联合能源

年 報
Annual Report
2018

聯合能源集團有限公司

UNITED ENERGY GROUP LIMITED

(於開曼群島註冊成立及於百慕達存續之有限公司)

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(股份代號 Stock Code : 0467)

CONTENTS

CORPORATE INFORMATION

Directors

Executive Directors
Zhang Hong Wei *(Chairman)*
Zhang Meiying

Independent Non-Executive Directors
Chau Siu Wai
San Fung
Wang Ying

Company Secretary
Hung Lap Kay

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Standard Chartered Bank
China Minsheng Banking Corp., Ltd.,
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Sidney Austin
Simmons & Simmons
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KEY FINANCIAL AND OPERATION SUMMARY

Financial Summary

	2018 HK$'000	2017 HK$'000 (Restated)	Change
Results			
Turnover	**5,279,204**	4,420,508	+19.4%
Gross Profit	**2,957,209**	2,652,164	+11.5%
EBITDA(Note 1)	**4,092,854**	3,428,387	+19.4%
Profit for the year	**1,637,332**	1,315,817	+24.4%
Profit for the year attributable to owners of the Company	**1,637,991**	1,316,340	+24.4%
Basic earnings per share from continuing and discontinued operations (HK cents)	**6.23**	5.02	+24.1%
Key items in Consolidated Statement of Financial Position			
Equity attributable to owners of the Company	**11,263,144**	10,652,469	+5.7%
Total assets	**16,147,438**	13,275,537	+21.6%
Net assets	**11,263,144**	10,677,019	+5.5%

Operation Summary

Pakistan Assets	2018	2017	Change
Operation			
Average Daily Net Production (boed)	**66,453**	62,327	+6.6%
Oil & Liquids Ratio(Note 2)	**15.8%**	11.7%	+4.1%
Reserve			
Net 1P Reserve at the year end (mmboe)	**95.3**	96.4	–1.1%
Net 1P Reserve Replacement Ratio	**95%**	104%	–9.0%
Exploration & Development Activity			
Rig Workovers	**8**	11	–27.3%
Exploration wells	**22**	13	+69.2%
Development wells	**14**	14	–

Notes:

1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and 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 and profit/loss for the year from discontinued operations.

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

2018 was an evolutionary year for United Energy Group Limited ("United Energy" or the "Company", and together with its subsidiaries collectively the "Group"). In the backdrop of US Federal Reserve raising interest rate and Sino-US trade war, the global market has declined significantly in the middle of year as a turning point. On the commodity front, Brent price soared in first third quarter, but plunged in October in fear of oversupply and weakened demand. Benefited from increase in oil price for the year, and completion of several acquisitions in Pakistan, the Group delivered desirable net profit as compared to 2017. In September 2018, the Group entered into a transaction agreement to acquire all issued shares of Kuwait Energy Public Limited Company ("KEC"). The transaction will effectively enrich portfolio of the Group, and lay a solid foundation for sustainable development.

OUR 2018 PERFORMANCE

The Group reported net profit attributable to owners of the Company for the year ended 31 December 2018 (the "reporting period") of approximately HK$1,637,991,000, increased by 24.4% compared to the net profit of approximately HK$1,316,340,000 for the year ended 31 December 2017 ("last year"). The increase in net profit was mainly due to higher turnover resulting from improved sales volume and sales prices. In terms of production, the Pakistan Assets reported 6.6% increase from last year as the acquisition of Asia Resources Oil Limited ("AROL") completed on 17 April 2018 (the "AROL Acquisition") and the acquisition of UEP Alpha Limited (formerly known as OMV Maurice Energy Limited) ("UEP Alpha") and UEP Beta GmbH (formerly known as OMV (Pakistan) Exploration Gesellschaft m.b.H.) ("UEP Beta") completed on 28 June 2018 (together referred as "UEP A&B Acquisitions"). The average daily net production in Pakistan Assets for the reporting period was approximately 66,453 barrels of oil equivalent ("boe") per day ("boed") compared to approximately 62,327 boed of last year.

