/loss for the year from discontinued operations. It shall be noted that EBITDA is not a measurement 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$5,477,288,000, increased by 34.8% from the last year of approximately HK$4,063,743,000. The increase in EBITDA was mainly attributable to the increase in turnover of crude oil and natural gas as aligned with the higher working interest production.

UEG 2019 FY – EBITDA



UEG 2019 FY – EBITDA by Assets



Notes:

1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, property, plant and equipment written off, impairment losses on goodwill, share of profits/losses of associates, gain/loss on disposals of property, plant and equipment, gain on bargain purchase, impairment losses for trade and other receivables and profit/loss for the year from discontinued operations.

2. MENA Assets operation in 2019 only covered the period from 21 March 2019 to 31 December 2019.

3. Corporate expenses have not been included in the "EBITDA by Assets" chart.

Cash generated from operating activities

The Group's cash inflow from operating activities for the reporting period was approximately HK$4,011,814,000, representing an increase 3.0% as compared with the previous year of approximately HK$3,893,436,000. This was primarily attributed to the increase in oil and gas sales cash inflows due to increased sold volumes for the current period.

Cash used in investing activities

In 2019, the Group's cash used in investment activities increased by 97.4% to approximately HK$6,979,316,000 from last year. In the current reporting period, we acquired KEC with net consideration payment of approximately HK$4,080,085,000, as well as the development expenditure of approximately HK$2,657,186,000, with an overall increase of 40.5% as compared with the last year.

Cash generated from financing activities

In 2019, the net cash inflow from financing activities was approximately HK$3,589,276,000, mainly due to the drawdown of bank loans of approximately HK$6,439,378,000 and repayment of KEC's senior guaranteed unsecured notes of approximately HK$1,950,000,000, KEC's Vitol prepayment facility of approximately HK$491,393,000, and the other bank loan repayment of approximately HK$2,429,700,000.

Dividend

On 27 November 2019, the Group declared a special dividend of approximately HK$1,051,115,000 to the shareholders of the Company, representing HK$4 cents per ordinary share. This was paid on 3 January 2020. No final dividend is proposed for the year ended 31 December 2019.

Business and market outlook

In 2020, the global economy would inevitably face significant pressure, due to the COVID-19 pandemic and the plunge of international oil prices. Not only the non-alignment between Saudi Arabia and Russia to manage oil supply, which led to an all-out supply war, but also the significant curtailment of oil demand due to COVID-19, impacts international oil price to hover at a low level of US$25 per barrel with high volatility.

Our Pakistan asset natural gas sales agreements are long-term contracts with price linked to the crude oil prices with generally a floor and a ceiling. Based on historical trends, realised gas sales price were relatively stable even with significant fluctuations in oil prices. Also, country is energy deficient which offers a good market to the Group. Iraq assets have service contracts and are in the development phase with major projects being undertaken. Under these contracts, cost recovery and remuneration mechanism limit any significant exposure to the Group from oil price fluctuation. Egypt assets have a mature stable operation with a good market for the Group. We aim for stable production and seize any potential opportunity to increase our footprint in Egypt.

For our 2020 plan, the Group targets average daily gross production level of 140,000 to 160,000 boed, and average daily working interest production level of 84,000 to 99,000 boed. Capital expenditure is anticipated to reach US$290 million to US$330 million, which is essential to support exploration, development and construction plans of the Group. We will manage overruns in capital expenditure to the possible extent through the adjustments of our exploration program by deferring certain high risks exploration drilling. At the same time, we will optimize the workload of each asset to ensure a desirable return.

Pakistan Assets:

According to a Pakistan industry report prepared by an independent third party on behalf of the Group, gas demand is expected to increase from approximately 4.0 billion cubic feet per day ("bcfd") in 2018 to approximately 4.3 bcfd in 2024 and then stabilizes around this level afterwards. On the supply side, the expected domestic production amounted to approximately 3 bcfd in 2018 and is expected to decline quickly to below approximately 2 bcfd in 2024. The gas shortage in Pakistan was mitigated by importing significantly more expensive LNG from the neighboring countries. Given the Group's production is predominantly in gas, our sale of natural gas is almost guaranteed to be taken up by the state-owned gas distribution customer. We continue to leverage our experience and understanding of the geology and geophysics in Lower Indus Basin, Middle Indus Basin and Western Fold Belt of Pakistan to unlock the potentials of these assets. Besides, the Group will continue to look for similar opportunities in the market or other access alternatives, such as participating in government bidding process, and strengthen cooperation with state-owned oil companies to expand our footprint in Pakistan.

For Pakistan Assets, we plan to achieve an average daily working interest production of 51,000 to 60,000 boed in 2020.

MENA Assets:

In March 2019, the Group completed the acquisition of KEC, which is engaged in exploration, appraisal, development and production of oil and gas assets in the MENA region. This acquisition brings high-quality assets to the Group's portfolio with significant scale and strong development potential. The production base and long reserve life of these assets are highly complementary to the Group's existing portfolio and will provide a sustainable development profile to the Group for the next two decades. As per reserve report issued by Gaffney, Cline & Associates as of 31 December 2019, the MENA Assets were reported with 2P working interest reserve of 800 mmboe with almost 96.7% located in Iraq. The Group will leverage its strong financial capability to further develop the potential of MENA Assets and replicate its past success story in MENA regions. The average daily working interest production of Block 9 in Iraq is expected to reach 100,000 boed in the near future. The gas production of Siba in Iraq is expected to reach a sustainable Plateau Production Target in the near future. Egyptian assets are mature producing assets, it will stay stable in terms of both production and reserve, in the year of 2020.

In 2020, Iraq Assets are expected to achieve an average daily working interest production of 21,000 to 25,000 boed, whereas Egypt Assets will achieve an average daily working interest production of 12,000 to 14,000 boed.

Conclusion

United Energy has achieved remarkable financial performance including significant working interest production contribution from its newly acquired assets. We have successfully completed KEC acquisition in the first half of 2019 which is a significant milestone for the Group. Our next step is to deploy an integrated exploration, development and production program to exploit the upside of the newly acquired assets. We are committed to our strategy to achieve high goals and will deliver better return to our shareholders, year on year.

Liquidity and Financial Resources

During the reporting period, the Group arranged certain borrowings for KEC acquisition consideration and continues to maintains a strong financial position for the reporting period, with cash and cash equivalents amounting to approximately HK$3,358,627,000 as at 31 December 2019 (31 December 2018: approximately HK$2,516,532,000).

The Group borrowings are noted below. These are from banks and other trading commodity corporations, and shows lenders confidence in the Group financial strength and its future plans.

	Principal amount outstanding at 31 December 2019	
	US$	Equivalent to HK$
Revolving loan	385,000,000	3,003,000,000
Term loan	165,200,000	1,288,560,000
Reserves-based borrowing	60,000,000	468,000,000
Prepayment facilities	145,500,000	1,134,900,000
	755,700,000	5,894,460,000

As at 31 December 2019, the gearing ratio was approximately 23.2% (31 December 2018: 4.0%), based on borrowings, advance from customers, and lease liabilities under current liabilities and non-current liabilities of approximately HK$1,519,511,000 (31 December 2018: approximately HK$181,123,000) and approximately HK$4,442,221,000 (31 December 2018: approximately HK$460,613,000) respectively and total assets of approximately HK$25,743,105,000 (31 December 2018: approximately HK$16,147,438,000). As at 31 December 2019, the current ratio was approximately 1.09 times (31 December 2018: approximately 1.84 times), based on current assets of approximately HK$7,210,921,000 (31 December 2018: approximately HK$5,317,390,000) and current liabilities of approximately HK$6,629,845,000 (31 December 2018: approximately HK$2,890,561,000).

As at 31 December 2019, the Group's total borrowings amounted to approximately HK$4,695,786,000 (31 December 2018: approximately HK$641,736,000), all of them are denominated in United States dollars. The weighted average interest rate of the borrowings as at 31 December 2019 was 6.42% (31 December 2018: 7.82%).

As at 31 December 2019, the Group's property, plant and equipment, trade receivable and bank balances, with total carrying value of approximately HK$6,556,010,000 (31 December 2018: approximately HK$1,919,375,000) and share charges in respect of the equity interests of certain subsidiaries were pledged to secure the Group's general banking facilities.

The Group is continuously exploring opportunities to optimise its capital structure, including the debt portfolio, to support organic, as well as inorganic growth, and will over the coming 12-month period explore opportunities for tapping the international debt capital markets, including the possibility to issue a corporate bond.

Material Acquisitions and Disposal

On 23 September 2018, Gold Cheers Corporation Limited ("GCCL"), an indirectly wholly-owned subsidiary of the Company, the Company and KEC entered into the agreement, pursuant to which GCCL has conditionally agreed to acquire all of the KEC's shares by way of the scheme of arrangement under Jersey law between the KEC and KEC's shareholders. The transaction is a significant milestone in implementing the Company's medium and long-term growth strategy of becoming an independent international oil and gas company. The transaction will transform the Company into a strong medium-sized international independent oil and gas company with a diversified portfolio of high-quality assets. The final consideration for the acquisition was approximately US$564,500,000 (equivalent to approximately HK$4,403,101,000) and the acquisition has been completed on 21 March 2019. Details of the transaction are set out in the Company's announcements dated 24 September 2018, 10 October 2018, 30 November 2018, 21 March 2019 and 22 March 2019 and the circular dated 27 December 2018.

Save as disclosed above, 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 Consolidated Financial Statements of this annual report.

Capital Structure

During the reporting period, the changes of the share capital structure of the Company were as follow:

Within January 2019, 23,494,000 ordinary shares were repurchased at the prices ranging between HK$1.13 and HK$1.27 per share on the Stock Exchange (the "Repurchased Shares") in accordance with the repurchase mandate granted to the Directors in the Annual General Meeting of the Company held on 20 April 2018. On 19 February 2019, the Repurchased Shares were cancelled.

On 18 October 2019, the Company resolved to award 7,202,844 new ordinary shares as the scheme shares to 42 Pakistan employees under the Share Match Scheme approved and adopted by the Company for Pakistan employees on 16 September 2011. The allotment of the 7,202,844 scheme shares was completed on 31 October 2019.

After completion of the above repurchase and allotment of shares during the reporting period, the total number of issued shares of the Company decreased from 26,294,155,209 shares as at 1 January 2019 to 26,277,864,053 shares as at 31 December 2019.

Employees

As at 31 December 2019, the Group employed a total of 1,903 full time employees in Hong Kong, the PRC, Pakistan, Dubai and other MENA locations. Employees' remuneration package is reviewed periodically and determined with reference to the performance of the individual and the prevailing market practices. Remuneration package included basis salaries, year-end bonus, medical and contributory provident fund.

Contingent Liabilities

Particulars of the Group's contingent liabilities are set out in the note 42 of the Notes to Consolidated Financial Statements of this annual report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's monetary assets and transactions are mainly denominated in United States dollars and Hong Kong dollars, which are relatively stable. Other currency involved include Renminbi, Pakistani Rupee, Iraqi Dinar and Egyptian Pound which exchange rate impact is not considered significant. the Group did not use financial instruments for hedging purposes during the reporting period and will continue to monitor impact of any exchange fluctuations and take appropriate action to prevent any exposure to the Group.

Major Customers and Suppliers

In 2019, the Group's five largest customers represented 95.8% of total turnover (2018: 98.8%) and the Group's five largest suppliers represented 13.2% of total cost of sales and services rendered (2018: 39.2%).

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 reporting period applicable to the particular fields. The selling prices for gas used in the economic limit test are projected based on the historical realised gas price of each field in reporting period.

For the year ended 31 December 2019, the Group engaged an independent third party consulting firms to perform audit and review on the reserves estimates. The firms have audited over 93% of the Group's total net entitlement 1P reserves, and completed a high level review of the reasonableness of the process used by the Group on the other fields representing over 4% of the Group's total net entitlement 1P reserves and its opinion stated that the estimates are reasonable.

The following table set out the estimates of Group's net entitlement 1P reserves.

	Pakistan Assets			MENA Assets			
Net entitlement proved reserves	**Oil, Condensate and LPG** (MMbbl)	**Sales Gas** (Bcf)	**Total** (MMboe)	**Oil, Condensate and LPG** (MMbbl)	**Sales Gas** (Bcf)	**Total** (MMboe)	**Total** (MMboe)
As at 31 December 2018 and 1 January 2019	18.4	446.2	95.3	–	–	–	95.3
Acquisition	–	–	–	75.3	69.0	86.9	86.9
Production	(3.8)	(118.7)	(24.3)	(3.6)	(1.8)	(3.9)	(28.2)
Revisions	3.5	52.1	12.6	76.4	62.2	86.7	99.3
As at 31 December 2019	18.1	379.6	83.6	148.1	129.4	169.7	253.3

Notes:

1. Boe is calculated using a conversion ratio of 5,800 Scf/Boe for Pakistan Assets and 5,000-6,000 Scf/Boe for MENA Assets.

2. Net entitlement reserve represents Group's proportion after application of the state share under the concession agreements governing the assets.

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Pakistan Assets	MENA Assets (Note)
Exploration activities:	• 17 Exploration wells	• 2 Exploration wells
Development activities:	• 21 Development wells • 10 Rig workovers	• 11 Development wells • 9 Rig workovers
Production activities:	• Average daily working interest production of 66,560 boed	• Average daily working interest production of 27,782 boed

Note: From 21 March 2019 to 31 December 2019.

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

The following table summarised the Group's share of costs incurred on exploration, development and production activities for the year ended 31 December 2019:

	Pakistan Assets (HK$'000)	MENA Assets (HK$'000)	Total (HK$'000)
Exploration costs	658,761	31,919	690,680
Development costs	964,768	1,031,826	1,996,594
Production costs (Note)	659,144	446,785	1,105,929

Note: Production costs recognised in cost of sales excluding depreciation & amortisation 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 2019, 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.

– 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;

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.

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 2019.

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 2019, 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.

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	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 46 to 47 of this annual report.

During the year ended 31 December 2019, 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 judgement.

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 14 Board meetings being held during the year ended 31 December 2019 and the attendance of individual Directors is as follows:

	Board Meetings
Mr. Zhang Hong Wei	14/14
Ms. Zhang Meiying	14/14
Mr. Chau Siu Wai	14/14
Mr. San Fung	14/14
Ms. Wang Ying	14/14

The attendance records of individual Directors of the 2019 Annual General Meeting ("2019 AGM") held on 30 May 2019 is set out below:

	2019 AGM
Mr. Zhang Hong Wei	1/1
Ms. Zhang Meiying	1/1
Mr. Chau Siu Wai	1/1
Mr. San Fung	1/1
Ms. Wang Ying	1/1

Training and Support for Directors

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

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

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

During the year ended 31 December 2019, 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 2019, 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"). The consolidated financial statements of the Group and the statement of financial position and reserve movement of the Company have been prepared in accordance with HKFRSs which is aligned with IFRSs as issued by the International Accounting Standard Board ("IASB"); and

- Made judgements 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 2019, 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 2019, 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
Mr. Chau Siu Wai	2/2
Mr. San Fung	2/2
Ms. Wang Ying	2/2

The members of Audit Committee have full access to and co-operation from the management and they have full discretion to invite any Director or executive to attend the meeting. The Audit Committee has performed the following functions during the year ended 31 December 2019: (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 2019, including to review and discuss the remuneration policy, assess performance of the executive Directors, review and approve and the remuneration packages of Directors and senior management of the Group during the year ended 31 December 2019.

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 2019 at which all committee members were present. The work carried out by the Nomination Committee during the year included to nominate the members of Board for retirement and re-election at the annual general meeting, to review the structure, size and composition of the Board and to assess the independence of independent non-executive Directors. The Nomination Committee also considered the Board Diversity Policy and whether the Board had the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the Board Diversity Policy for the year under review.

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 Report on pages 48 to 54.

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	3,456,000
– interim financial review	890,000
– non-audit services	449,000

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 reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operation systems.

The 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 2019, 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 2019.

Principal Activities

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 46 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 10 to 25 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 judgement 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 and gas market in Pakistan, Egypt and Iraq

The Group's financial performance is subject to tax and fiscal regime applicable to oil and gas industry in Pakistan Egypt and Iraq. Any changes in the tax and fiscal regime in these countries 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.

Risks pertaining to force majeure events, natural disasters or outbreaks of contagious diseases

The Group's business could be adversely affected by natural disasters or outbreaks of epidemics, which may affect the procurement of raw materials and production, sale and exportation of the Group's products. Epidemics, pandemics or outbreaks or escalation of diseases, including, among others, Severe Acute Respiratory Syndromes ("SARS"), avian influenza, swine flu ("H1N1"), novel coronavirus in 2019 ("COVID-19") and other diseases may affect the livelihood of people in the worldwide. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in the worldwide could severely disrupt the Group's business operations by restricting travel and sales activities and delaying delivery of the Group's products, impact the productivity of the workforce, or reduce the demand for the Group's products, which may materially and adversely affect business, financial condition and results of operations of the Group.

Environmental policies and performance

The Group remains steadfast to its values, of which the commitment to health, safety, security and environment ("HSSE") performance is a core principle. All operations are conducted in a safe and efficient manner governing by our HSSE policy. Key HSSE performance indicators are included in the performance appraisal scheme. During the reporting period, all HSSE performance objectives were delivered. The Group continues to strive for excellence in HSSE 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, Egypt, Iraq, the PRC, Dubai, Hong Kong and Bermuda, applicable to it to ensure compliance. Substantially a majority of the Group's operations are in Pakistan, Egypt and Iraq. 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 34 to 35.

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 HSSE 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 2019 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 55 to 171 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	51.5%	N/A
Five largest customers	95.8%	N/A
The largest supplier	N/A	3.3%
Five largest suppliers	N/A	13.2%

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 of the Company and the Group during the reporting period are set out in note 37 to the Consolidated Financial Statements and on page 44 of this annual report respectively.

Segment Information

The segment information of the Group for the year ended 31 December 2019 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 172 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:

Mr. Zhang Hong Wei *(Chairman)*
Ms. Zhang Meiying

Independent non-executive Directors:

Mr. Chau Siu Wai
Mr. San Fung
Ms. Wang Ying

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 on 2 June 2020.

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 2019, 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 26,277,864,053 shares as at 31 December 2019 was 2.48%.