On the exploration front, we have drilled a total of 36 wells in Pakistan, including 22 exploration and appraisal wells and made 14 commercial discoveries in the Badin and MKK blocks. These success combined with the acquisitions during the reporting period added in a net 1P reserve of approximately 23.2 million barrels of oil equivalent ("mmboe") for the reporting period, representing a net proved reserve replacement ratio of approximately 95%. While continuing to search for structural reservoirs, the Group has also deployed and invested in the exploration of lithologic traps (as well as structural and lithologic composite traps). In addition, the Group is actively exploring the exploration and development potential of shale oil and gas in Pakistan, to improve resource replacement of the Group. For the newly accessed Kotri North block, a well deployed in the fourth quarter of 2018 has shown encouraging result.

Through the accumulation of the past few years, the Group has achieved fruitful results in mergers and acquisitions in 2018, mainly including signing and completion of several transactions. The abovementioned transactions will contribute to the sustainable growth of future performance of the Group. On 17 April 2018, the Group completed the acquisition of the entire issued shares of AROL; on 28 June 2018, the Group completed the acquisitions of UEP Alpha and UEP Beta. The AROL Acquisition and UEP A&B Acquisitions are an extension and expansion of the Group's upstream business in Pakistan and they have enabled the Group to have a sizeable footprint in the country's exploration and production sector.

On 23 September 2018, the Group entered into a transaction agreement to acquire all the issued shares of KEC through the way of scheme of arrangement. KEC is principally engaged in exploration, appraisal, development and production activities in various concession blocks in the Middle East and North Africa. The Group has issued a transaction circular on 27 December 2018. The transaction will effectively enrich portfolio of the Group, and lay a solid foundation for sustainable development of the Group.

On 4 June 2018, we signed a preliminary development and production contract ("DPC") with Basra Oil Company of the Iraqi Ministry of Oil ("BOC") to conduct development and production operations on the Sindbad block located in Basra Province in Iraq. The DPC has a term of 20 years and require us 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. We expect to sign the formal DPC in 2019.

After decade of investment and operations have seen the Group evolve into an energy company with a credible reputation in the upstream oil and gas sector. As a business, the Group intends to maintain a flexible dividend policy where shareholders shall be rewarded upon there being funds available for distribution, after priority is to be given to the development of the business and the Company. As the current funding on hand is retained for the acquisition of KEC, no final dividend is proposed for the year ended 2018.

The Group maintained prudent financial management policies. Considering signing and completion of several merger and acquisition transactions during the reporting period, the Group moderately used financial leverage to improve fund efficiency, mainly including financing facility of up to USD100,000,000 with Standard Chartered Bank, and other financing agreements that have not yet been utilised. The Group will monitor and control its total debt amount strictly, paying close attention to interest expenses and cautiously avoid excessive financial burden.

OUTLOOK

In 2019, the volatility of the global stock market continues to intensify and major markets experience a turning point. At present, the OPEC/non-OPEC countries hoped to pull up oil price by reduced production. Brent crude oil maintained its rebound momentum at the beginning of 2019. Overall, given the excess on the supply side and the uncertainties at the demand side, we expect oil prices to stabilise at current level, with a limited upside potential.

For our 2019 plan, the Group's target average daily net production level of 72,000 to 78,000 boed and a net 1P reserve replacement ratio of 75%. Capital expenditure will be approximately US$300 million which is essentially to support our exploration plan in Pakistan and KEC. As the exploration and development of the Pakistan block is highly mature, the remaining traps are getting smaller and more challenging to develop, exploration and development activities require more capital intensive efforts. In order to enrich future resource replacement, the Group will continue to explore the exploration and development potential of shale oil and gas in Pakistan in 2019.

The Group's exploration strategy remains focused on proven plays within the existing blocks, as well as steady plays in new blocks, in hope of substantial breakthroughs. Based on the work of 2018, we will continue in-depth research in MKK, Badin and the concessions of UEP A&B, in search of "small but fat" oil and gas reservoirs. For Kotri North and western part of UEP A&B, we will accelerate re-processing of seismic data and comprehensive evaluation, to unlock the resource potential as early as possible. Currently 2 exploration wells have been planned for 2019.

In recent years, the Group has moderately utilised financial leverage, to carry out acquisition activities, which effectively enrich the portfolio of its assets. By applying prudent financial policies, the Group's capital structure will remain stable and manageable for the long term.

The Pakistan market will continue to be our core revenue driver in 2019 and the Group will be closely monitoring any expansion opportunities where we can develop significant synergies with our existing operation. Natural gas in Pakistan is undersupplied. Gas supply deficit is predicted to widen in the next few years due to lagging development of domestic natural gas. As a result, there is almost a guaranteed market for domestically produced natural gas and the revenue driver of the Group in the future. After completion of acquisition of KEC, Iraq and Egypt assets of KEC will be the new drivers of the Group in the near future.

Riding on the "Belt and Road" strategic development of the Chinese government, the Group has been targeting new oil and gas exploration and development projects in those countries covered by the "Belt and Road" policies, such as Pakistan, Kuwait, Egypt and Iraq, strive to accelerate business development and eye on new growth and in-depth regional cooperation opportunities. New acquisitions can also diverse geographical concentration risk of our assets and revenue base in order to achieve risk diversification.

In summary, the 2018 financial performance was generally in line with our expectations. For existing assets, the Group is committed to reducing cost and refined management, for new projects, the Group will actively work on completions, optimise management and improve return on investment. I hereby express gratitude to my colleagues, who have been working hard and making contributions of the Group. For the year ahead, we will continue to endeavors, to achieve our goals and bring better returns for our shareholders while also creating a stronger profile for the Company on the international arena.

Zhang Hong Wei
Chairman
29 March 2019


ESV 8102

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

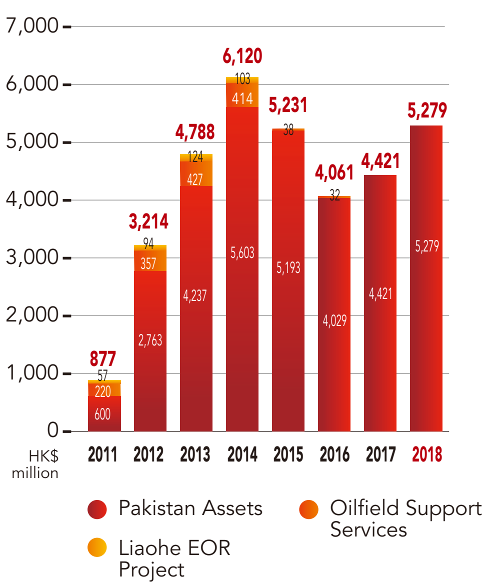
Financial Review

The Group reported a continuous substantial growth in earnings for the year ended 31 December 2018 (the "reporting period"). The profit attributable to the owners of the Company for the reporting period was approximately HK$1,637,991,000 (31 December 2017: approximately HK$1,316,340,000), representing an increase of 24.4% from the year ended 31 December 2017 (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 Asia Resources Oil Limited ("AROL") on 17 April 2018 (the "AROL Acquisition"); and completed the acquisition of UEP Alpha Limited (formerly known as OMV Maurice Energy Limited) ("UEP Alpha") and UEP Beta GmbH (formerly known as OMV (Pakistan) Exploration Gesellschaft m.b.H.) ("UEP Beta") on 28 June 2018 (together referred as "UEP A&B Acquisitions"). In terms of production, the average daily net production in Pakistan Assets reported an increase of 6.6% over the last year as a result of the AROL Acquisition and UEP A&B Acquisitions during the year. The average daily net production in Pakistan Assets for the reporting period was approximately 66,453 barrels of oil equivalent ("boe") per day ("boed") compared to approximately 62,327 boed of the last year. During the reporting period, the Group disposed its oilfield support services operation and therefore the financial statements of the corresponding period were restated to reflect the impact of the discontinued operations.