As at 31 December 2019, 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 1.1.2019	Granted	Exercised	Lapsed	Cancelled	As at 31.12.2019
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 2019, 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		Approximate % shareholding
			Long Position	Short Position	
Zhang Hong Wei	The Company	Attributable interest of controlled corporation	18,754,300,230	–	71.37

Note: 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. United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited are companies wholly-owned by Million Fortune Enterprises Limited, which is in turn wholly-owned by Mr. Zhang Hong Wei. He Fu International Limited is wholly-owned by Huilan Investment Limited, which is wholly-owned by 东方集团有限公司 (95%) and 东方集团产业发展有限公司 (5%). 东方集团产业发展有限公司 is wholly-owned by 东方集团有限公司, which is 94% owned by 名泽东方投资有限公司, which is in turn 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 2019, 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 2019, 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
Zhang Hong Wei (Note a)	Attributable interest of controlled corporation	18,754,300,230 (L)	71.37% (L)
名泽东方投资有限公司 (Note a)	Attributable interest of controlled corporation	10,657,758,250 (L)	40.56% (L)
东方集团有限公司 (Note b)	Attributable interest of controlled corporation	10,657,758,250 (L)	40.56% (L)
东方集团产业发展有限公司 (Note c)	Attributable interest of controlled corporation	10,657,758,250 (L)	40.56% (L)
Huilan Investment Limited (Note d)	Attributable interest of controlled corporation	10,657,758,250 (L)	40.56% (L)
He Fu International Limited (Note e)	Beneficial owner	10,657,758,250 (L)	40.56% (L)
Million Fortune Enterprises Limited (Note a)	Attributable interest of controlled corporation	8,096,541,980 (L)	30.81% (L)
United Petroleum & Natural Gas Holdings Limited (Note f)	Beneficial owner	4,447,453,416 (L)	16.92% (L)
United Energy Holdings Limited (Note f)	Beneficial owner	3,649,088,564 (L)	13.89% (L)

Note:

(a) 名泽东方投资有限公司 and Million Fortune Enterprises Limited are wholly-owned by Mr. Zhang Hong Wei.

(b) 名泽东方投资有限公司 owns 94% shares of 东方集团有限公司.

(c) 东方集团产业发展有限公司 is wholly-owned by 东方集团有限公司.

(d) Huilan Investment Limited is 95% owned by 东方集团有限公司 and 5% owned by 东方集团产业发展有限公司.

(e) He Fu International Limited is wholly-owned by Huilan Investment Limited.

(f) These companies are wholly owned by Million Fortune Enterprises Limited.

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

Save as disclosed above, as at 31 December 2019, 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 36 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 24 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

Except as disclosed in note 41 to the Consolidated Financial Statements of this annual report, there were 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 140 to 147 and note 39 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 of this annual report, there has been no arrangement under which any Director has waived or agreed to waive any emoluments.

Management Contracts

There is no service contract entered between the Company and Directors and 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 2019.

Directors' Interests in Competing Business

During the year ended 31 December 2019, 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 2019.

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 41 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 41 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 2019.

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 2019.

Corporate Governance

In the opinion of the Directors, the Company has complied throughout the financial year for the year ended 31 December 2019 with the Code, except for code provisions A.4.1 as set out in the Code contained in Appendix 14 to the Listing Rules. Please refer to the Corporate Governance Report on pages 28 to 35 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 2019, the aggregate amounts of the Company's reserves available for distribution to equity shareholders of the Company was approximately HK$10,159,925,000 (31 December 2018: approximately HK$11,211,040,000).

Dividends

On 27 November 2019, the Group declared a special dividend of approximately HK$1,051,115,000 to the shareholders of the Company, representing HK$4 cents per ordinary share. This was paid on 3 January 2020. No final dividend is proposed for the year ended 31 December 2019.

Dividends Policy

The Company has established a dividend policy ("Dividend Policy"). According to the Dividend Policy, in deciding whether to propose any dividend payout and/or determining the amount of any dividend to be paid, the Board shall take into account, inter alia:

(a) the Group's actual and expected financial performance;

(b) interests of shareholders of the Company;

(c) retained earnings and distributable reserves of the Company and each of the other members of the Group;

(d) the level of the Group's debts to equity ratio, return on equity and financial covenants to which the Group is subject;

(e) possible effects on the Group's creditworthiness;

(f) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(g) the Group's expected working capital requirements and future expansion plans;

(h) liquidity position of the Group and any future commitments at the time of declaration of dividend;

(i) taxation considerations;

(j) statutory and regulatory restrictions;

(k) general business conditions and strategies;

(l) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

(m) other factors that the Board deems appropriate.

Pursuant to the Dividend Policy, the declaration and payment of dividends shall be subject to the discretion of the Board and the approval of the shareholders and all applicable laws and regulations and the Memorandum of Continuance and Bye-laws of the Company.

The Company will review the Dividend Policy from time to time and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment of the Company that dividends will be paid in any particular amount and shall in no way obligate the Company to propose, declare or pay any dividend at any time or from time to time.

Closure of Register of Members

The annual general meeting of the Company (the "2020 AGM") will be held on Tuesday, 2 June 2020. For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Thursday, 28 May 2020 to Tuesday, 2 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Wednesday, 27 May 2020.

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 2019.

Purchase, Sale or Redemption of Shares

Within January 2019, 23,494,000 ordinary shares were repurchased at the prices ranging between HK$1.13 and HK$1.27 per share on the Stock Exchange (the "Repurchased Shares") in accordance with the repurchase mandate granted to the Directors in the annual general meeting of the Company held on 20 April 2018. On 19 February 2019, the Repurchased Shares were cancelled.

Save as disclosed above, 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 2019.

Events After Reporting Period

The events after reporting period are set out in note 48 to the Consolidated Financial Statements of this annual report.

Auditors

At the Company's last 2019 AGM held on 30 May 2019, 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 2020 AGM.

By order of the Board
United Energy Group Limited

Zhang Hong Wei
Chairman
Hong Kong, 31 March 2020

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Hong Wei, aged 65, 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 71.37% 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 41, 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 16 years of experience in banking and financial management. Ms. Zhang holds a BBA degree in Finance and International Business from the George Washington University, USA. Ms. Zhang has not held any directorship with other listed companies in the last 3 years. Ms. Zhang is the daughter of Mr. Zhang Hong Wei, the Chairman, executive Director and controlling shareholder of the Company.

Independent Non-executive Directors

Mr. San Fung, aged 55, 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 22 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 50, 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 16 years of experience in financial reporting and investment analysis and is now the Managing Director of an investment company.

Ms. Wang Ying, aged 42, 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 18 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. Zhu Junfeng, aged 59, joined the Company in May 2018 as Chief Executive Officer. Mr. Zhu was the former senior management of China National Petroleum Company ("CNPC") and has 36 years' work experience in oil and gas industry, nearly 22 years of which is focusing on the oversea oil and gas operation. He has been undertaking the position of JOC president across Venezuela, Sudan and Iraq. Mr. Zhu received his B.S. degree in Petroleum development from Daqing Petroleum Institute in 1983. After graduation, he joined Shengli Oilfieds (Ranking No. 2 in China) as a technician. He got many honors such as science and technology top talent and top ten outstanding youth. He is promoted gradually to SH Operation, the assistant chief engineer and the deputy director of the oil production plant during the 14 years. Starting year 1997, as one of the first overseas entrepreneurs, he was appointed to CNPC America Ltd. (Venezuela branch) (September 1997 – January 2004), CNPC GPNOC in Sudan (January 2004 – October 2009) and CNPC Halfaya project in Iraq (December 2009 – June 2016) as President successively. The partners include Total, Petronas, Exxon Mobil and BP etc. He got great achievements during his appointment and was highly praised by both the partners and the government. Meantime, he was also the Regional Manager of CNPC in Venezuela, Sudan, Iraq and Middle East during the period of 2001 to 2017.

Mr. Song Yu, aged 43, joined the Company in October 2009 as Investment Controller and promoted as Chief Operation Officer of the Company in October 2011. Before joining the Company, Mr. Song previously worked in different subsidiaries of Sinopec Group during the period from July 2004 to October 2009. He worked in Winfield Euro Asia Oil Service Company (Russia), a wholly-owned subsidiary of Sinopec Group in Moscow, as General Director and focused on oil trading, procurement and technical services in relation to petroleum exploration and production in Euro-Asia. Mr. Song also worked in Sinopec International Petroleum E&P Corporation ("SIPC") in Beijing and SIPC Russia and Central Asia Regional Company as In House Legal Consultant and Head of Legal respectively. Mr. Song graduated from the Tsinghua University and obtained a bachelor degree of Physics and master degree of Law in International Economic Law.

INDEPENDENT AUDITOR'S REPORT

RSM

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 55 to 171, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 judgement, 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 property, plant and equipment of exploration and production segment

2. Estimate of oil and gas reserves

3. Purchase price allocation for a business combination

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment of exploration and production segment Refer to Note 19 to the consolidated financial statements and the accounting policies on pages 73 to 74 and 86. The exploration and production segment represents the Group's upstream oil and natural gas businesses in Pakistan, Middle East and North Africa. As at 31 December 2019, the Group had property, plant and equipment with carrying values of approximately HK$11,639,818,000 attributable to the exploration and production segment. Management has carried out an impairment review on the property, plant and equipment for 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 drop of oil and gas prices and a decline in production and oil and gas reserve. Management considered certain oil and gas fields were no longer economical and that the related assets should be fully written off. Write-off of exploration and production assets included in property, plant and equipment of approximately of HK$322,140,000 were recognised during the year.	**Audit procedures performed by the component auditors of the Group's businesses in Pakistan, Middle East and North Africa 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	**Audit procedures performed by the component auditors of the Group's business in Pakistan, Middle East and North Africa and by the Group audit engagement team included:**
Refer to Note 5 to the consolidated financial statements and the key sources of estimation uncertainty on page 91. 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.	• 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.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Purchase price allocation for a business combination	**Audit procedures performed by the Group audit engagement team included:**
Refer to Note 40(a) to the consolidated financial statements and the accounting policies on page 70. On 21 March 2019, the Group completed the acquisition of the entire issued share capital in Kuwait Energy Public Limited Company ("KEC") and its subsidiaries ("KEC Group") for a cash consideration of approximately HK$4,403,101,000 (equivalent to US$564,500,000) (the "KEC Acquisition"). KEC Group is an upstream oil and gas company and principally engaged in exploration, appraisal, development and production activities in Middle East and North Africa. With the assistance of an external professional valuer, management performed the fair value assessment on the allocation of purchase price in respect of the KEC Acquisition as of the completion date. Based on the assessment, a gain on bargain purchase of approximately HK$206,926,000 arising from the KEC Acquisition was credited to the consolidated profit or loss for the year. Management exercised significant judgement in the fair valuation of assets acquired particularly when developing key assumptions including forecast gas and oil prices, forecast production volume, forecast operating costs and capital expenditures.	• Obtained the sale and purchase agreement of the KEC Acquisition to understand the transaction details including considerations and conditions of completion. • Assessed the professional competence, objectivity and capabilities of the independent external valuer engaged by the management in preparing the fair value assessment. • With the assistance of our internal valuation specialists, assessed the appropriateness of the valuation methodology and the underlying assumptions adopted in determining fair value allocation. We checked the mathematical accuracy of the valuation models. • Tested source data on a sample basis to supporting evidence, such as approved budgets and available market data. • For key assumptions, our audit procedures included: – Compared the forecast gas and oil prices used against the forecast published in the reserve report prepared by the external reserve experts.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Purchase price allocation for a business combination (Continued)	**Audit procedures performed by the Group audit engagement team included: (Continued)**
We identified this matter as a key audit matter because of the significance of the purchase consideration and significant management judgements involved in the allocation of the purchase price for the KEC Acquisition.	– Assessed the forecast production volume, capital and operating expenditures by comparing against forecast production volume, capital and operating expenditures for the remaining concession periods prepared by the external reserve experts as set out in the reserve report. We also performed procedures to evaluate the competence, capability and objectivity of the external reserve experts engaged by management for preparing the reserve report. – Assessed the underlying assumptions adopted in the determination of the discount rates against external market data and published information of comparable companies. – Tested the mathematical accuracy of the gain on bargain purchase and assessed whether the business rationale supported the gain on bargain purchase recognition.

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 judgement 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

31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	**2019 HK$'000**	2018 HK$'000
Continuing operations			
Turnover	8	**7,103,644**	5,279,204
Cost of sales and services rendered		**(3,625,839)**	(2,321,995)
Gross profit		**3,477,805**	2,957,209
Investment and other income	9	**145,968**	59,928
Other gains and losses	10	**328,088**	41,287
Impairment losses for trade and other receivables		**(67,810)**	–
Exploration expenses		**(350,286)**	(103,068)
Administrative expenses		**(505,215)**	(459,768)
Other operating expenses		**(295,383)**	(158,062)
Profit from operations		**2,733,167**	2,337,526
Finance costs	12	**(440,960)**	(54,337)
Share of losses of associates		**(34,136)**	(333)
Profit before tax		**2,258,071**	2,282,856
Income tax expense	14	**(352,124)**	(680,145)
Profit for the year from continuing operations	13	**1,905,947**	1,602,711
Discontinued operations			
Profit for the year from discontinued operations	16	**–**	34,621
Profit for the year		**1,905,947**	1,637,332
Attributable to:			
Owners of the Company			
Profit for the year from continuing operations		**1,905,957**	1,602,711
Profit for the year from discontinued operations		**–**	35,280
		1,905,957	1,637,991
Non-controlling interests			
Loss for the year from continuing operations		**(10)**	–
Loss for the year from discontinued operations		**–**	(659)
		(10)	(659)
		1,905,947	1,637,332
Earnings per share	17		
From continuing and discontinued operations			
Basic (cents per share)		**7.26**	6.23
Diluted (cents per share)		**7.26**	6.23
From continuing operations			
Basic (cents per share)		**7.26**	6.10
Diluted (cents per share)		**7.26**	6.10

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year	**1,905,947**	1,637,332
Other comprehensive income after tax:		
Item that will not be reclassified to profit or loss:		
Remeasurement gains on defined benefit pension plans, net of tax expenses of approximately HK$2,274,000 (2018: HK$491,000)	**18,980**	737
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**1,011**	26,910
Exchange differences reclassified to profit or loss on disposal of a subsidiary	**–**	(21,109)
	1,011	5,801
Other comprehensive income for the year, net of tax	**19,991**	6,538
Total comprehensive income for the year	**1,925,938**	1,643,870
Attributable to:		
Owners of the Company		
Profit for the year from continuing operations	**1,925,948**	1,608,443
Profit for the year from discontinued operations	**–**	35,280
	1,925,948	1,643,723
Non-controlling interests		
Loss for the year from continuing operations	**(10)**	–
Profit for the year from discontinued operations	**–**	147
	(10)	147
	1,925,938	1,643,870

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	19	**11,677,868**	7,853,560
Right-of-use assets	20	**123,824**	–
Intangible assets	21	**6,099,093**	2,383,040
Investment in associates	22	**420,787**	450,423
Advances, deposits and prepayments	23	**210,612**	143,025
		18,532,184	10,830,048
Current assets			
Inventories	24	**324,918**	337,998
Trade and other receivables	25	**3,368,908**	2,190,160
Financial assets at fair value through profit or loss ("FVTPL")	26	**2,586**	2,754
Employee retirement benefits assets	45(b)	**8,412**	2,826
Current tax assets		**147,470**	267,120
Bank and cash balances	27	**3,358,627**	2,516,532
		7,210,921	5,317,390
Current liabilities			
Trade and other payables	28	**6,024,212**	2,647,003
Due to a director	29	**2,459**	9,433
Borrowings	30	**352,150**	181,123
Lease liabilities	31	**32,461**	–
Provisions	32	**1,053**	5,276
Financial guarantee contracts	34	**9,330**	–
Current tax liabilities		**208,180**	47,726
		6,629,845	2,890,561
Net current assets		**581,076**	2,426,829
Total assets less current liabilities		**19,113,260**	13,256,877

Consolidated Statement of Financial Position (Continued)

At 31 December 2019

	Note	**2019 HK$'000**	2018 HK$'000
Non-current liabilities			
Borrowings	30	**4,343,636**	460,613
Lease liabilities	31	**98,585**	–
Provisions	32	**505,481**	381,109
Derivative financial instruments	33	**3,410**	1,165
Employee retirement benefits obligations	45(b)	**34,112**	–
Deferred tax liabilities	35	**2,073,947**	1,150,846
		7,059,171	1,993,733
NET ASSETS		**12,054,089**	11,263,144
Capital and reserves			
Share capital	36	**262,779**	262,941
Reserves	38(a)	**11,773,728**	11,000,203
Equity attributable to owners of the Company		**12,036,507**	11,263,144
Non-controlling interests		**17,582**	–
TOTAL EQUITY		**12,054,089**	11,263,144

Approved by the Board of Directors on 31 March 2020 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 2019