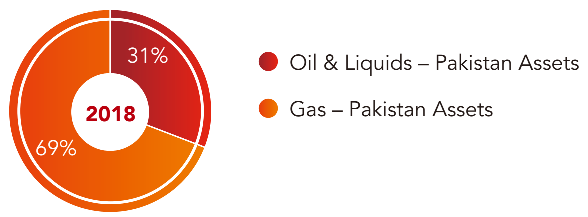
Turnover

The Group's turnover for the reporting period was approximately HK$5,279,204,000, representing an increase of 19.4% as compared with the turnover of approximately HK$4,420,508,000 (as restated) of last year. The increase in turnover was mainly attributable to a higher Composite Average Sales Price Before Government Take (being the total sales turnover generated from oil, condensate, natural gas and LPG, net of sales discount but before government royalties and windfall levy, and divided by the total volume) at US$31.9 per boe, increased by 11.5% compared to US$28.6 per boe in last year, together with the contribution in turnover from the AROL Acquisition and UEP A&B Acquisitions.

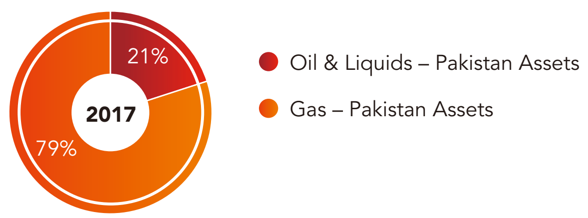
UEG 2018 FY – Turnover



Turnover Contribution by Product – 2018



Turnover Contribution by Product – 2017



Notes:

1. Turnover represents sales after government take.

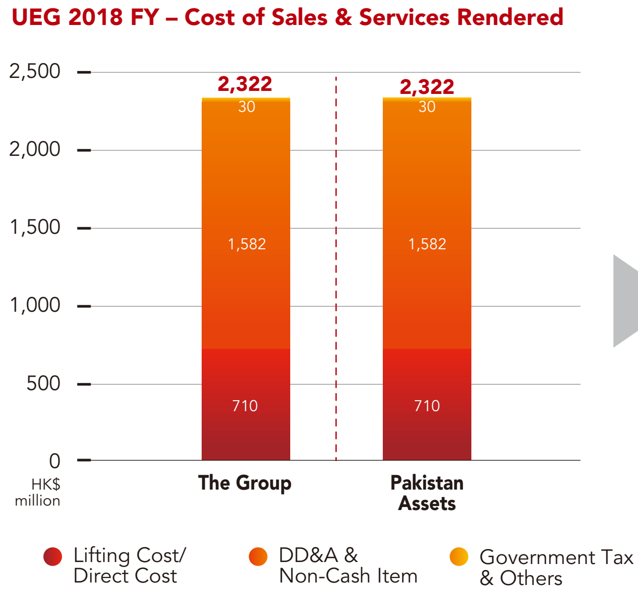
2. UEG's Pakistan operation in 2011 only covered the period from 16 September 2011 to 31 December 2011.

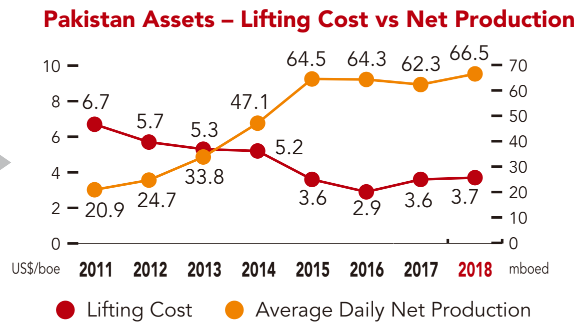
3. Liaohe EOR Project was classified as discontinued operation. The turnover in 2015 and 2016 did not include turnover from Liaohe EOR Project (2015: HK$187 million; 2016: HK$23 million).