	Attributable to owners of the Company											
	Share capital (note 36) HK$'000	Share premium account (note 38(b)) HK$'000	Merger reserve (note 38(b)) HK$'000	Contributed surplus reserve (note 38(b)) HK$'000	Foreign currency translation reserve (note 38(b)) HK$'000	Share-based capital reserve (note 38(b)) HK$'000	Performance share unit scheme reserve (note 38(b)) HK$'000	Statutory reserve (note 38(b)) HK$'000	(Accumulated losses)/ Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	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
Total comprehensive income for the year	–	–	–	–	4,995	–	–	–	1,638,728	1,643,723	147	1,643,870
Issue of shares under employees performance share schemes (note 36(b))	203	11,395	–	–	–	–	–	–	–	11,598	–	11,598
Issue of shares under share match scheme (note 36(c))	48	6,069	–	–	–	–	–	–	–	6,117	–	6,117
Dividend paid (note 18)	–	–	–	(1,050,763)	–	–	–	–	–	(1,050,763)	–	(1,050,763)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(24,697)	(24,697)
Changes in equity for the year	251	17,464	–	(1,050,763)	4,995	–	–	–	1,638,728	610,675	(24,550)	586,125
At 31 December 2018	262,941	2,520,287	(2,286,000)	11,211,040	29,782	14,924	–	–	(489,830)	11,263,144	–	11,263,144
Adjustment on initial application of HKFRS 16 (note 3)	–	–	–	–	–	–	–	–	(2,451)	(2,451)	–	(2,451)
At 1 January 2019	262,941	2,520,287	(2,286,000)	11,211,040	29,782	14,924	–	–	(492,281)	11,260,693	–	11,260,693
Total comprehensive income for the year	–	–	–	–	1,011	–	–	–	1,924,937	1,925,948	(10)	1,925,938
Repurchase of shares (note 36(a))	(234)	(27,881)	–	–	–	–	–	–	–	(28,115)	–	(28,115)
Issue of shares under employees performance share schemes (note 36(b))	72	8,715	–	–	–	–	–	–	–	8,787	–	8,787
Purchase of shares under performance share unit scheme (note 39(d))	–	–	–	–	–	–	(79,691)	–	–	(79,691)	–	(79,691)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	17,592	17,592
Dividend paid (note 18)	–	–	–	(1,051,115)	–	–	–	–	–	(1,051,115)	–	(1,051,115)
Transfer to statutory reserve	–	–	–	–	–	–	–	2,623	(2,623)	–	–	–
Changes in equity for the year	(162)	(19,166)	–	(1,051,115)	1,011	–	(79,691)	2,623	1,922,314	775,814	17,582	793,396
At 31 December 2019	262,779	2,501,121	(2,286,000)	10,159,925	30,793	14,924	(79,691)	2,623	1,430,033	12,036,507	17,582	12,054,089

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
Continuing operations		**2,258,071**	2,282,856
Discontinued operations		**–**	34,621
		2,258,071	2,317,477
Adjustments for:			
Allowance for trade receivables		**66,514**	–
Allowance for other receivables		**1,296**	–
Depreciation and amortisation		**2,556,747**	1,645,377
Depreciation of right-of-use assets		**11,121**	–
Fair value losses on financial assets at FVTPL		**168**	644
Fair value losses on derivative financial instruments		**2,245**	1,165
Finance costs		**440,960**	54,337
Gain on disposals of property, plant and equipment		**(6,786)**	(4,522)
Gain on disposal of a subsidiary		**–**	(36,818)
Gain on bargain purchase		**(206,926)**	(29,111)
Impairment of goodwill		**–**	38,003
Investment income		**(26,805)**	(46,111)
Property, plant and equipment written off		**322,156**	78,114
Provision for government rental written back		**(86,512)**	–
Release of provision for decommissioning costs		**(1,442)**	–
Share-based payments		**7,335**	10,413
Share of losses of associates		**34,136**	333
Operating profit before working capital changes		**5,372,278**	4,029,301
Decrease/(increase) in inventories		**36,575**	(88,828)
Increase in trade and other receivables		**(1,242,673)**	(461,023)
Decrease/(increase) in advances, deposits and prepayments		**107,728**	(1,847)
Increase in trade and other payables		**281,445**	629,200
Increase in employee retirement benefits assets		**(7,209)**	(48)
Decrease in employee retirement benefits obligations		**(2,508)**	–
(Decrease)/increase in due to a director		**(6,974)**	3,736
Increase in provisions		**52,626**	4,311
Cash generated from operations		**4,591,288**	4,114,802
Interest paid		**(348,425)**	(37,028)
Interest on lease liabilities	40(e)	**(3,521)**	–
Income taxes paid		**(227,528)**	(184,338)
Net cash generated from operating activities		**4,011,814**	3,893,436

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	40(a)	**(4,080,085)**	(1,373,033)
Acquisition of associates		**–**	(374,400)
Disposal of a subsidiary	40(c)	**–**	18,454
Decrease in term deposits		**–**	154,517
Increase in deposit paid for acquisition of property, plant and equipment		**(146,395)**	–
Increase in deposit paid for acquisition of subsidiaries		**–**	(117,000)
Placement of restricted bank deposits		**(210,850)**	–
Purchases of property, plant and equipment		**(2,657,186)**	(1,891,239)
Proceeds from disposals of assets classified as held for sale		**88,355**	–
Proceeds from disposals of property, plant and equipment		**209**	297
Interest received		**26,636**	45,942
Net cash used in investing activities		**(6,979,316)**	(3,536,462)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under share match scheme		**–**	6,117
Dividends received		**169**	169
Borrowings raised, net of direct transaction cost	40(e)	**6,439,378**	757,380
Repayment of borrowings	40(e)	**(4,379,700)**	(121,680)
Proceeds from advance from customers	40(e)	**2,145,000**	–
Repayment of advance from customers	40(d)(e)	**(491,393)**	–
Repurchase of shares		**(28,115)**	–
Purchase of shares under performance share scheme		**(79,691)**	–
Principal elements of lease payments	40(e)	**(16,372)**	–
Dividends paid to owners of the Company		**–**	(1,050,760)
Net cash generated from/(used in) financing activities		**3,589,276**	(408,774)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**621,774**	(51,800)
Effect of foreign exchange rate changes		**9,471**	(22,189)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**2,516,532**	2,590,521
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**3,147,777**	2,516,532
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**3,358,627**	2,516,532
Less: Restricted bank deposits		**(210,850)**	–
Cash and cash equivalents		**3,147,777**	2,516,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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, Admiralty, 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 principal subsidiaries are set out in note 46 to the consolidated financial statements.

In the opinion of the Company's directors, He Fu International Limited, a company incorporated in British Virgin Islands, is the immediate parent; Mingze Orient Investment Limited#, a company incorporated in People's Republic of China, is the ultimate parent and Mr. Zhang Hong Wei is the ultimate controlling party of the Company.

The English translation of the ultimate parent company is for reference only. The official name – 名泽东方投资有限公司 is in Chinese.

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 new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

(a) Application of new and revised HKFRSs (Continued)

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

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

(a) Application of new and revised HKFRSs (Continued)

HKFRS 16 Leases (Continued)

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 13.66%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options; and

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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

(a) Application of new and revised HKFRSs (Continued)

HKFRS 16 Leases (Continued)

(b) Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 44 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	HK$'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	17,316
Less: Recognition exemption for leases with less than 12 months of lease term at transition	(4,763)
Gross operating lease obligations at 1 January 2019	12,553
Less: Discounting	(1,775)
Lease liabilities, discounted using the incremental borrowing rate, recognised as at 1 January 2019	10,778
Of which are:	
Current lease liabilities	2,830
Non-current lease liabilities	7,948
	10,778

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Effects of adoption of HKFRS 16		
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	**Carrying amount as at 31 December 2018** HK$'000	**Recognition of leases** HK$'000	**Carrying amount as at 1 January 2019** HK$'000
Assets			
Right-of-use assets	–	8,327	8,327
Liabilities			
Lease liabilities	–	10,778	10,778
Equity			
Accumulated losses	489,830	2,451	492,281

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

(a) Application of new and revised HKFRSs (Continued)

HKFRS 16 Leases (Continued)

(c) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element (note 40(e)). These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (note 40(f)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 HK$'000	Add back: HKFRS 16 depreciation and interest expense HK$'000	Deduct: Estimated amounts related to operating lease as if under HKAS 17 (note 1) HK$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK$'000	Compared to amounts reported for 2018 under HKAS 17 HK$'000
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	**2,733,167**	**10,668**	**(12,922)**	**2,730,913**	2,337,526
Finance costs	**(440,960)**	**3,181**	**–**	**(437,779)**	(54,337)
Profit before tax	**2,258,071**	**13,849**	**(12,922)**	**2,258,998**	2,282,856
Profit for the year	**1,905,947**	**13,849**	**(12,922)**	**1,906,874**	1,637,332

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

(a) Application of new and revised HKFRSs (Continued)

HKFRS 16 Leases (Continued)

(c) Impact of the financial results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under HKFRS 16 HK$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) HK$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK$'000	Compared to amounts reported for 2018 under HKAS 17 HK$'000
Line items in the consolidated statement of cash flows for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	4,591,288	(12,922)	4,578,366	4,114,802
Interest element of lease rentals paid	(3,521)	3,181	(340)	–
Net cash generated from operating activities	4,011,814	(9,741)	4,002,073	3,893,436
Capital element of lease rentals paid	(16,372)	9,741	(6,631)	–
Net cash generated from/(used in) financing activities	3,589,276	9,741	3,599,017	(408,774)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

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 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

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 it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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. certain 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.

4. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill 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.

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).

4. Significant Accounting Policies (Continued)

(b) Business combination and goodwill

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

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

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

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

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) 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.

4. Significant Accounting Policies (Continued)

(c) Associates (Continued)

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.

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.

(d) 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)

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate.

4. Significant Accounting Policies (Continued)

(f) 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% – 10%
Leasehold improvements	5% – 33.33%
Vessels	20%
Aircrafts	6.67%
Motor vehicles	20% – 30%
Furniture, fixtures and equipment	10% – 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 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)

(g) 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.

(h) 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)

(i) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

4. Significant Accounting Policies (Continued)

(i) Leases (Continued)

Policy applicable from 1 January 2019 (Continued)

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment/the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

Policy prior to 1 January 2019

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made.

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

(k) 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.

4. Significant Accounting Policies (Continued)

(l) 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.

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, 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.

4. Significant Accounting Policies (Continued)

(n) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– fair value through other comprehensive income ("FVTOCI") – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses ("ECL"), interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

4. Significant Accounting Policies (Continued)

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that 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 for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL.

(q) 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.

(r) 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.

4. Significant Accounting Policies (Continued)

(s) 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.

(t) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

– the amount determined in accordance with the ECL model under HKFRS 9 and

– the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(u) 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.

(v) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Where the Company's shares are acquired from the market by the trustee under the performance share unit scheme, the total consideration of shares acquired from the market (including directly attributable incremental costs) is presented as shares held under performance share unit scheme reserve and deducted from equity attributable to the owners of the Company as treasury shares until the shares are reissued.

(w) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Changes in the fair value of derivatives that are not designed or do not qualify for hedge accounting are recognised in profit or loss as they arise.

4. Significant Accounting Policies (Continued)

(x) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sales and production of crude oil, condensate, gas and liquefied petroleum gas is recognised when control of the goods has transferred, being when the promised goods have been physically delivered to the designated oil tankers, pipe or other delivery mechanism and is measured based on the Group's working interest and the terms specified in the production sharing contracts/ petroleum concession agreements. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Revenue from management services is recognised as a performance obligation satisfied over time when the management services are rendered.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Income from sales of scrap materials are recognised at a point in time when control of the products has transferred to the customer, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Payment of the transaction price is due immediately when goods are delivered.

Income from liquefied petroleum gas processing fees and software costs charged to concessions are recognised at the point in time when the services are rendered.

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

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

(y) 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.

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

4. Significant Accounting Policies (Continued)

(y) Employee benefits (Continued)

(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.

For the defined benefit retirement plans, the liability/(asset) recognised in the consolidated statement of financial position is the present value of the defined benefit obligation less the fair value of plan assets. When there is a surplus in a defined benefit plan, the net defined benefits asset is measured at the lower of the surplus in the defined benefit plan and the asset ceiling. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. If there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurements of the net defined benefit liability/(asset) – which include actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)), and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)) – are recognised in other comprehensive income in the period in which they arise and will not be reclassified to profit or loss. Service costs and net interest on the net defined benefit liability/(asset) are recognised immediately in profit or loss.

Net interest on the net defined benefit liability/(asset) is determined by multiplying the net defined benefit liability/(asset) by the discount rate used to measure defined benefit obligation at the start of the annual reporting period, taking account of any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

(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.

4. Significant Accounting Policies (Continued)

(z) 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.

(aa) 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. Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

4. Significant Accounting Policies (Continued)

(bb) 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.

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

4. Significant Accounting Policies (Continued)

(bb) Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

(cc) 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)

(dd) 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.

(ee) Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables as well as on financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

4. Significant Accounting Policies (Continued)

(ee) Impairment of financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

4. Significant Accounting Policies (Continued)

(ee) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) the financial instrument has a low risk of default,

(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. Significant Accounting Policies (Continued)

(ee) Impairment of financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

4. Significant Accounting Policies (Continued)

(ee) Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(ff) 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.

4. Significant Accounting Policies (Continued)

(gg) 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.

(hh) Dividend distribution

Dividends are recognised as liabilities when they are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the equity). Typically, dividends are recognised as liabilities in the period in which their distribution is approved at the shareholders' annual general meeting. Interim dividends are recognised when paid.

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 judgements that have 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 certain interests on its joint arrangements (note 47). 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.

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.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(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 2019 was approximately HK$195,679,000 (2018: HK$253,911,000).

(c) Estimated impairment of property, plant and equipment, right-of-use assets and intangible assets (excluding goodwill)

Property, plant and equipment, right-of-use assets and intangible assets (excluding goodwill) 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 the carrying amounts of intangible assets (excluding goodwill), property, plant and equipment and right-of-use assets (2018: HK$Nil).

(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 2019 was approximately HK$506,004,000 (2018: HK$385,965,000).

5. Critical Judgement and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(e) Impairment of trade receivables

The management of the Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2019, the carrying amount of trade receivables is approximately HK$2,415,130,000 (net of allowance for doubtful debts of approximately HK$66,514,000 (2018: HK$1,851,365,000 (net of allowance for doubtful debts of approximately HK$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$352,124,000 (2018: HK$680,145,000) 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 aging 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 2019 (2018: HK$Nil).

5. Critical Judgement 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.

(i) Actuarial assumptions on defined benefit retirement plans

Accounting for defined benefit plans may be complex because actuarial assumptions are required to measure the obligation and the expense, with the possibility that actual results differ from the assumed results. These differences are known as actuarial gains and losses. Defined benefits obligations are measured using the Projected Unit Credit Method ("PUCM"), according to which the Group has to make a reliable estimate of the amount of benefits earned in return for services rendered in current and prior periods, using actuarial techniques. In addition, in cases where defined benefit plans are funded, the Group has to estimate the fair value of plan assets. As a result, the use of the PUCM involves a number of actuarial assumptions. These assumptions include demographic assumptions such as mortality, turnover and retirement age and financial assumptions such as discount rates, salary and benefit levels. Such assumptions are subject to judgements and may develop materially differently than expected and therefore may result in significant impacts on defined benefits obligations.

The carrying amount of retirement benefit plan assets and retirement benefit plan obligations as at 31 December 2019 was approximately HK$8,412,000 and HK$34,112,000 respectively (2018: retirement benefit plan assets of approximately HK$2,826,000).

(j) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

For the year ended 31 December 2018, the carrying amount of goodwill at the end of the reporting period was HK$Nil after a full impairment loss of approximately HK$38,003,000 was recognised.

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 cash flow interest rate risk primarily relates to variable-rate bank loans and bank and cash balances. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. In the current year, the Group managed certain of its cash flow interest-rate risk by entering into certain floating-to-fixed interest rate swap. Such interest rate swaps had the economic effect of converting certain borrowings from floating rates to fixed rates.

At 31 December 2019, 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$12,644,000 higher/lower and retained earnings as at 31 December 2019 would have been approximately HK$12,644,000 higher/lower, arising mainly as a result of lower/higher interest expenses on the borrowings and advance from customers bearing interest at variable rates.

At 31 December 2018, if interest rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$1,968,000 lower/higher and accumulated losses as at 31 December 2018 would have been approximately HK$1,968,000 higher/lower, arising mainly as a result of lower/higher interest income on the bank deposits bearing interest at variable rates.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis 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 2019						
Trade and other payables	**3,549,675**	**3,549,675**	**3,549,675**	**–**	**–**	**–**
Due to a director	**2,459**	**2,459**	**2,459**	**–**	**–**	**–**
Borrowings	**4,695,786**	**5,509,813**	**646,759**	**1,437,914**	**3,425,140**	**–**
Financial guarantee contracts	**9,330**	**537,805**	**537,805**	**–**	**–**	**–**
Lease liabilities	**131,046**	**146,051**	**38,293**	**32,392**	**75,366**	**–**
Derivative financial instruments	**3,410**	**3,493**	**2,940**	**553**	**–**	**–**
At 31 December 2018						
Trade and other payables	1,797,184	1,797,184	1,797,184	–	–	–
Due to a director	9,433	9,433	9,433	–	–	–
Borrowings	641,736	739,004	226,038	228,894	284,072	–
Derivative financial instruments	1,165	1,293	356	776	161	–

6. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

The amounts included in above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantors. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee.

(c) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Except for the financial guarantee given by the Group as set out in note 34, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 34.

Trade receivables

As at 31 December 2019, approximately 58% (2018: 89%) 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 of the receivables and there is no history of default for this Group's largest customer.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 45 days from the date of billing. As at 31 December 2019, trade receivables of approximately HK$304,387,000 (2018: HK$457,810,000) was pledged as collaterals for obtaining banking facilities letter.

6. Financial Risk Management (Continued)

(c) Credit risk (Continued)

Trade receivables (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated based on Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

The product of the PD, EAD and LGD are defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. It varies by type of counterparty and availability of collateral.

The ECL is determined by projecting the PD, LGD and EAD for each individual exposure. These three components are multiplied together and adjusted based on the forward-looking information.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flow of that assets have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

6. Financial Risk Management (Continued)

(c) Credit risk (Continued)

Trade receivables (Continued)

The tables below detail the credit quality of the Group's trade receivables and the Group's maximum exposure to credit risk by credit risk rating grades.

31 December 2019	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount** HK$'000	**Loss allowance** HK$'000	**Net carrying amount** HK$'000
Trade receivables	Performing	12-month ECL	2,271,961	–	2,271,961
Trade receivables	Doubtful	Lifetime ECL – not credit impaired	209,683	(66,514)	143,169

31 December 2018	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Trade receivables	N/A	12-month ECL	1,851,365	–	1,851,365

Movement in the loss allowance for trade receivables during the year is as follows:

	2019 **HK$'000**	2018 HK$'000
At 1 January	**–**	–
Impairment losses recognised for the year	**66,514**	–
At 31 December	**66,514**	–

The increase in trade receivables past due over 2 years resulted in an increase in loss allowance of approximately HK$66,514,000 for the year ended 31 December 2019.

6. Financial Risk Management (Continued)

(c) Credit risk (Continued)

Financial assets at amortised cost

All of the Group's financial assets measured at amortised cost are considered to have low credit risk, and the loss allowance recognised during the year was therefore limited to 12-month expected losses. Management considers 'low credit risk' for financial assets measured at amortised cost when they have a low of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets at amortised cost include loans to employees and other receivables.

As of 31 December 2019, an allowance was made for estimated irrecoverable other receivables of approximately HK$1,296,000 (2018: HK$Nil).

	2019 **HK$'000**	2018 HK$'000
At 1 January	**–**	2,624
Additions	**1,296**	–
Disposal of subsidiaries	**–**	(2,624)
At 31 December	**1,296**	–

As of 31 December 2018, none of the other receivables were past due but not impaired.

(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 directors of the Company consider that the price risk exposure for the years ended 31 December 2019 and 2018 are insignificant to the Group and therefore no sensitivity analysis is presented thereon.

(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"), Pakistani Rupees ("PKR"), Egyptian Pounds ("EGP") and Iraqi Dinar, while the functional currencies of the principal operating Group entities are HK$ and US$. 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.

At 31 December 2019, if the HK$ had weakened/strengthened by 2 per cent against the RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$335,000 lower/higher and retained earnings as at 31 December 2019 would have been approximately HK$335,000 lower/higher, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances, trade and other receivables, and trade and other payables denominated in RMB.

6. Financial Risk Management (Continued)

(e) Foreign currency risk (Continued)

At 31 December 2018, if the HK$ had weakened/strengthened by 8 per cent against the RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$12,263,000 higher/lower and accumulated losses as at 31 December 2018 would have been approximately HK$12,263,000 lower/higher, arising mainly as a result of the foreign exchange gain/loss on bank and cash balances, other receivables and other payables denominated in RMB.

At 31 December 2019, if the HK$ had weakened/strengthened by 5 per cent against the PKR with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$15,153,000 lower/higher and retained earnings as at 31 December 2019 would have been approximately HK$15,153,000 lower/higher, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances, trade and other receivables, and trade and other payables denominated in PKR.

At 31 December 2018, if the HK$ had weakened/strengthened by 5 per cent against the PKR with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$6,597,000 lower/higher and accumulated losses as at 31 December 2018 would have been approximately HK$6,597,000 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 2019, if the HK$ had weakened/strengthened by 10 per cent against the EGP with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$4,834,000 lower/higher and retained earnings as at 31 December 2019 would have been approximately HK$4,834,000 lower/higher, arising mainly as a result of the foreign exchange loss/gain on bank and cash balances, other receivables, and trade and other payables denominated in EGP.

The directors of the Company consider that the foreign currency exposure in respect of US$ and Iraqi Dinar for the years ended 31 December 2019 and 2018 are insignificant to the Group and therefore no sensitivity analysis is presented thereon.

6. Financial Risk Management (Continued)

(f) Categories of financial instruments at 31 December

	2019 HK$'000	2018 HK$'000
Financial assets:		
Financial assets at FVTPL:		
Mandatorily measured at FVTPL		
– Held for trading	2,586	2,754
Financial assets measured at amortised cost	5,843,502	4,433,807
Financial liabilities:		
Derivative financial instruments	3,410	1,165
Financial liabilities at amortised cost	8,247,920	2,448,353
Financial guarantee contracts	9,330	–

(g) Fair value

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

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.

7. Fair Value Measurements (Continued)

(a) Disclosures of level in fair value hierarchy at 31 December 2019:

Description	Fair value measurements using: Level 1 HK$'000	Level 2 HK$'000	Total 2019 HK$'000
Recurring fair value measurements:			
Financial assets			
Financial assets at FVTPL			
Listed equity securities	**2,586**	**–**	**2,586**
Recurring fair value measurements:			
Financial liabilities			
Derivative financial instruments			
Interest rate swaps	**–**	**3,410**	**3,410**

Description	Fair value measurements using: Level 1 HK$'000	Level 2 HK$'000	Total 2018 HK$'000
Recurring fair value measurements:			
Financial assets			
Financial assets at FVTPL			
Listed equity securities	2,754	–	2,754
Recurring fair value measurements:			
Financial liabilities			
Derivative financial instruments			
Interest rate swaps	–	1,165	1,165

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

Level 2 fair value measurements

Description	Valuation technique	Inputs	Fair value 2019 HK$'000 Assets	Fair value 2019 HK$'000 Liabilities	Fair value 2018 HK$'000 Assets	Fair value 2018 HK$'000 Liabilities
Derivative financial instruments – interest rate swaps	Discounted cash flows	Forward interest rate	**–**	**(3,410)**	–	(1,165)

During the two years, there were no changes in the valuation techniques used.

8. Turnover

Turnover from contracts with customers for the year from continuing operations is as follows:

	2019 HK$'000	2018 HK$'000
Continuing operations		
Sales and production of crude oil, condensate, gas and liquefied petroleum gas	**7,103,644**	5,279,204

The Group derives revenue from the transfer of goods at a point in time in the following geographical regions:

For the year ended 31 December

	Crude oil, condensate, gas and liquefied petroleum gas	
	2019 HK$'000	2018 HK$'000
Primary geographical markets		
– Pakistan	**4,048,829**	3,919,412
– Singapore	**1,200,411**	1,359,792
– Egypt	**830,542**	–
– Iraq	**1,023,862**	–
Revenue from external customers	**7,103,644**	5,279,204

The turnover from sales and production of crude oil, condensate, gas and liquefied petroleum gas are net of sales tax, royalty to government, sales discounts and windfall levy amounting to approximately HK$735,253,000 (2018: HK$729,940,000), HK$717,593,000 (2018: HK$725,683,000), HK$4,317,000 (2018: HK$19,043,000), and HK$59,151,000 (2018: HK$59,227,000) respectively.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

9. Investment and Other Income

	2019 HK$'000	2018 HK$'000
Continuing operations		
Dividends income from listed equity investments	**169**	169
Interest income on:		
Bank deposits	**26,159**	33,282
Loan receivables	**259**	12,193
Total interest income	**26,418**	45,475
Investment income from financial assets at FVTPL	**218**	467
Liquefied petroleum gas processing fees charged to concessions, net	**4,292**	4,821
Income from software costs charged to concessions	**6,002**	–
Management fees income	**1,970**	3,022
Imputed interest income on deferred sales consideration	**16,763**	–
Recovery of bad debts from joint venture partner	**4,772**	–
Rental income	**5,979**	–
Scrap sales of materials	**12,073**	–
Compensation for disputes	**58,500**	–
Others	**8,812**	5,974
	145,968	59,928

10. Other Gains and Losses

	2019 HK$'000	2018 HK$'000
Continuing operations		
Fair value losses on financial assets at FVTPL	**(168)**	(644)
Fair value losses on derivative financial instruments	**(2,245)**	(1,165)
Gain on bargain purchase	**206,926**	29,111
Gain on disposals of property, plant and equipment	**6,786**	4,522
Impairment losses on goodwill	**–**	(38,003)
Net foreign exchange gains	**28,851**	47,466
Property, plant and equipment written off	**(16)**	–
Release of provision for decommissioning costs	**1,442**	–
Provision for government rental written back	**86,512**	–
	328,088	41,287

11. Segment Information

Operating segment information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's reportable segments are as follows:

Continuing operations:

1. Exploration and production – activities relating to the exploration and production of crude oil and natural gas in Pakistan, Middle East and North Africa (2018: Pakistan).

Discontinued operations:

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

Operating segment relating to the oilfield support services in PRC was discontinued in the year ended 31 December 2018. The segment information for this discontinued operations have been described in note 16.

The above discontinued operations have resulted in a change in the Group's structure and its composition of reporting segment. As the Group is principally engaged in the activities relating to the exploration and production of crude oil and natural gas in Pakistan, Middle East and North Africa (2018: Pakistan), which are subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value of the Group as a whole, the Group's chief operating decision maker considers the performance assessment of the Group should be based on the profit before tax of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of Hong Kong Financial Reporting Standard 8 "Operating Segments".

Geographical information:

The Group's turnover from continuing operations from external customers by location of operations and information about its non-current assets (excluding financial assets at amortised costs) by location of assets are detailed below:

	Turnover		Non-current assets	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**–**	–	**237,638**	238,283
PRC except Hong Kong	**–**	–	**103,440**	4,510
Pakistan	**4,048,829**	3,919,412	**10,073,315**	10,565,263
Singapore	**1,200,411**	1,359,792	**–**	–
Egypt	**830,542**	–	**1,743,963**	–
Iraq	**1,023,862**	–	**6,310,316**	–
Others	**–**	–	**51,393**	–
Consolidated total	**7,103,644**	5,279,204	**18,520,065**	10,808,056

11. Segment Information (Continued)

Turnover from major customers:

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

	2019 HK$'000	2018 HK$'000
Exploration and production segment		
Customer A	3,656,355	3,566,146
Customer B	1,200,411	1,359,792
Customer C	830,542	–
Customer D	1,023,862	–

12. Finance Costs

	2019 HK$'000	2018 HK$'000
Continuing operations		
Interest on bank loans	244,481	33,341
Interest expense on lease liabilities	3,521	–
Interest on senior guaranteed unsecured notes	75,671	–
Interest on advance from customers	136,868	9,905
Provisions – unwinding of discounts (note 32)	10,586	11,091
Total borrowing costs	471,127	54,337
Amount capitalised	(30,167)	–
	440,960	54,337

The weighted average capitalisation rate on funds borrowed generally is at a rate of 9.2% per annum (2018: Nil).

13. Profit for the Year from Continuing Operations

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

	2019 HK$'000	2018 HK$'000
Continuing operations		
Auditors' remuneration	9,219	4,633
Acquisition related costs (included in administrative expenses)	1,090	92,085
Depreciation and amortisation (note a)	2,556,747	1,643,732
Depreciation on right-of-use assets	11,121	–
Cost of inventories sold (note b)	3,539,941	2,210,951
Operating lease charges		
– Hire of office equipment, machineries and motor vehicles	–	11,842
– Land and buildings	–	48,451
	–	60,293
Property, plant and equipment written off (included in other gains and losses of approximately HK$16,000 (2018: HK$Nil) and exploration expenses of approximately HK$322,140,000 (2018: HK$78,114,000))	322,156	78,114
Allowance for trade receivables	66,514	–
Allowance for other receivables	1,296	–
Staff costs excluding directors' emoluments		
– Salaries, bonuses and allowances	445,472	251,297
– Retirement benefits scheme contributions	36,807	32,577
– Share-based payments	9,772	13,195
	492,051	297,069

Note a: Amortisation charges on intangible assets of approximately HK$416,625,000 (2018: HK$222,801,000) 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$2,833,040,000 (2018: HK$1,811,798,000) 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:

	2019 HK$'000	2018 HK$'000
Continuing operations		
Current tax – Overseas		
Provision for the year	389,133	227,693
Over-provision in prior years	–	(4,288)
	389,133	223,405
Deferred tax (note 35)	(37,009)	456,740
	352,124	680,145

No provision for profits tax in Austria, Cayman Islands, Bermuda, British Virgin Islands ("BVI"), Jersey, Kuwait, Dubai, Netherlands, United States of America, Republic of Panama, Mauritius, People's Republic of China ("PRC"), 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 2019 and 2018.

Egypt, Iraq and Pakistan Income Tax has been provided at a rate of 22.5%, 35% and ranging from 40% to 50% respectively (2018: Pakistan Income Tax at a rate ranging from 40% to 50%) on the estimated taxable income earned by the companies with certain tax preference, based on existing legislation, interpretation and practices in respect thereof.

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.

14. Income Tax Expense (Continued)

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:

	2019 HK$'000	2018 HK$'000
Continuing operations		
Profit before tax	**2,258,071**	2,282,856
Tax at the weighted average tax rate of 42% (2018: 46%)	**946,502**	1,060,100
Tax effect of income that is not taxable	**(98,867)**	(50,549)
Tax effect of expenses that are not deductible	**127,983**	176,026
Tax effect of tax losses not recognised	**1,006**	1,138
Tax effect of utilisation of tax losses not previously recognised	**(41,373)**	(17,263)
Tax losses previously recognised and reversed	**(29,387)**	(12,150)
Tax effect of other temporary differences not recognised	**94,454**	25,338
Tax effect of withholding tax at 10% on gain derived from the Group's Mauritius subsidiary	**24,144**	28,193
Tax effect of withholding tax at 12.5% on gain derived from the Group's PRC subsidiary	**5,490**	8,140
Tax effect of withholding tax at 15% on gain derived from the Group's BVI subsidiary	**–**	26,633
Tax effect of depletion allowance	**(349,398)**	(318,755)
Tax effect of royalty deduction	**(328,430)**	(263,292)
Tax effect of super tax charged in Pakistan	**–**	20,874
Over-provision in prior years	**–**	(4,288)
Income tax expense	**352,124**	680,145

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	Salaries	Discretionary bonus	Retirement benefits scheme contributions	Housing allowance	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2019						
Executive directors:						
Mr. Zhang Hong Wei	–	7,800	–	–	11,075	18,875
Ms. Zhang Meiying	4,550	–	1,000	18	1,022	6,590
	4,550	7,800	1,000	18	12,097	25,465
Independent non-executive directors:						
Mr. Chau Siu Wai	120	–	–	–	–	120
Mr. San Fung	120	–	–	–	–	120
Ms. Wang Ying	120	–	–	–	–	120
	360	–	–	–	–	360
	4,910	7,800	1,000	18	12,097	25,825
Year ended 31 December 2018						
Executive directors:						
Mr. Zhang Hong Wei	–	7,800	–	–	6,689	14,489
Ms. Zhang Meiying	4,550	–	–	18	1,004	5,572
	4,550	7,800	–	18	7,693	20,061
Independent non-executive directors:						
Mr. Chau Siu Wai	120	–	–	–	–	120
Mr. San Fung	120	–	–	–	–	120
Ms. Wang Ying	120	–	–	–	–	120
	360	–	–	–	–	360
	4,910	7,800	–	18	7,693	20,421

None of the directors waived any emoluments during the year.

15. Directors' and Employee Benefits (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included two (2018: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2018: three) individuals are set out below:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**21,314**	20,807
Share-based payments	**6,522**	5,446
	27,836	26,253

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
HK$6,500,001 to HK$7,000,000	**1**	–
HK$7,500,001 to HK$8,000,000	**–**	2
HK$8,000,001 to HK$8,500,000	**1**	–
HK$10,500,001 to HK$11,000,000	**–**	1
HK$12,500,001 to HK$13,000,000	**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 (2018: Nil).

15. Directors' and Employee Benefits (Continued)

(c) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate and connected entities

(i) The information about quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company in favour of certain connected entities of Mr. Zhang Hong Wei, a director of the holding company of the Company, is as follows:

Name of the borrower	Nature of connection	Total amount payable HK$'000	Outstanding amount at the beginning of the year HK$'000	Outstanding amount at the end of the year HK$'000	Maximum outstanding amount during the year HK$'000	Amount due but not paid HK$'000	Provision for doubtful debts made HK$'000	Term	Interest rate	Security
As at 31 December 2019										
Quasi-loans or credit transactions:										
Orient Group Beijing Investment Holding Limited	Associate of Mr. Zhang Hong Wei where Mr. Zhang Hong Wei holds 100% equity interest indirectly	26,208	–	26,208	26,208	–	–	Repayable on or before 25 September 2020	3 months LIBOR plus 1.7% per annum	Nil

15. Directors' and Employee Benefits (Continued)

(c) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate and connected entities (Continued)

(ii) The information about guarantees or security provided to certain controlled bodies corporate and connected entities of Mr. Zhang Hong Wei in respect of loans, quasi-loans or credit transactions is as follows:

			Maximum liability that may be incurred under the guarantee			
Name of the borrower	Nature of connection	Nature of guarantee or security	at the beginning of the year HK$'000	at the end of the year HK$'000	during the year HK$'000	Amounts or liabilities incurred during the financial year for the purpose of fulfilling the guarantee or discharge the security HK$'000
As at 31 December 2019						
Loan						
UEP Wind Power (Private) Limited	Associate of Mr. Zhang Hong Wei where Mr. Zhang Hong Wei holds 100% equity interest indirectly	Corporate guarantee	–	537,805	537,805	–

(d) 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 30 January 2018, the Group entered into shares sale agreement to dispose of its 70% equity interest held in Universe Energy International Investment Limited ("Universe Energy") at a cash consideration of approximately HK$44,839,000 (equivalent to approximately RMB36,146,000) (the "Disposal").

Universe Energy held 100% interest in Universe Oil & Gas (China) LLC ("Universe Oil & Gas"). Universe Oil & Gas was engaged in provision of patented technology support services to oilfields during the period. The Disposal was completed on 15 March 2018. Upon the completion of the Disposal, the Group ceased its patented technology support services in PRC.

As the business operation of provision of patented technology support services to oilfields is considered as a separate major line of business which was previously classified as the oilfield support services business segment of the Group, the Disposal was accounted for as a discontinued operation for the year ended 31 December 2018.

Details of the assets and liabilities disposed of and the calculation of the profit or loss on disposal are disclosed in note 40(c).

Profit for the year from discontinued operations:

	2019 **HK$'000**	2018 HK$'000
Turnover	–	–
Cost of sales and services rendered	–	–
Gross profit	–	–
Investment and other income	–	52
Administrative expenses	–	(805)
Other operating expenses	–	(1,444)
Loss before tax	–	(2,197)
Income tax expense	–	–
	–	(2,197)
Gain on disposal of a subsidiary (note 40(c))	–	36,818
Profit for the year from discontinued operations	–	34,621

16. Discontinued Operations (Continued)

Profit for the year from discontinued operations include the following:

	2019 HK$'000	2018 HK$'000
Auditors' remuneration	–	–
Depreciation and amortisation	–	1,645
Staff costs excluding directors' emoluments		
– Salaries, bonuses and allowances	–	460
– Retirement benefits scheme contributions	–	34
	–	494

Cash flows from discontinued operations:

	2019 HK$'000	2018 HK$'000
Net cash inflows from operating activities	–	10,580
Net cash inflows from investing activities	–	178
Net cash outflows to financing activities	–	(246)
Effect of foreign exchange rate changes	–	(772)
Net cash inflows	–	9,740

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$1,905,957,000 (2018: HK$1,637,991,000) and the weighted average number of ordinary shares of 26,255,436,413 (2018: 26,278,512,171) 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$1,905,957,000 (2018: HK$1,602,711,000) and the weighted average number of ordinary shares of 26,255,436,413 (2018: 26,278,512,171) in issue during the year.