4. Oilfield support services were divested on 15 March 2018. The turnover in 2017 and 2018 did not include turnover from Oilfield support services (2017: HK$21 million; 2018: Nil).

Cost of sales and services rendered

The Group's cost of sales and services rendered increased from approximately HK$1,768,344,000 (as restated) of last year to approximately HK$2,321,995,000 for this reporting period. The increase in cost of sales and services rendered was in line with the increase in production level and lifting costs. The cost of sales and services rendered included depreciation and amortisation of approximately HK$1,581,568,000 (31 December 2017: approximately HK$1,121,785,000 (as restated)). The lifting cost, which is defined as the cost of sales excluding depreciation & amortisation, government tax and distribution expenses, of Pakistan Assets was US$3.7 per boe (31 December 2017: US$3.6 per boe). The increase in lifting cost per boe was due to higher repairs and maintenance expenses and production bonus.





Notes:

1. Lifting Cost represent cost of sales & services rendered excluding depreciation and amortisation, sales expenses and government tax.
2. UEG's Pakistan operation in 2011 only covered the period from 16 September 2011 to 31 December 2011.
3. Oilfield support services were divested on 15 March 2018.

Gross profit

The Group's gross profit for the reporting period was approximately HK$2,957,209,000 (gross profit ratio of 56.0%) which represented an increase of 11.5% as compared with gross profit of approximately HK$2,652,164,000 (as restated) (gross profit ratio of 60.0% (as restated)) for the last year. The increase in gross profit was in line with the increase in selling prices and volume during the reporting period.

Exploration expenses

The Group's exploration expenses for the reporting period was approximately HK$103,068,000 (31 December 2017: approximately HK$366,813,000) which was incurred mainly for the performance of geological and geophysical studies and surface use rights in Pakistan Assets. The decrease in exploration expenses was mainly due to the written off loss arising from dry exploration wells in the Pakistan Assets amounted to approximately HK$78,114,000 (2017: approximately HK$242,188,000).

Administrative expenses

The Group's administrative expenses for the reporting period was approximately HK$459,768,000 (31 December 2017: approximately HK$304,983,000 (as restated)), representing 8.7% (31 December 2017: 6.9% (as restated)) of turnover. The increase in administrative expenses was contributed by the professional fee incurred for the acquisition projects during the year.

Finance costs

The Group's finance costs for the reporting period was approximately HK$54,337,000, representing a decrease of 54.3% as compared with the finance costs of approximately HK$118,930,000 for the last year. The decrease in finance costs was mainly due to lower average total borrowings for the reporting period as the Group settled the entire loan from China Development Bank Hong Kong Branch in second half of 2017. The weighted average interest rate of borrowings for the reporting period was 7.82% (31 December 2017: 5.63%).

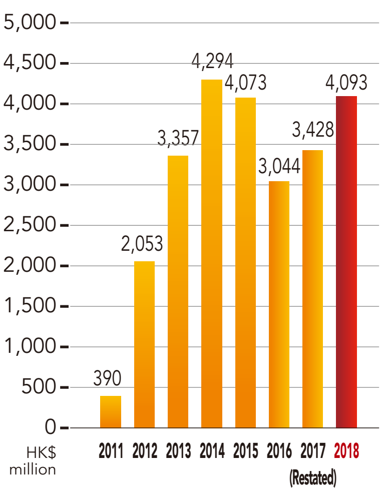
Income tax expense

The Group's income tax expense for the reporting period was approximately HK$680,145,000 (31 December 2017: approximately HK$440,420,000), increased by 54.4% mainly due to the increase in deferred tax expenses.