17. Earnings Per Share (Continued)

(c) Diluted earnings per share

(i) Diluted earnings per share from continuing and discontinued operations

The calculation of diluted earnings per share attributable to owners of the Company for the year is based on the profit for the year attributable to owners of the Company of approximately HK$1,905,957,000 (2018: HK$1,637,991,000) and the weighted average number of ordinary shares of 26,263,167,784 (2018: 26,280,773,076), being the weighted average number of ordinary shares of 26,255,436,413 (2018: 26,278,512,171) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 7,731,371 (2018: 2,260,905) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

(ii) Diluted earnings per share from continuing operations

The calculation of diluted earnings per share attributable to owners of the Company for the year is based on the profit for the year attributable to owners of the Company of approximately HK$1,905,957,000 (2018: HK$1,602,711,000) and the denominator used are the same as those detailed above for diluted earnings per share.

(d) Basic and diluted earnings per share from discontinued operations

Basic earnings per share from discontinued operations for the year ended 31 December 2018 is HK$0.13 cent per share and diluted earnings per share from the discontinued operations is HK$0.13 cent per share, based on the profit for the year from discontinued operations attributable to owners of the Company of approximately HK$35,280,000 and the denominator used are the same as those detailed above for both basic and diluted earnings per share.

18. Dividend

	2019 HK$'000	2018 HK$'000
2019 Special dividend of HK$4 cents (2018: 2018 special dividend of HK$Nil) per ordinary share paid	**1,051,115**	–
2017 Final dividend of HK$4 cents per ordinary share paid	**–**	1,050,763
	1,051,115	1,050,763

No final dividend for the year ended 31 December 2019 has been declared by the Company.

19. Property, Plant and Equipment

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Vessels HK$'000	Aircraft 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$'000	Spare parts HK$'000	Total HK$'000
Cost													
At 1 January 2018	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
Acquisition of subsidiaries	–	–	–	–	–	2,891	12,510	–	1,353,225	178,539	36,997	27,294	1,611,456
Additions	–	–	–	–	–	1,080	26,039	–	85,712	696,834	864,158	244,406	1,918,229
Addition due to revision in decommissioning costs estimate	–	–	–	–	–	–	–	–	4,311	–	–	–	4,311
Disposals	–	–	–	–	–	(1,316)	(25)	–	–	–	–	–	(1,341)
Disposal of a subsidiary	–	(3,370)	(4,829)	–	–	(2,515)	(1,313)	(99,236)	–	–	–	–	(111,263)
Written off	–	–	–	–	–	–	–	–	–	–	(78,114)	–	(78,114)
Transfers	–	–	–	–	74,434	21,734	36,556	43,793	1,523,770	(1,233,442)	(455,949)	(10,896)	–
Exchange differences	–	(104)	(85)	–	–	73	(624)	3,109	(763)	–	–	–	1,606
At 31 December 2018 and 1 January 2019	**15,844**	**3,885**	**5,594**	**55,918**	**74,434**	**86,299**	**356,667**	**108,703**	**12,818,594**	**371,979**	**922,151**	**678,293**	**15,498,361**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**1,931**	**–**	**3,652,446**	**–**	**–**	**–**	**3,654,377**
Additions	**–**	**–**	**–**	**–**	**–**	**226**	**15,412**	**–**	**1,149,067**	**415,296**	**742,490**	**256,920**	**2,579,411**
Addition due to revision in decommissioning costs estimate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53,046**	**–**	**–**	**–**	**53,046**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(2,824)**	**–**	**–**	**–**	**–**	**–**	**(2,824)**
Written off	**–**	**–**	**–**	**–**	**–**	**–**	**(1,807)**	**–**	**–**	**–**	**(322,140)**	**–**	**(323,947)**
Transfers	**–**	**–**	**–**	**–**	**199**	**664**	**5,216**	**153**	**1,203,258**	**(402,985)**	**(432,929)**	**(373,576)**	**–**
Exchange differences	**–**	**(72)**	**(81)**	**–**	**–**	**–**	**(389)**	**(25)**	**(259)**	**–**	**–**	**–**	**(826)**
At 31 December 2019	**15,844**	**3,813**	**5,513**	**55,918**	**74,633**	**87,189**	**374,206**	**108,831**	**18,876,152**	**384,290**	**909,572**	**561,637**	**21,457,598**
Accumulated depreciation and impairment losses													
At 1 January 2018	–	5,629	10,170	11,184	–	51,181	228,928	135,258	5,877,752	–	–	–	6,320,102
Charge for the year	–	30	122	11,184	4,961	16,078	43,173	16,805	1,330,223	–	–	–	1,422,576
Disposals	–	–	–	–	–	(1,244)	(24)	–	–	–	–	–	(1,268)
Disposal of a subsidiary	–	(1,613)	(4,695)	–	–	(2,516)	(1,284)	(87,890)	–	–	–	–	(97,998)
Exchange differences	–	(161)	(90)	–	–	73	(380)	2,710	(763)	–	–	–	1,389
At 31 December 2018 and 1 January 2019	**–**	**3,885**	**5,507**	**22,368**	**4,961**	**63,572**	**270,413**	**66,883**	**7,207,212**	**–**	**–**	**–**	**7,644,801**
Charge for the year	**–**	**–**	**87**	**11,184**	**4,975**	**8,517**	**44,196**	**12,810**	**2,058,353**	**–**	**–**	**–**	**2,140,122**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(2,823)**	**–**	**–**	**–**	**–**	**–**	**(2,823)**
Written off	**–**	**–**	**–**	**–**	**–**	**–**	**(1,791)**	**–**	**–**	**–**	**–**	**–**	**(1,791)**
Exchange differences	**–**	**(72)**	**(81)**	**–**	**–**	**–**	**(142)**	**(25)**	**(259)**	**–**	**–**	**–**	**(579)**
At 31 December 2019	**–**	**3,813**	**5,513**	**33,552**	**9,936**	**72,089**	**309,853**	**79,668**	**9,265,306**	**–**	**–**	**–**	**9,779,730**
Carrying amount													
At 31 December 2019	**15,844**	**–**	**–**	**22,366**	**64,697**	**15,100**	**64,353**	**29,163**	**9,610,846**	**384,290**	**909,572**	**561,637**	**11,677,868**
At 31 December 2018	15,844	–	87	33,550	69,473	22,727	86,254	41,820	5,611,382	371,979	922,151	678,293	7,853,560

19. Property, Plant and Equipment (Continued)

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 in the exploration and production segment are no longer expected. As such, the carrying amounts of exploration and evaluation expenditures attributable to the exploration and production segment which amounted to approximately HK$322,140,000 (2018: HK$78,114,000) had been written off during the year.

At 31 December 2019, the carrying amount of property, plant and equipment pledged as security for the Group's borrowings amounted to approximately HK$5,790,474,000 (2018: HK$1,199,141,000) (note 30).

20. Right-of-use Assets

	Properties HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2019 (note 3)	–	8,327	8,327
Additions	118,366	6,642	125,008
Acquisition of subsidiaries	2,948	–	2,948
Depreciation	(7,126)	(3,995)	(11,121)
Exchange differences	(1,338)	–	(1,338)
At 31 December 2019	**112,850**	**10,974**	**123,824**

Lease liabilities of approximately HK$131,046,000 are recognised with related right-of-use assets of approximately HK$123,824,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	2019 HK$'000
Depreciation expenses on right-of-use assets	**11,121**
Interest expense on lease liabilities (included in finance cost)	**3,521**
Expenses relating to short-term lease (included in administrative expenses)	**9,627**

Details of total cash outflow for leases are set out in note 40(f).

For both years, the Group leases various offices and motor vehicles for its operations. Lease contracts are entered into for fixed term of 4 to 7 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

21. Intangible Assets

	Concession and lease rights HK$'000	Technical know-how HK$'000	Contractual rights in oil exploitation projects HK$'000	Club membership HK$'000	Goodwill HK$'000	Total HK$'000
Cost						
At 1 January 2018	5,066,862	365,176	67,343	17,000	–	5,516,381
Acquisition of subsidiaries	351,780	–	–	–	38,003	389,783
Disposal of subsidiaries	–	(373,569)	(68,891)	–	–	(442,460)
Exchange differences	–	8,393	1,548	–	–	9,941
At 31 December 2018 and 1 January 2019	**5,418,642**	**–**	**–**	**17,000**	**38,003**	**5,473,645**
Acquisition of subsidiaries	**4,132,678**	**–**	**–**	**–**	**–**	**4,132,678**
At 31 December 2019	**9,551,320**	**–**	**–**	**17,000**	**38,003**	**9,606,323**
Accumulated amortisation and impairment losses						
At 1 January 2018	2,829,801	365,176	67,343	–	–	3,262,320
Amortisation for the year	222,801	–	–	–	–	222,801
Disposal of subsidiaries	–	(373,569)	(68,891)	–	–	(442,460)
Impairment losses	–	–	–	–	38,003	38,003
Exchange differences	–	8,393	1,548	–	–	9,941
At 31 December 2018 and 1 January 2019	**3,052,602**	**–**	**–**	**–**	**38,003**	**3,090,605**
Amortisation for the year	**416,625**	**–**	**–**	**–**	**–**	**416,625**
At 31 December 2019	**3,469,227**	**–**	**–**	**–**	**38,003**	**3,507,230**
Carrying amount						
At 31 December 2019	**6,082,093**	**–**	**–**	**17,000**	**–**	**6,099,093**
At 31 December 2018	2,366,040	–	–	17,000	–	2,383,040

21. Intangible Assets (Continued)

Concession and lease rights

Concession and lease rights represent the rights for oil and gas exploration and production in Pakistan, Middle East and North Africa (2018: Pakistan) which will expire on various dates, in accordance with the respective development and production leases, between years 2020 and 2040. The amortisation of concession and lease rights is determined using the unit-of-production method over the proved and probable reserves of petroleum.

Goodwill

Goodwill acquired during the year ended 31 December 2018 in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of goodwill of approximately HK$38,003,000 had been allocated to Asia Resources Oil Limited in the segment of exploration and production of crude oil and natural gas in Pakistan.

Due to the drop of oil and gas prices in the second half of the year ended 31 December 2018, the Group and its joint operators of an active concession right revised the business and production plans to reduce scale of exploitation activities in the concession. Accordingly, the Group has revised its cash flow forecast for this CGU. The recoverable amount of the CGU is approximately HK$397,280,000 and full impairment loss of approximately HK$38,003,000 was recognised on goodwill as at 31 December 2018.

The recoverable amounts of the CGU have been determined on the basis of their value in use ("VIU") using discounted cash flow method. The calculation use cash flow projections based on financial budgets approved by the management covering 5 year-period and pre-tax discount rates at 28.2%. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year-period are extrapolated using a declining growth rate of 31.6%. Other key assumptions for the discounted cash flow method are those regarding budgeted gross margin and sales volume. Budgeted gross margin and sales volume are based on past practices and management's expectations on market development.

22. Investment in Associates

	2019 HK$'000	2018 HK$'000
Unlisted investments:		
Cost of investment (note a)	**9,330**	–
Share of net assets	**264,614**	303,580
Goodwill	**146,843**	146,843
	420,787	450,423

Details of the Group's associates at 31 December 2019 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/voting power/profit sharing 2019	2018	Principal activities
Orient Group Beijing Investment Holding Limited (note b)	Mauritius	47,769,535 ordinary shares of US$1 each	**48%**	48%	Investment holding
UEP Wind Power (Private) Limited	Pakistan	659,974,655 ordinary shares of PKR10 each	**48.52%**	48.52%	Developing and operating of wind power project in Pakistan
Orient Art Limited	British Virgin Islands	350,000,000 ordinary shares of HK$1 each	**20%**	20%	Trading in artworks
東方藝術品有限公司	PRC	Registered capital of RMB100,000,000 (Note 43(c))	**20%**	20%	Not yet commenced business

The above list contains the particulars of associates which principally affected the results and net assets of the Group.

Note a: The Group acted as the guarantor to provide corporate guarantee to secure bank borrowings granted to its associate and agreed to repay the outstanding loan and interest accrual if the associates default the loan repayment. The fair value of the financial guarantee contract was determined by an independent professional valuer and it was recognised as investment in associates and financial guarantee contracts in the Group's consolidated statement of financial position.

Note b: On 27 June 2018, the Group entered into a sale and purchase agreement with Orient Group Investment Holding Limited, pursuant to which the Group acquired 48% of the issued share capital of Orient Group Beijing Investment Holding Limited ("OGBIH") and its subsidiaries, at the cash consideration of approximately HK$374,400,000 (equivalent to approximately US$48,000,000). OGBIH held indirectly 99% equity interest in UEP Wind Power (Private) Limited ("Wind Power"), which is engaged in developing and operating of wind power project of approximately 100 megawatts in Pakistan. The acquisition was completed on 29 December 2018.

In the prior year, the Group held 1% equity interest in Super Success Investments Limited ("SSIL") and accounted for the investment as financial assets at fair value through other comprehensive income. OGBIH held indirect 99% equity interest in SSIL, which directly held 99.99% equity interest in Wind Power. Thus, leading to the Group's effective interests in Wind Power increased from 1% to 48.52% upon the acquisition.

22. Investment in Associates (Continued)

The following table shows information on the associate that is material to the Group. This associate is accounted for using the equity method in the consolidated financial statements. The summarised financial information presented is based on the HKFRS financial statements of the associate.

Name	UEP Wind Power (Private) Limited 2019	2018
Principal place of business/country of incorporation	Pakistan	
Principal activities	Developing and operating of wind power project in Pakistan	
% of ownership interests/voting rights held by the Group	**48.52%/48.52%**	48.52%/48.52%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**1,660,187**	1,886,330
Current assets	**231,130**	175,932
Non-current liabilities	**(999,568)**	(1,149,575)
Current liabilities	**(345,309)**	(301,263)
Net assets	**546,440**	611,424
Group's share of net assets	**265,133**	296,663
Cost of investment	**9,330**	–
Goodwill	**146,843**	146,843
Group's share of carrying amount of interests	**421,306**	443,506
Year ended 31 December:		
Revenue	**172,978**	–
Loss from continuing operations	**(26,535)**	–
Other comprehensive income	**(4,995)**	–
Total comprehensive income	**(31,530)**	–

UEP Wind Power (Private) Limited is a strategic investment of the Group, providing access to wind power business in Pakistan.

22. Investment in Associates (Continued)

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.

	2019 HK$'000	2018 HK$'000
At 31 December:		
Carrying amounts of the Group's investments in associates	**(519)**	6,917
Year ended 31 December:		
Share of the associate's loss for the year	**(7,601)**	(333)
Share of the associate's other comprehensive income	**165**	–
Share of the associate's total comprehensive income	**(7,436)**	(333)

23. Advances, Deposits and Prepayments

	2019 HK$'000	2018 HK$'000
Advances to staff	**1,273**	1,175
Decommissioning fund (note a)	**51,257**	–
Deposits and prepayments	**2,908**	6,758
Deposits paid for acquisition of property, plant and equipment	**146,395**	–
Deposit paid for acquisition of subsidiaries (note b)	**–**	117,000
Due from joint operators	**8,779**	18,092
	210,612	143,025

Note a: The decommissioning fund is the amounts held in an escrow bank account and term deposits to settle the environmental restoration obligations arising from the concessions in Middle East.

Note b: As at 31 December 2018, an unsecured deposit of approximately HK$117,000,000 (equivalent to approximately US$15,000,000) was placed in the designated escrow bank held by the escrow agent for the proposed acquisition of the entire issued share capital of Kuwait Energy Public Limited Company and its subsidiaries as detailed in note 40(a). The deposit is non-interest bearing and subsequently formed part of the purchase consideration upon the completion of the acquisition on 21 March 2019. Details of the acquisition were set out in the Company's announcements and circular dated 24 September 2018, 10 October 2018, 30 November 2018, 27 December 2018, 21 March 2019 and 22 March 2019.

23. Advances, Deposits and Prepayments (Continued)

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

	2019 HK$'000	2018 HK$'000
HKD	39	–
US$	206,417	137,052
PKR	4,156	5,973
Total	210,612	143,025

24. Inventories

	2019 HK$'000	2018 HK$'000
Finished goods	60,294	25,440
Spare parts and consumables	284,124	332,058
Less: allowance for inventories	(19,500)	(19,500)
	324,918	337,998

25. Trade and Other Receivables

	2019 HK$'000	2018 HK$'000
Trade receivables (note a)	2,481,644	1,851,365
Allowance for trade receivables	(66,514)	–
Allowance for price adjustments (note b)	(204,465)	(207,807)
	2,210,665	1,643,558
Other receivables (note c)	1,159,539	546,602
Allowance for other receivables	(1,296)	–
	1,158,243	546,602
Total trade and other receivables	3,368,908	2,190,160

25. Trade and Other Receivables (Continued)

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit term generally ranges from 30 to 45 days (2018: 30 to 45 days) except for the customers in Iraq which were settled by having physical delivery of crude oil on accumulation of balance sufficient enough for cargo lifting. 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:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**1,721,484**	1,050,172
31 to 60 days	**407,631**	361,217
61 to 90 days	**79,709**	297,992
Over 90 days	**272,820**	141,984
	2,481,644	1,851,365

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

	2019 HK$'000	2018 HK$'000
RMB	**21,880**	–
US$	**2,456,548**	1,847,869
PKR	**3,216**	3,496
Total	**2,481,644**	1,851,365

At 31 December 2019, the carrying amount of trade receivables pledged as security for the Group's borrowings amounted to approximately HK$304,387,000 (2018: HK$457,810,000) (note 30).

25. Trade and Other Receivables (Continued)

(b) Allowance for price adjustments

This 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$204,465,000 (2018: HK$207,807,000) was provided.

(c) Other receivables

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

	2019 HK$'000	2018 HK$'000
Due from joint operators	**462,319**	189,855
Advances to staff	**15,740**	7,051
Central excise duty receivables	**25,921**	25,295
Deposits and prepayments (note i)	**92,190**	81,663
Sales tax receivables	**268,238**	221,613
Other tax receivables	**8,560**	2,863
Withholding tax receivables	**7,583**	8,298
Deferred sales consideration (note ii)	**246,180**	–
Interest receivables	**259**	–
Amount due from an associate (note iii)	**26,208**	–
Others	**5,045**	9,964
	1,158,243	546,602

(i) As at 31 December 2019, the amount included a collateral deposit of approximately HK$39,000,000 (equivalent to approximately US$5,000,000) placed in a customer of the Group for issuing an irrevocable standby letter of credit on behalf of the Company of the same amount in favour of the Petroleum Contracts and Licensing Directorate ("PCLD"), a division of the Ministry of Oil of the Republic of Iraq. Such deposits bearing interest at a rate of 2.4% per annum (2018: 1.8% per annum) and repayable on demand.

(ii) In October 2016, the Group signed a farm-out agreement with an effective date of 1 January 2016 to assign a 20% paying and 15% revenue interest in the Iraq Siba area gas development and production service contract. Following completion of the transaction, the Group has a 40% paying and 30% revenue interest in Siba. Under the terms of the farm-out agreement, the farmee will settle the consideration by paying the Group's share of costs of a major related contract.

(iii) As at 31 December 2019, the amount is due from Orient Group Beijing Investment Holding Limited, which is unsecured, interest bearing at a rate of 3 months LIBOR plus 1.7% per annum and repayable on or before 25 September 2020.

25. Trade and Other Receivables (Continued)

(c) Other receivables (Continued)

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

	2019 **HK$'000**	2018 HK$'000
HK$	**10,049**	9,410
RMB	**21,224**	8,720
US$	**751,228**	251,179
PKR	**374,909**	277,281
Others	**833**	12
Total	**1,158,243**	546,602

26. Financial Assets at Fair Value Through Profit or Loss

	2019 **HK$'000**	2018 HK$'000
Equity securities, at fair value		
Listed in Hong Kong at market value	**2,586**	2,754

The carrying amounts of the above financial assets are mandatorily measured at fair value through profit or loss in accordance with HKFRS 9.

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.

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. Bank and Cash Balances

	2019 HK$'000	2018 HK$'000
Cash at bank and on hand (note a)	**3,112,888**	883,182
Term deposits matured within 3 months	**34,889**	1,633,350
Restricted bank deposits (note b)	**210,850**	–
Total bank and cash balances	**3,358,627**	2,516,532

At 31 December 2019, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$65,965,000 (2018: HK$191,230,000). 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.

Note a: At 31 December 2019, the carrying amount of cash at bank and on hand balances pledged as security for the Group's borrowings amounted to approximately HK$250,299,000 (2018: HK$262,424,000) (note 30).

Note b: At 31 December 2019, approximately HK$210,850,000 (2018: HK$Nil) are restricted deposits held at bank as security charge over the Group's borrowings (note 30).

28. Trade and Other Payables

	2019 HK$'000	2018 HK$'000
Trade payables (note a)	**913,060**	666,548
Other payables (note b)	**5,111,152**	1,980,455
Total trade and other payables	**6,024,212**	2,647,003

(a) Trade payables

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

	2019 HK$'000	2018 HK$'000
0 to 30 days	**285,854**	329,085
31 to 45 days	**51,102**	66,019
Over 45 days	**576,104**	271,444
	913,060	666,548

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

	2019 HK$'000	2018 HK$'000
RMB	**51,338**	196
US$	**682,471**	555,106
PKR	**179,251**	111,246
Total	**913,060**	666,548

28. Trade and Other Payables (Continued)

(b) Other payables

	2019 HK$'000	2018 HK$'000
Accrual for operating and capital expenses	**1,288,875**	849,775
Due to joint operators	**153,898**	132,439
Deposits received	**67**	68
Dividend payable	**1,051,115**	–
Advance from customers (note i)	**1,134,900**	–
Salaries and welfare payables	**117,652**	108,758
Provision for infrastructure funds	**329,536**	–
Other tax payables	**1,010,101**	849,820
Others	**25,008**	39,595
	5,111,152	1,980,455

(i) The Group entered into agreements with customers for secured crude oil prepayment facilities of up to approximately HK$2,925,000,000 (equivalent to approximately US$375,000,000). The facilities bearing interest rates ranging from 4% plus LIBOR per annum to 7% plus LIBOR per annum. The crude oil prepayment facilities are repayable principally by the delivery of the Group's crude oil entitlement. As at 31 December 2019, the total undrawn crude oil prepayment facilities amounted to approximately HK$1,170,000,000 (equivalent to approximately US$150,000,000).

As at 31 December 2019, the advance from customers are guaranteed by the unlimited corporate guarantee provided by the Company.

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

	2019 HK$'000	2018 HK$'000
HK$	**1,055,765**	5,820
RMB	**46,783**	44,010
US$	**3,237,834**	1,082,095
PKR	**745,393**	848,530
Others	**25,377**	–
Total	**5,111,152**	1,980,455

29. Due to a Director

The amount due to a director is unsecured, interest-free and repayable on demand.

30. Borrowings

	2019 HK$'000	2018 HK$'000
Bank loans, secured	**4,695,786**	641,736

The borrowings are repayable as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**352,150**	181,123
More than one year, but not exceeding two years	**1,197,986**	198,578
More than two years, but not more than five years	**3,145,650**	262,035
	4,695,786	641,736
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(352,150)**	(181,123)
Amount due for settlement after 12 months	**4,343,636**	460,613

The carrying amounts of the Group's borrowings are denominated in US dollars.

The weighted average effective interest rate of the secured bank loans as at 31 December 2019 was 6.42% (2018: 7.82%).

Bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

As at 31 December 2019, bank loans are secured or guaranteed by the following:

(i) share charge over the entire equity interests of the wholly owned subsidiaries of the Company including Asia Resources Oil Limited, UEP Alpha Limited, UEP Beta GmbH, United Energy Pakistan Holdings Limited, United Energy Pakistan Limited, Gold Cheers Corporation Limited and BowEnergy Resources (Pakistan) SRL (2018: BowEnergy Resources (Pakistan) SRL);

(ii) certain property, plant and equipment, trade receivables and bank and cash balances of the Group with an aggregate carrying value of approximately HK$6,556,010,000 (equivalent to approximately US$840,514,000) (2018: HK$1,919,375,000 (equivalent to approximately US$246,074,000));

(iii) unlimited corporate guarantee provided by the Company and its wholly owned subsidiaries of the Company including Asia Resources Oil Limited, UEP Alpha Limited, UEP Beta GmbH, United Energy Pakistan Holdings Limited and United Energy Pakistan Limited (2018: the Company); and

(iv) unlimited personal guarantee provided by the executive directors of the Company (2018: Nil).

31. Lease Liabilities

	Minimum lease payments		Present value of minimum lease payments	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Within one year	**38,293**	–	**32,461**	–
In the second to fifth years, inclusive	**107,758**	–	**98,585**	–
	146,051	–	**131,046**	–
Less: Future finance charges	**(15,005)**	–	**N/A**	N/A
Present value of lease obligations	**131,046**	–	**131,046**	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(32,461)**	–
Amount due for settlement after 12 months			**98,585**	–

The carrying amounts of the Group's lease liabilities are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
HK$	**21,379**	–
RMB	**89,159**	–
US$	**6,879**	–
PKR	**13,629**	–
Total	**131,046**	–

Included in the balances as at 31 December 2019, present value of minimum lease payments of approximately HK$6,879,000 (2018: HK$Nil) representing the sale and leased back arrangement for the sold building in Egypt. The total lease value of approximately HK$64,147,000 (equivalent to approximately US$8,224,000) which was settled by approximately HK$11,700,000 (equivalent to approximately US$1,500,000) down payment and the remaining lease payments to be paid over a lease term of five years. The Group has the right to buy the leased building at the end of lease period for an agreed nominal sale price of approximately HK$8 (equivalent to approximately US$1) only. The leased building is recognised as a right-of-use asset in the consolidated statement of financial position with carrying value of approximately HK$2,495,000 (equivalent to approximately US$320,000) as at 31 December 2019. The Group's obligations under finance leases are secured by the lessor's rights over the leased asset. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

31. Lease Liabilities (Continued)

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

32. Provisions

	Dismantling costs in respect of leasehold improvements HK$'000	Decommissioning costs HK$'000	Total HK$'000
At 1 January 2018	420	326,043	326,463
Less:			
Reversal of provisions recognised during the year	–	(5,376)	(5,376)
Actual costs incurred during the year	–	(16,857)	(16,857)
Add:			
Acquisition of subsidiaries (note 40(b))	–	61,377	61,377
Provisions recognised during the year	–	9,687	9,687
Unwinding of discounts	–	11,091	11,091
	420	385,965	386,385
Current portion shown under current liabilities	–	(5,276)	(5,276)
At 31 December 2018	420	380,689	381,109
At 1 January 2019	**420**	**385,965**	**386,385**
Less:			
Release of provision during the year	**–**	**(1,442)**	**(1,442)**
Reversal of provisions recognised during the year	**(420)**	**(4,969)**	**(5,389)**
Actual costs incurred during the year	**–**	**(31,307)**	**(31,307)**
Add:			
Acquisition of subsidiaries (note 40(a))	**–**	**89,156**	**89,156**
Provisions recognised during the year	**530**	**58,015**	**58,545**
Unwinding of discounts	**–**	**10,586**	**10,586**
	530	**506,004**	**506,534**
Current portion shown under current liabilities	**–**	**(1,053)**	**(1,053)**
At 31 December 2019	**530**	**504,951**	**505,481**

32. Provisions (Continued)

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 by discounting the expected future expenditures to their net present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. 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.

33. Derivative Financial Instruments

	2019 **HK$'000**	2018 HK$'000
Financial liabilities		
Derivatives held for trading		
Interest rate swaps	**3,410**	1,165

As at 31 December 2019, the Group had outstanding interest rate swaps contracts entered into with commercial banks, which have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2019, the notional principal amounts of the outstanding interest rate swaps contracts were approximately HK$327,600,000 (equivalent to US$42,000,000) (2018: HK$458,640,000 (equivalent to US$58,800,000)) with fixed interest rates at 2.8% per annum (2018: 2.8% per annum). The interest rate swap contacts will be terminated in March 2021. These transactions do not qualify for hedge accounting and accordingly, changes in fair value are charged to the consolidated statement of profit or loss.

The Group engaged Roma Appraisals Limited, an independent valuer to determine the fair value of the interest rate swaps of the Group as at 31 December 2019. Fair value is estimated based upon current and predictions of future interest rate levels along a yield curve, the remaining duration of the instrument and other market conditions.

34. Financial Guarantee Contracts

	2019 HK$'000	2018 HK$'000
Fair value of financial guarantees	**9,330**	–

At the end of the reporting period, the Group has issued certain guarantees of approximately HK$715,282,000 (2018: HK$Nil) to a bank in respect of banking facilities granted to an associate of the Group. Under the guarantees, the Group is liable for all or any of the borrowings of the associates from the banks upon failure of the guaranteed entity to make payments when due.

The maximum liability of the Group at the end of the reporting period under guarantees is the amount of bank loans drawn and the related interest accrued under the guarantees at that date of approximately HK$537,805,000 (2018: HK$Nil).

35. Deferred Tax

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

	Accelerated tax depreciation HK$'000	Intangible assets HK$'000	Allowance for inventories HK$'000	Finance costs HK$'000	Allowance for price adjustments HK$'000	Provision for expected credit losses HK$'000	Provision for workers' funds HK$'000	Pre-commercial expenditure for concession rights surrendered HK$'000	Defined benefit liabilities HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2018	857,214	67,752	(9,750)	(382,355)	(107,030)	–	–	114,755	–	–	540,586
Acquisition of subsidiaries (note 40(b))	389,463	140,712	(6,194)	–	–	–	–	–	49	(322,480)	201,550
Charge/(credit) to profit or loss for the year (note 14)	133,676	166,367	804	34,888	(1,387)	–	–	–	–	122,392	456,740
Charge to other comprehensive income for the year	–	–	–	–	–	–	–	–	491	–	491
Exchange differences	(48,521)	–	–	–	–	–	–	–	–	–	(48,521)
At 31 December 2018 and 1 January 2019	**1,331,832**	**374,831**	**(15,140)**	**(347,467)**	**(108,417)**	**–**	**–**	**114,755**	**540**	**(200,088)**	**1,150,846**
Acquisition of subsidiaries (note 40(a))	**(141,471)**	**1,108,907**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**967,436**
Charge/(credit) to profit or loss for the year (note 14)	**(226,820)**	**162,032**	**395**	**51,336**	**(184)**	**(27,125)**	**(32,264)**	**–**	**–**	**35,621**	**(37,009)**
Charge to other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,274**	**–**	**2,274**
Exchange differences	**(25,777)**	**–**	**537**	**–**	**–**	**–**	**1,028**	**–**	**(346)**	**14,958**	**(9,600)**
At 31 December 2019	**937,764**	**1,645,770**	**(14,208)**	**(296,131)**	**(108,601)**	**(27,125)**	**(31,236)**	**114,755**	**2,468**	**(149,509)**	**2,073,947**

35. Deferred Tax (Continued)

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

	2019 HK$'000	2018 HK$'000
Deferred tax liabilities	**2,073,947**	1,150,846

At the end of the reporting period, the Group has unused tax losses and other deductible temporary differences of approximately HK$643,295,000 and HK$7,302,000 respectively (2018: HK$907,858,000 and HK$12,287,000 respectively) that are available for offsetting against future taxable profits. A deferred tax asset has been recognised in respect of approximately HK$373,771,000 (2018: HK$500,218,000) of such losses. No deferred tax assets have been recognised in respect of the remaining approximately HK$269,524,000 (2018: HK$407,640,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are of approximately HK$168,694,000 (2018: HK$309,426,000) that will expire from 2021 to 2024 (2018: from 2020 to 2023). 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.

36. Share Capital

		2019		2018	
	Note	**Number of shares '000**	**Amount HK$'000**	Number of shares '000	Amount HK$'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		**26,294,155**	**262,941**	26,269,065	262,690
Repurchase of shares	(a)	**(23,494)**	**(234)**	–	–
Issue of shares under employees performance share schemes	(b)	**7,203**	**72**	20,348	203
Issue of shares under share match scheme	(c)	**–**	**–**	4,742	48
At 31 December		**26,277,864**	**262,779**	26,294,155	262,941

36. Share Capital (Continued)

Notes:

(a) The Company repurchased 23,494,000 of its own shares on the Stock Exchange in January 2019. The repurchased shares were cancelled on 19 February 2019. The total amount paid on the repurchased shares was approximately HK$28,115,000 and have been deducted from the share capital and share premium account.

(b) During the year ended 31 December 2019, 7,202,844 (2018: 20,348,257) ordinary shares of HK$0.01 each pursuant to the employees performance share schemes of the Company were issued and allotted to employees in Pakistan.

(c) During the year ended 31 December 2018, 4,741,780 ordinary shares of HK$0.01 each pursuant to the share match scheme of the Company were issued and allotted to employees in Pakistan.

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 2019 and 2018.

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 2019 was 53% (2018: 30%).

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 2019, 28.63% (2018: 28.68%) 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 2019 and 2018.

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

(a) Statement of financial position of the Company

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Right-of-use assets		**21,885**	–
Investments in subsidiaries		**11**	22,206
Investments in an associate		**9,330**	–
Intangible assets		**17,000**	17,000
Advances, deposits and prepayments		**120,819**	–
		169,045	39,206
Current assets			
Other receivables		**75,638**	50,016
Financial assets at fair value through profit or loss		**2,586**	2,754
Due from subsidiaries		**9,944,599**	6,770,666
Bank and cash balances		**1,867,163**	1,532,932
		11,889,986	8,356,368
Current liabilities			
Other payables		**1,055,986**	10,645
Lease liabilities		**5,200**	–
Due to subsidiaries		**10,877,663**	6,235,273
Due to a director		**2,459**	9,433
Financial guarantee contracts		**167,253**	–
		12,108,561	6,255,351
Net current (liabilities)/assets		**(218,575)**	2,101,017
Total assets less current liabilities		**(49,530)**	2,140,223
Non-current liabilities			
Lease liabilities		**16,179**	–
Provisions		**530**	–
		16,709	–
NET (LIABILITIES)/ASSETS		**(66,239)**	2,140,223
Capital and reserves			
Share capital		**262,779**	262,941
Reserves	37(b)	**(329,018)**	1,877,282
(CAPITAL DEFICIENCIES)/TOTAL EQUITY		**(66,239)**	2,140,223

The Company's statement of financial position was approved by the Board of Directors on 31 March 2020 and signed on its behalf by:

Zhang Hong Wei	**Zhang Meiying**
Executive Director	*Executive Director*

37. 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$'000	Performance share unit scheme reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	2,502,823	12,261,803	14,924	–	(11,738,594)	3,040,956
Issue of shares under employees performance share schemes (note 36(b))	11,395	–	–	–	–	11,395
Issue of shares under share match scheme (note 36(c))	6,069	–	–	–	–	6,069
Dividend paid (note 18)	–	(1,050,763)	–	–	–	(1,050,763)
Loss and other comprehensive income for the year	–	–	–	–	(130,375)	(130,375)
At 31 December 2018	2,520,287	11,211,040	14,924	–	(11,868,969)	1,877,282
At 1 January 2019	**2,520,287**	**11,211,040**	**14,924**	**–**	**(11,868,969)**	**1,877,282**
Repurchase of shares (note 36(a))	**(27,881)**	**–**	**–**	**–**	**–**	**(27,881)**
Purchase of shares under performance share unit scheme (note 39(d))	**–**	**–**	**–**	**(79,691)**	**–**	**(79,691)**
Issue of shares under employees performance share schemes (note 36(b))	**8,715**	**–**	**–**	**–**	**–**	**8,715**
Dividend paid (note 18)	**–**	**(1,051,115)**	**–**	**–**	**–**	**(1,051,115)**
Loss and other comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,056,328)**	**(1,056,328)**
At 31 December 2019	**2,501,121**	**10,159,925**	**14,924**	**(79,691)**	**(12,925,297)**	**(329,018)**

38. 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(e)(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(z) to the consolidated financial statements.