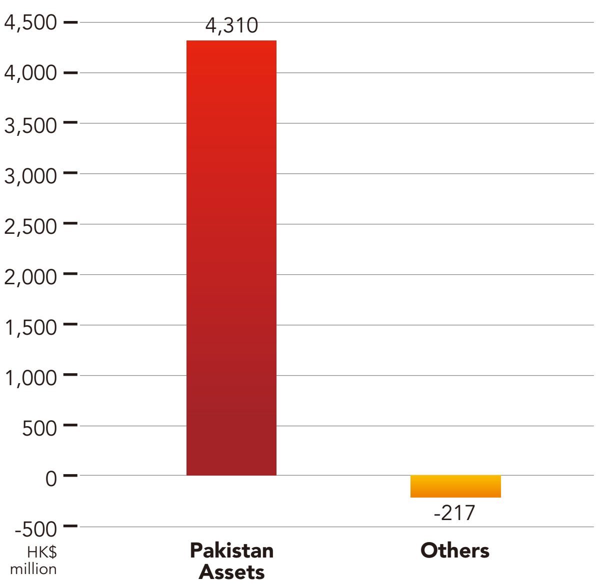
EBITDA

EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and property, plant and equipment written off, impairment losses on goodwill, share of profits/losses of associates, gain/loss on disposals of property, plant and equipment and profit/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$4,092,854,000, increased by 19.4% from the last year of approximately HK$3,428,387,000 (as restated). The increase in EBITDA was mainly attributable to the increase in turnover of oil and gas commodities as aligned with higher international oil prices and production volume.

UEG 2018 FY – EBITDA



UEG 2018 FY – EBITDA by Assets



Notes:

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

2. Others represent corporate and administrative expenses.

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

4. Oilfield support services were divested on 15 March 2018.

Dividend

No final dividend is proposed for the year ended 31 December 2018.

Business Review

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

Brent oil prices edged higher in 2018 amid OPEC and non-OPEC members extension of supply cut, and geopolitical factors. The average Brent oil price for the reporting period was approximately 31.0% higher than last year, according to data from the U.S. Energy Information Administration ("EIA"). Due to the growth in both oil price and production, the Group reported a net profit attributable to the owners of the Company of approximately HK$1,637,991,000, representing a robust increase of 24.4% compared to the corresponding period of last year of HK$1,316,340,000. The increase in net profit was contributed by higher selling prices of oil and gas commodities and lower finance costs as a result of significantly lower borrowings compared to last year. The Composite Average Sales Price Before Government Take was US$31.9 per boe, representing an increase of 11.5% from last year. In line with higher sales prices, the Group's EBITDA was approximately HK$4,092,854,000 for the reporting period, grew by approximately 19.4% from last year. The Group delivered an average daily net production of approximately 66,453 boed during the reporting period, increased by 6.6% from last year due to the AROL Acquisition and UEP A&B Acquisitions made during the year.