(vi) Performance share unit scheme reserve

Performance share unit scheme reserve arose as a result of purchasing of Company's shares for performance share unit scheme or granting the shares to relevant eligible employees of the Group. The reserve is dealt with in accordance with the accounting policies set out in note 4(v) to the consolidated financial statements.

(vii) Statutory reserve

Transfer from retained profits to the statutory reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC, and were approved by the respective boards of directors.

39. 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 shareholder's 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.

During the years ended 31 December 2019 and 2018, no share options were granted, exercised, lapsed or cancelled under the Old Scheme and New Scheme.

39. 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 2019
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:

	2019 Number of share options	2019 Weighted average exercise price HK$	2018 Number of share options	2018 Weighted average exercise price HK$
Outstanding at the beginning and 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 2.66 years (2018: 3.66 years) and the exercise price is HK$0.93 (2018: HK$0.93). During the year, no expense was recognised in relation to the Old Scheme (2018: HK$Nil).

39. 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 share 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 Share 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 Share 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 Share 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.

The aggregate number of the Company's shares which may be granted to the employees of the Group (including the eligible employees) under the Employees Performance Share 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 Share Schemes together with other share schemes shall not exceed 1% of the total issued share capital of the Company from time to time.

39. Share-Based Payments (Continued)

(b) Employees performance share schemes (Continued)

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 a wholly-owned subsidiary, United Energy Pakistan Limited ("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$7,335,000 (2018: HK$10,413,000) for the year ended 31 December 2019 in relation to the Employees Performance Share Schemes.

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

39. Share-Based Payments (Continued)

(b) Employees performance share schemes (Continued)

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

			Number of Scheme Shares					
Name of the scheme	Date of grant	Fair value per share	Outstanding as at 1 January 2019	Granted during the year	Vested during the year	Lapsed during the year	Outstanding as at 31 December 2019	Vesting period
Performance share scheme	4 January 2016	HK$0.66	7,106,532	–	(6,876,631)	(229,901)	–	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	13,638,913	–	(1,442,693)	(327,885)	11,868,335	3 January 2017 to 2 January 2020
Executive performance share scheme	3 January 2017	HK$0.42	4,961,987	–	(2,754,231)	–	2,207,756	3 January 2017 to 2 January 2020
Deferred annual bonus scheme	3 January 2017	HK$0.42	6,926,095	–	(3,838,515)	–	3,087,580	3 January 2017 to 2 January 2020
Performance share scheme	2 January 2018	HK$0.53	10,807,584	–	(1,133,481)	–	9,674,103	2 January 2018 to 1 January 2021
Executive performance share scheme	2 January 2018	HK$0.53	3,416,948	–	(1,896,632)	–	1,520,316	2 January 2018 to 1 January 2021
Deferred annual bonus scheme	2 January 2018	HK$0.53	6,123,725	–	(3,552,941)	–	2,570,784	2 January 2018 to 1 January 2021
Performance share scheme	2 January 2019	HK$1.18	–	5,681,800	(481,982)	–	5,199,818	2 January 2019 to 1 January 2022
Executive performance share scheme	2 January 2019	HK$1.18	–	710,311	–	–	710,311	2 January 2019 to 1 January 2022
Deferred annual bonus scheme	2 January 2019	HK$1.18	–	810,733	–	–	810,733	2 January 2019 to 1 January 2022
			60,668,644	7,202,844	(29,663,966)	(557,786)	37,649,736	

39. Share-Based Payments (Continued)

(c) Shares 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.

39. Share-Based Payments (Continued)

(c) Shares match scheme (Continued)

Subject to any early termination as may be determined by the Board pursuant to the scheme rules, the shares 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$2,437,000 (2018: HK$2,872,000) for the year ended 31 December 2019 in relation to the share match scheme.

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 2019	Granted during the year	Vested during the year	Lapsed during the year	Outstanding as at 31 December 2019	Vesting period
1 September 2016	HK$0.26	10,247,130	–	(10,174,581)	(72,549)	–	1 September 2016 to 31 August 2019
1 September 2017	HK$0.34	7,975,321	–	(151,964)	(122,392)	7,700,965	1 September 2017 to 31 August 2020
31 August 2018	HK$1.29	2,354,035	–	(23,597)	(33,710)	2,296,728	31 August 2018 to 30 August 2021
		20,576,486	–	(10,350,142)	(228,651)	9,997,693	

39. Share-Based Payments (Continued)

(d) Performance share unit scheme

On 1 April 2019, the Company adopted the performance share unit scheme (the "PSU Scheme") with objectives to provide the employees of the Group with incentives to drive success and growth in the shareholder value of the Group; to promote the effective achievement of the mid and long term performance goals of the Group; and to attract, motivate and retain core talents of the Group with rewards and incentives. Unless terminated earlier by the board of directors (the "Board") pursuant to the PSU Scheme, the PSU Scheme shall be valid and effective for a period of ten years commencing on the adoption date.

Pursuant to the PSU Scheme, the Board may, from time to time, at its absolute discretion cause to be transferred to the trust the necessary funds for the purchase of the Company's shares to be held on trust in accordance with the rules as set out in the PSU Scheme and the trust deed. Such funds shall be applied towards the purchase of the specific number of the Company's shares from the open market according to the written instructions of the Board. The Company shall not make any further grant of shares award which will result in the aggregate number of awarded share under the PSU Scheme (exclude awarded shares that have been forfeited in accordance with the Scheme) exceeding 10% of the total issued shares capital of Company from time to time.

During the year ended 31 December 2019, 54,538,000 shares were purchased by the trustee from the market at an average price of HK$1.46 per share, with an aggregate amount of approximately HK$79,691,000. No shares were granted to eligible employees pursuant to the PSU Scheme during the year ended 31 December 2019. At 31 December 2019, there are 54,538,000 shares held by the trustee.

40. Notes to the Consolidated Statement of Cash Flows

(a) Acquisition of subsidiaries for the year ended 31 December 2019

On 21 March 2019, the Group acquired the entire issued share capital of Kuwait Energy Public Limited Company ("KEC") and its subsidiaries for a total consideration of approximately HK$4,403,101,000 (equivalent to approximately US$564,500,000) by way of a scheme of arrangement under Jersey law ("KEC Acquisition"). KEC is an upstream oil and gas company and principally engaged in exploration, appraisal, development and production activities in Middle East and North Africa. Details of the KEC Acquisition were set out in the Company's announcements and circular dated 24 September 2018, 10 October 2018, 30 November 2018, 27 December 2018, 21 March 2019 and 22 March 2019.

The KEC Acquisition is an extension and enlargement of the Group's oil exploration and production business. The amounts disclosed in the interim report were provisional due to the proximity of the acquisition to the Group's half-year end. The necessary oil and gas reserve valuations and other calculations for the net assets acquired and liabilities assumed had not been finalized at that time and therefore have been provisionally determined based on the latest information available to the management. The fair value of the identifiable assets and liabilities of KEC acquired as at the date of acquisition has been adjusted within the 12-month measurement period as permitted by HKFRS 3 Business Combinations as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	3,654,377
Right-of-use assets	2,948
Intangible assets	4,132,678
Advances, deposits and prepayments	145,920
Inventories	23,900
Trade and other receivables	1,301,814
Assets classified as held for sale	88,355
Bank and cash balances	230,203
Provisions	(89,156)
Employee retirement benefits obligations	(49,166)
Trade and other payables	(1,749,444)
Borrowings	(1,941,117)
Bank overdraft	(24,187)
Lease liabilities	(13,511)
Current tax liabilities	(118,559)
Deferred tax liabilities	(967,436)
Non-controlling interests	(17,592)
	4,610,027
Gain on bargain purchase	(206,926)
	4,403,101
Satisfied by:	
Cash	4,286,101
Deposit paid for acquisition of subsidiaries	117,000
	4,403,101
Net cash outflow arising on acquisition:	
Cash consideration paid	4,286,101
Cash and cash equivalents acquired	(230,203)
Bank overdraft assumed	24,187
	4,080,085

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

(a) Acquisition of subsidiaries for the year ended 31 December 2019 (Continued)

The fair values of the identifiable assets and liabilities acquired at the acquisition date had been assessed by Greater China Appraisals Limited.

The aggregate fair values of trade and other receivables at the date of acquisition amounted to approximately HK$1,301,814,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$1,301,814,000 at the date of acquisition, of which no balance is expected to be uncollectible.

The Group recognised a gain on bargain purchase of approximately HK$206,926,000 in the business combination. The gain is included in other gains and losses. The business combination results in a gain on bargain purchase because the Group had completed the field development plan in Block 9 with the Government of Iraq before the KEC Acquisition. The completion of the field development plan increased in the estimated oil reserve in Block 9 at the acquisition date.

The revenue and net profit that the KEC Acquisitions contributed to the Group during the period between the date of acquisition and 31 December 2019 are approximately HK$1,854,403,000 and HK$579,193,000 respectively. If the acquisition had occurred on 1 January 2019, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2019 would have been approximately HK$7,511,653,000 and HK$1,817,114,000 respectively. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition have occurred on 1 January 2019.

The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is intended to be a projection of future results.

Acquisition related costs of approximately HK$1,090,000 have been charged to administrative expenses in the consolidated financial statements for the year ended 31 December 2019.

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

(b) Acquisition of subsidiaries for the year ended 31 December 2018

(i) Pursuant to the share purchase agreement dated 24 October 2017, the Group acquired the entire issued share capital of Asia Resources Oil Limited ("AROL") from the shareholders of AROL ("AROL Acquisition"). The total consideration of the AROL Acquisition comprises (i) grant of a loan to AROL and related interest in an aggregate amount of approximately HK$457,130,000 (equivalent to approximately US$58,606,000) and (ii) cash payment of approximately HK$59,575,000 (equivalent to approximately US$7,638,000). AROL is engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan. The AROL Acquisition was completed on 17 April 2018. Details of the AROL Acquisition were set out in the Company's announcements dated 24 October 2017 and 17 April 2018.

(ii) Pursuant to the share purchase agreement dated 28 February 2018, the Group acquired the entire issued share capital of UEP Alpha Limited ("UEP Alpha") (formerly known as OMV Maurice Energy Limited) and UEP Beta GmbH ("UEP Beta") (formerly known as OMV (Pakistan) Exploration Gesellschaft m.b.H.) at a cash consideration of approximately HK$735,950,000 (equivalent to approximately EUR80,616,000) and HK$703,547,000 (equivalent to approximately EUR77,066,000) ("UEP Alpha and UEP Beta Acquisition") respectively. UEP Alpha and UEP Beta are engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan. The UEP Alpha and UEP Beta Acquisition was completed on 28 June 2018. Details of the UEP Alpha and UEP Beta Acquisition were set out in the Company's announcements dated 28 February 2018 and 28 June 2018.

The AROL Acquisition and the UEP Alpha and UEP Beta Acquisition are collectively referred as the "Acquisitions".

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

(b) Acquisition of subsidiaries for the year ended 31 December 2018 (Continued)

The directors of the Company considered the Acquisitions are extension and enlargement of the Group's upstream oil and gas business in Pakistan. The amounts disclosed in the interim report were provisional due to the proximity of the acquisition to the Group's half-year end. The necessary oil and gas reserve valuations and other calculations for the net assets acquired and liabilities assumed had not been finalized at that time and therefore have been provisionally determined based on the latest information available to the management. The fair value of the identifiable assets and liabilities of AROL, UEP Alpha and UEP Beta acquired as at the respective dates of acquisition has been adjusted within the 12-month measurement period as permitted by HKFRS 3 Business Combinations as follows:

	AROL HK$'000	UEP Alpha and UEP Beta HK$'000	Total HK$'000
Net assets acquired:			
Property, plant and equipment	296,984	1,314,472	1,611,456
Intangible assets	123,240	228,540	351,780
Advances, deposits and prepayments	–	19,399	19,399
Deferred tax assets	35,800	–	35,800
Inventories	–	41,668	41,668
Trade and other receivables	96,854	304,461	401,315
Current tax assets	–	27,104	27,104
Employee retirement benefits assets	–	2,149	2,149
Bank and cash balances	16,946	109,093	126,039
Provisions	(8,468)	(52,909)	(61,377)
Trade and other payables	(82,654)	(288,019)	(370,673)
Deferred tax liabilities	–	(237,350)	(237,350)
	478,702	1,468,608	1,947,310
Goodwill	38,003	–	38,003
Gain on bargain purchase	–	(29,111)	(29,111)
	516,705	1,439,497	1,956,202
Satisfied by:			
Cash	59,575	1,439,497	1,499,072
Loan and interest receivables	457,130	–	457,130
	516,705	1,439,497	1,956,202
Net cash outflow arising on acquisition:			
Cash consideration paid	59,575	1,439,497	1,499,072
Cash and cash equivalents acquired	(16,946)	(109,093)	(126,039)
	42,629	1,330,404	1,373,033

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

(b) Acquisition of subsidiaries for the year ended 31 December 2018 (Continued)

The fair values of the identifiable assets and liabilities acquired at the acquisition date had been assessed by BMI Appraisals Limited.

The aggregate fair values of trade and other receivables at the date of acquisition amounted to approximately HK$401,315,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$401,315,000 at the date of acquisition, of which no balance is expected to be uncollectible.

The goodwill recognised on the Acquisitions is attributable mainly to the synergies expected to be achieved from integrating AROL, UEP Alpha and UEP Beta into the Group's existing exploration and production of crude oil and natural gas business.

The revenue and net loss that the Acquisitions contributed to the Group during the period between the date of acquisition and 31 December 2018 are approximately HK$257,371,000 and HK$40,806,000 respectively. If the acquisition had occurred on 1 January 2018, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2018 would have been approximately HK$5,534,508,000 and HK$1,596,372,000 respectively. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition have occurred on 1 January 2018.

The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is intended to be a projection of future results.

Acquisition related costs of approximately HK$92,085,000 have been charged to administrative expenses in the consolidated financial statements for the year ended 31 December 2018.

The Group recognised a gain on bargain purchase of approximately HK$29,111,000 in the business combination. The gain is included in other gains and losses. The business combination results in a gain on bargain purchase because of discount obtained from the bundling sales of UEP Alpha and UEP Beta by vendors.

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

(c) Disposal of a subsidiary

As referred to note 16 to the consolidated financial statements, on 15 March 2018, the Group discontinued its oilfield support services business at the time of the disposal of its subsidiary, Universe Energy.

Net assets at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	13,265
Advances, deposits and prepayments	715
Inventories	1,737
Trade and other receivables	18,461
Current tax assets	86
Pledged bank deposits	707
Bank and cash balances	26,385
Trade and other payables	(7,529)
Net assets disposed of:	53,827
Release of foreign currency translation reserve	(21,109)
Non-controlling interests derecognised	(24,697)
Gain on disposal of a subsidiary (note 16)	36,818
Total consideration – satisfied by cash	44,839
Net cash inflow arising on disposal:	
Cash consideration received	44,839
Cash and cash equivalents disposed of	(26,385)
	18,454

(d) Major non-cash transaction

During the year, crude oil prepayment facilities amounted to approximately HK$1,298,700,000 (2018: HK$Nil) were settled by the delivery of the Group's crude oil entitlement.

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

(e) 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.

	Trade and other payables – Advance from customers HK$'000 (note 28(b))	Borrowings HK$'000 (note 30)	Lease liabilities HK$'000 (note 31)	Total HK$'000
As at 1 January 2018	–	–	–	–
Changes from financing cash flows:				
Borrowings raised, net of direct transaction cost	–	757,380	–	757,380
Repayment of borrowings	–	(121,680)	–	(121,680)
	–	635,700	–	635,700
Non-cash transaction:				
Imputed interest expenses	–	6,036	–	6,036
As at 31 December 2018	–	641,736	–	641,736

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

(e) Reconciliation of liabilities arising from financing activities (Continued)

	Trade and other payables – Advance from customers HK$'000 (note 28(b))	Borrowings HK$'000 (note 30)	Lease liabilities HK$'000 (note 31)	Total HK$'000
As at 31 December 2018	–	641,736	–	641,736
Impact on initial application of HKFRS 16 (note 3)	–	–	10,778	10,778
Restated balance at 1 January 2019	–	641,736	10,778	652,514
Changes from operating cash flows:				
Interest on lease liabilities	–	–	(3,521)	(3,521)
Changes from investing cash flows:				
Acquisition of subsidiaries	779,993	1,941,117	13,511	2,734,621
Changes from financing cash flows:				
Principal elements of lease payments	–	–	(16,372)	(16,372)
Borrowings raised, net of direct transaction cost	–	6,439,378	–	6,439,378
Repayment of borrowings	–	(4,379,700)	–	(4,379,700)
Proceeds from advance from customers	2,145,000	–	–	2,145,000
Repayment of advance from customers	(491,393)	–	–	(491,393)
	1,653,607	2,059,678	(16,372)	3,696,913
Non-cash transaction:				
Additions to lease liabilities	–	–	124,478	124,478
Imputed interest expenses	–	53,255	3,521	56,776
Settlement by the Group's crude oil entitlement (note 40(d))	(1,298,700)	–	–	(1,298,700)
Exchange differences	–	–	(1,349)	(1,349)
	(1,298,700)	53,255	126,650	(1,118,795)
As at 31 December 2019	1,134,900	4,695,786	131,046	5,961,732

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

(f) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for lease comprise the following:

	2019 HK$'000	2018 HK$'000
Within operating cash flows	3,521	–
Within financing cash flows	16,372	–
	19,893	–

The amounts relate to the following:

	2019 HK$'000	2018 HK$'000
Lease rental paid	19,893	–

41. 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
東方集團有限公司(前稱:東方集團投資控股有限公司) (Orient Group Company Limited ("OGCL")) # (Formerly known as Orient Group Investment Holding Limited) #	Mr. Zhang Hong Wei has significant influence over OGCL
北京大成飯店有限公司 (Beijing Dacheng Hotels Limited ("BDHL")) #	BDHL is a subsidiary of Orient Group

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

(b) As referred to note 22 to the consolidated financial statements, the Group acquired 48% interest in OGBIH during the year ended 31 December 2018. The equity interest was acquired at a consideration of approximately HK$374,400,000 from OGCL. In the opinion of the Company's directors, the transaction was carried out in the ordinary course of the business and constituted connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section "connected transactions" of the Report of the Directors.

41. Related Party Transactions (Continued)

(c) At the end of the reporting period, OGCL and Orient Group Industrial has provided corporate guarantees to the bank for banking facilities granted to the associate of the Group, OGBIH. OGCL also entered into an entrusted guarantee agreement with OGBIH for the corporate guarantee services provided by OGCL. Under the entrusted guarantee agreement, 2% service fee was charged at outstanding bank loan. During the year, OGCL had waived such service charge of approximately HK$12,224,000 to OGBIH (2018: service charge of approximately HK$14,065,000).

(d) The executive directors of the Company, Mr. Zhang Hong Wei and Ms. Zhang Meiying have provided personal guarantees to the bank loans made to the Group totaling approximately HK$4,237,949,000 (2018: HK$Nil).

(e) At 31 December 2019, the Group has provided an unlimited corporate guarantee in favour of its associate against the bank loans of approximately HK$537,805,000 (2018: HK$Nil) made to the associate of the Group.

(f) For the year ended 31 December 2019, leases payments of approximately HK$7,237,000 (2018: HK$Nil) for leasing an office premises of the Group were paid to BDHL.

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

42. Contingent Liabilities

(a) For the years ended 31 December 2019 and 2018, 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) For the years ended 31 December 2019 and 2018, 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$3,673,000 (2018: HK$3,657,000).

(c) Certain subsidiaries of the Group had dispute with the Pakistan government on the applicability of windfall levy on its production of oil and condensate. 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 legal advice from external lawyers, 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$191,969,000 (2018: HK$191,969,000) would be required to be made in the financial statements for the year ended 31 December 2019.

(d) As at 31 December 2019, certain subsidiaries of the Group received various tax orders in an attempt to re-assess tax liability for prior years by the Pakistan tax department. The subsidiaries of the Group are currently appealing against these orders and the cumulative potential tax exposure for the pending tax cases was approximately HK$438,054,000 (2018: HK$398,732,000).

42. Contingent Liabilities (Continued)

(e) At the end of the reporting period, bank guarantees to the extent of approximately HK$10,852,000 (equivalent to US$1,391,000) (2018: HK$9,750,000 (equivalent to US$1,250,000)) in favour of the President of the Islamic Republic of Pakistan was obtained by UEP Beta to guarantee its performance and financial obligations as stipulated in the concession agreements.

43. Capital Commitments

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

(a)

	2019 **HK$'000**	2018 HK$'000
Contracted but not provided for:		
Acquisition of property, plant and equipment	**874**	6,287
Commitments for capital expenditure	**432,246**	404,842
Acquisition of a subsidiary (note 40(a))	**–**	4,959,686
	433,120	5,370,815

(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$111,740,000 (equivalent to approximately RMB100,000,000) (2018: HK$113,850,000 (equivalent to approximately RMB100,000,000)). At 31 December 2019, the Group has contributed approximately HK$13,684,000 (equivalent to approximately RMB12,246,000) (2018: HK$13,942,000 (equivalent to approximately RMB12,246,000)) to UEBL. In accordance with the memorandum of association of UEBL, the remaining balance of approximately HK$98,056,000 (equivalent to approximately RMB87,754,000) (2018: HK$99,908,000 (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, OGCL 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$111,740,000 (equivalent to approximately RMB100,000,000) (2018: HK$113,850,000 (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$22,348,000 (equivalent to approximately RMB20,000,000) (2018: HK$22,770,000 (equivalent to approximately RMB20,000,000)) as 20% registered share capital of 東方藝術品. At 31 December 2019, 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.

44. Operating Lease Arrangements

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$'000
Within one year	8,940
In the second to fifth years inclusive	8,376
	17,316

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 2.7 years and rentals are fixed over the lease terms and do not include contingent rentals.

The Group regularly entered into short-term leases for vessel mooring, staff quarters and motor vehicles. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 20.

45. Retirement Benefits Scheme

(a) Defined Contribution Plans

The Group participates in various retirement benefits scheme which are defined contribution plans established by the relevant authorities in their respective countries where the Group operates.

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 2019 amounted to approximately HK$241,000 (2018: HK$231,000).

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 2019 amounted to approximately HK$10,203,000 (2018: HK$10,116,000).

45. Retirement Benefits Scheme (Continued)

(a) Defined Contribution Plans (Continued)

Pakistan

(i) 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 2019 amounted to approximately HK$18,830,000 (2018: HK$13,441,000).

(ii) 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 2019 amounted to approximately HK$10,110,000 (2018: HK$8,807,000).

(b) Defined Benefit Plans

In additions, the Group operates several defined benefit retirement plans for its eligible employees who complete the qualifying period of service in Pakistan, Iraq, Egypt and Middle East. Such plans are administered by independent trustees with the assets, if any, held separately from those of the Group.

Pakistan

The Group operates a funded defined benefit retirement plan in Pakistan. Plan assets held in trust are governed by regulations and practice in Pakistan. Responsibility for governance of the plan – including investment decisions and contribution schedules – lies jointly with the Group and the board of trustees. The board of trustees must be composed of representatives of the Group in accordance with the trust deed's regulations.

Iraq

The Group has an unfunded post-employment defined benefit obligation towards its qualifying employees in Iraq which is an End-of-Service Benefit governed by local Labour Law. The entitlement to these benefits is conditional upon the tenure of employee service, completion of a minimum service year, salary drawn etc.

Egypt

The Group offers all its full-time employees in Egypt with an End-of-Service Benefit Program. The End-of-Service Benefit Program is an unfunded non-contributing indemnity program that provides for a lump-sum payment upon the termination or retirement of employment. The amount of such lump-sum End-of-Service Benefit payment is based on the length of service and staff salary as at the last working date.

45. Retirement Benefits Scheme (Continued)

(b) Defined Benefit Plans (Continued)

Other subsidiaries in Middle East

The Group operates an unfunded End-of-Service Benefit to their employees of certain subsidiaries of the Company located in Middle East in accordance with the production sharing agreement ("PSA") and the relevant labour law in their respective jurisdictions. The benefits shall be paid upon termination/retirement of employment or termination of the PSA. The liabilities of the End-of-Service Benefit payment is determined equal to the length of year of service times gross staff salary as at the last working date.

The annual provisions for the above plans are made on the basis of an actuarial valuation carried out using the Projected United Credit Method. The level of benefits provided depends on members' length of services and their salary in the final year leading up to retirement. The actuarial valuations of the plans were prepared by the qualified actuaries, 4Sight Advisory Solutions FZ-LLC and Akhtar & Hasan (Pvt) Ltd.

The amount of retirement benefits obligations recognised in the consolidated statement of financial position is as follows:

	2019 **HK$'000**	2018 HK$'000
Fair value of plan assets	**42,342**	40,278
Present value of defined benefits obligations	**(33,930)**	(37,452)
Present value of unfunded obligations	**(34,112)**	–
	(25,700)	2,826

The following is the analysis of the retirement benefits assets and retirement benefits obligations recognised in the consolidated statement of financial position:

	2019 **HK$'000**	2018 HK$'000
Employee retirement benefits assets	**8,412**	2,826
Employee retirement benefits obligations	**(34,112)**	–
	(25,700)	2,826

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

45. Retirement Benefits Scheme (Continued)

(b) Defined Benefit Plans (Continued)

Movements in the Group's retirement benefits obligations during the year are as follows:

	Fair value of plan assets HK$'000	Present value of defined benefits obligations HK$'000	Present of unfunded obligations HK$'000	Total HK$'000
At 1 January 2019	40,278	(37,452)	–	2,826
Acquisition of subsidiaries	–	–	(49,166)	(49,166)
Amounts recognised in profit or loss:				
Current service cost	–	(3,429)	(10,871)	(14,300)
Interest income/(expense)	5,060	(4,865)	(17)	178
Remeasurements recognised in other comprehensive income:				
Gain on plan assets	21	–	–	21
Actuarial gains arising from experience adjustments	–	5,664	15,569	21,233
Contributions to the plan by employer	3,420	–	–	3,420
Payments from the plan	(2,128)	2,128	13,396	13,396
Net change in outstanding payments to members at the end of the year	7,023	–	–	7,023
Exchange differences	(11,332)	4,024	(3,023)	(10,331)
At 31 December 2019	42,342	(33,930)	(34,112)	(25,700)

45. Retirement Benefits Scheme (Continued)

(b) Defined Benefit Plans (Continued)

	Fair value of plan assets HK$'000	Present value of defined benefits obligations HK$'000	Total HK$'000
At 1 January 2018	–	–	–
Acquisition of subsidiaries	56,183	(54,034)	2,149
Amounts recognised in profit or loss:			
Current service cost	–	(2,195)	(2,195)
Interest income/(expense)	1,996	(1,934)	62
Remeasurements recognised in other comprehensive income:			
Loss on plan assets	(278)	–	(278)
Actuarial losses arising from changes in financial assumptions	–	(421)	(421)
Actuarial gains arising from experience adjustments	–	1,927	1,927
Contributions to the plan by employer	2,254	–	2,254
Payments from the plan	(3,871)	3,871	–
Net change in outstanding payments to members at the end of the year	(4,625)	4,551	(74)
Exchange differences	(11,381)	10,783	(598)
At 31 December 2018	40,278	(37,452)	2,826

The maximum economic benefit available from the net defined benefits assets is determined based on reductions in future contributions.

The fair value of the plan assets at the end of the reporting period divided into classes is as follows:

	2019 HK$'000	2018 HK$'000
Cash and cash equivalents	**39,791**	1,046
Term deposits	**2,551**	39,232
	42,342	40,278

45. Retirement Benefits Scheme (Continued)

(b) Defined Benefit Plans (Continued)

The principal actuarial assumptions adopted by the Group as at 31 December 2019 (expressed as weighted average) are as follows:

	2019	2018
Discount rate	3.00% – 17.00%	13.25%
Salary growth rate	5.00% – 10.00%	13.25%
Mortality rates (note i)	SLIC (2001-05)-1	SLIC (2001-05)-1

Note i: Assumptions regarding mortality rates are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into average mortality rates for employees with different ages assuming they will retire at age 60.

Age:	2019 Death rate	2018 Death rate
20	0.094%	0.094%
30	0.119%	0.119%
40	0.208%	0.208%
50	0.538%	0.538%
59	1.354%	1.354%

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Risk	Description
Mortality risks	The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service or age distribution and the benefit.
Investment risks	The risk of the investment underperforming and not being sufficient to meet the liabilities.
Final salary risks	The risk that the final salary at the time of cessation of service is higher than what is assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.
Withdrawal risks	The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service or age distribution and the benefit.

45. Retirement Benefits Scheme (Continued)

(b) Defined Benefit Plans (Continued)

The Group's sensitivity analysis for each significant actuarial assumption as of the end of the reporting period based on reasonably possible changes of the relevant actuarial assumption is as follows:

	Increase/decrease in rate	Impact on defined benefit obligations 2019 HK$'000	2018 HK$'000
Discount rate	1%	**(3,213)/3,606**	(2,737)/3,092
Salary growth rate	1%	**4,551/(4,272)**	3,153/(2,836)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The Group finances the funding requirements of the pension plan by internal resources and does not have any funding arrangements and funding policy that will affect future contributions.

There is an implicit objective that the contribution to the fund asset should remain reasonably stable as a percentage of salaries.

The expected contributions to the pension plan for the year ending 31 December 2020 is approximately HK$16,622,000 (for the year ending 31 December 2019: HK$3,477,000).

The weighted average duration of the Group's defined benefit obligations is approximately 7.34 years (2018: 7.75 years). The maturity analysis of the Group's undiscounted benefit payments is as follows:

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2019					
Pension payments	**3,589**	**3,710**	**15,723**	**29,486**	**52,508**
At 31 December 2018					
Pension payments	8,446	4,864	18,059	26,792	58,161

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

46. Subsidiaries

Particulars of the principal subsidiaries as at 31 December 2019 are as follows:

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Fine Profit Corporation Limited	Hong Kong	HK$10,000	100%	100%	–	Provision of administrative services
United Energy Group (Hong Kong) Limited	Hong Kong	HK$100	100%	100%	–	Investment holding and provision of group financing supporting services
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
Vision Peak Investments Limited	British Virgin Islands	US$10	100%	100%	–	Investment holding
Asia Resources Oil Limited	British Virgin Islands	US$6,340,744	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
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
UEP Beta GmbH	Austria	US$50,000	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan

46. Subsidiaries (Continued)

Particulars of the principal subsidiaries as at 31 December 2019 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 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
UEP Alpha Limited	Mauritius	US$332,517,327	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
United Energy Upstream DMCC	United Arab Emirates	AED50,000	100%	–	100%	Investment holding and provision of administrative services
United Energy Trading DMCC	United Arab Emirates	AED50,000	100%	–	100%	Provision of administrative services
Kuwait Energy Public Limited Company	Jersey	Great British Pound 324,189,606	100%	–	100%	Investment holding
KEC (Egypt) Limited	British Virgin Islands	US$1	100%	–	100%	Engaged in activities relating to the development and production of crude oil and natural gas in Egypt

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

46. Subsidiaries (Continued)

Particulars of the principal subsidiaries as at 31 December 2019 are as follows: (Continued)

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Kuwait Energy Egypt Limited	British Virgin Islands	US$1,000	100%	–	100%	Engaged in activities relating to the exploration, development and production of crude oil and natural gas in Egypt
Kuwait Energy (Eastern Desert) Petroleum Service SAE	Egypt	EGP1,000,000	100%	–	100%	Engaged in activities relating to the exploration, development and production of crude oil and natural gas in Egypt
Kuwait Energy Basra Limited	British Virgin Islands	US$1,000	100%	–	100%	Engaged in activities relating to the exploration, development and production of crude oil and natural gas in Iraq
Kuwait Energy Iraq Limited	British Virgin Islands	US$1,000	100%	–	100%	Engaged in activities relating to the exploration, development and production of crude oil and natural gas in Iraq

The above table lists out the subsidiaries of the Company as at 31 December 2019, which in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particular of excessive length.

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.

47. Joint Operations

As at 31 December 2019, the particulars of the principal 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/ revenue interest held by the Group		Principal activities
		2019	2018	
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 of crude oil and natural gas
Mirpur Khas	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%	
Digri	Pakistan	**75%**	75%	Exploration and production of crude oil and natural gas
Kotri North	Pakistan	**60%**	60%	Exploration and production of crude oil and natural gas
Gambat South	Pakistan	**10%**	10%	Exploration and production of crude oil and natural gas
Mubarak	Pakistan			Exploration and production of crude oil and natural gas
– exploration		**57%**	57%	
– development and production		**45%**	45%	
Mehar	Pakistan			Exploration and production of crude oil and natural gas
– exploration		**75%**	75%	
– development and production		**59.2%**	59.2%	
Miano	Pakistan	**17.7%**	17.7%	Exploration and production of crude oil and natural gas

47. Joint Operations (Continued)

As at 31 December 2019, the particulars of the principal joint arrangements of the Group, all of which are not structured through separate vehicles, are set out as follows: (Continued)

Concession/project name	Place of business	Proportion of participating/ revenue interest held by the Group		Principal activities
		2019	2018	
Sawan	Pakistan	**19.7%**	19.7%	Exploration and production of crude oil and natural gas
Gambat	Pakistan			Exploration and production of crude oil and natural gas
– exploration		**36.8%**	36.8%	
– development and production		**27.6%**	27.6%	
Latif				
– exploration and development	Pakistan	**33.4%**	33.4%	Exploration and production of crude oil and natural gas
South West Miano II	Pakistan	**33.4%**	33.4%	Exploration of crude oil and natural gas
Kuhan				
– exploration	Pakistan	**47.5%**	47.5%	Exploration of crude oil and natural gas
Barkhan				
– exploration	Pakistan	**15%**	15%	Exploration of crude oil and natural gas
Siba	Iraq	**30%**	–	Exploration and production of crude oil and natural gas
Block 9	Iraq	**60%**	–	Exploration and production of crude oil
Area A	Egypt	**70%**	–	Exploration and production of crude oil
Abu Sennan	Egypt	**25%**	–	Exploration and production of crude oil and natural gas
East Ras Qattara	Egypt	**49.5%**	–	Exploration and production of crude oil

48. Event After the Reporting Period

(a) On 10 February 2020, the Group signed a facility agreement with a financial institution for a term loan facility of approximately HK$741,000,000 (equivalent to approximately US$95,000,000). The proceeds from this facility will be used for the Group's general working capital purpose. The facility has been fully drawn down by the Group.

(b) After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.

(c) Subsequent to the reporting period, the escalating tension between Saudi Arabia and Russia which drove a sharp plunge in international oil price down to four-year low in March 2020 ("Oil Price War"). The Group is paying close attention to the development of, and the disruption to business and economic activities caused by the Oil Price War and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the unpredictable outcome of the Oil Price War, it is not practicable to provide a reasonable estimate of its impact on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**7,103,644**	5,279,204	4,420,508	4,061,024	5,231,023
Profit before tax	**2,258,071**	2,282,856	1,757,980	1,201,575	641,704
Income tax expenses	**(352,124)**	(680,145)	(440,420)	(176,662)	(117,429)
Profit for the year from continuing operations	**1,905,947**	1,602,711	1,317,560	1,024,913	524,275
Profit/(loss) for the year from discontinued operations	**–**	34,621	(1,743)	(64,560)	(3,474,895)
Attributable to:					
Owner of the Company	**1,905,957**	1,637,991	1,316,340	965,008	(2,943,674)
Non-controlling interests	**(10)**	(659)	(523)	(4,655)	(6,946)
	1,905,947	1,637,332	1,315,817	960,353	(2,950,620)

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**25,743,105**	16,147,438	13,275,537	15,496,639	13,713,810
Total liabilities	**(13,689,016)**	(4,884,294)	(2,598,518)	(5,073,095)	(6,872,201)
Net assets	**12,054,089**	11,263,144	10,677,019	10,423,544	6,841,609
Equity attributable to owners of the Company	**12,036,507**	11,263,144	10,652,469	10,400,217	6,811,894
Non-controlling interests	**17,582**	–	24,550	23,327	29,715
Total equity	**12,054,089**	11,263,144	10,677,019	10,423,544	6,841,609

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