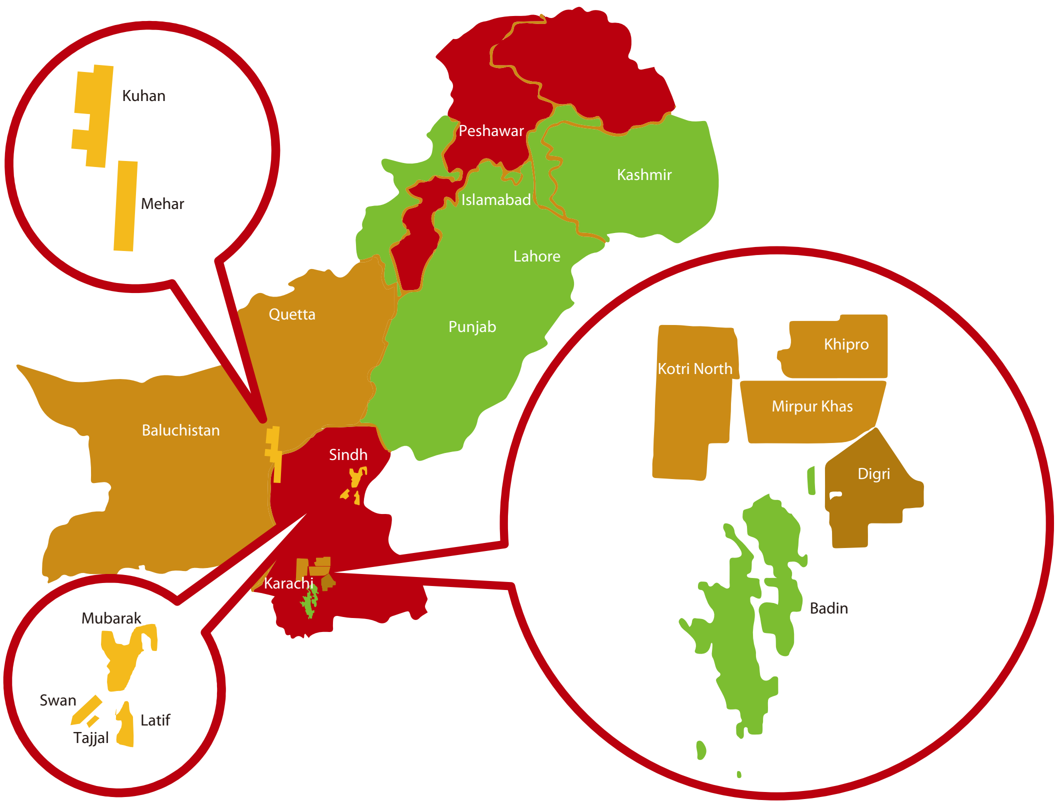
Cost of sales and services rendered by the Group for the reporting period was approximately HK$2,321,995,000 and the Group invested approximately HK$1,805,398,000 of capital expenditure in oil exploration, development and production activities for Pakistan Assets (including AROL, UEP Alpha and UEP Beta). The Group drilled 36 new wells in Pakistan Assets during the reporting period.

Pakistan Assets:

For the year ended 31 December 2018, the Pakistan Assets achieved an average daily net production of approximately 66,453 boed, increased by 6.6% compared to last year. The Pakistan Assets has an oil and liquids ratio of 15.8% which was slightly higher than last year as we successfully increased production from the mature Badin field through well workovers.

The Group has been a leading investor in the upstream oil and gas sector in Pakistan since 2012. Our aggressive investment in exploration has resulted in an accelerated production growth rate that is far outpacing our peers in Pakistan. During the reporting period, the Group completed 22 exploration and appraisal wells and 14 development wells. The Group has made 14 new discoveries, representing a success rate of approximately 74% (excluding in shale gas aspect). Together with the AROL Acquisition and UEP A&B Acquisitions during the reporting period, net 1P reserve addition amounted to 23.2 mmboe, rendering a net 1P reserve replacement ratio of approximately 95%. The total exported sales of oil and condensate was approximately 3,163,000 barrels for the reporting period, substantially increased by 82.7% from last year as a result of the successful exploitation of condensate from the mature Badin fields through well workovers.

Pakistan Assets Location Map



During the reporting period, the Group drilled 3 high pressure shale gas exploration wells, obtaining important data such as core, sampling and logging. Drilling problems of high-pressure shale gas reservoirs are explored and studied during the process. By analyzing these data, it is recognized that the shale oil and gas of the Group's Pakistan region has certain potential and needs further research. However, costs of shale oil and gas exploration and development are high, with long cycle and huge investment. In view of the current oil price, we have adjusted the exploration plan and focused on conventional structural trap exploration. The Group is also cautiously promoting lithologic trap exploration such as basin floor fan, to obtain desirable return.

The AROL Acquisition was completed on 17 April 2018. AROL holds 10% working interest in both the Kotri North block and Gambat South block. The Gambat South block is operated by Pakistan Petroleum Limited ("PPL") and is a producing concession located at the north of MKK block. The acquisition will provide instant reserve addition to the Group and strengthen the business collaboration with PPL where it is also a joint venture partner in other concessions of the Group.

The UEP A&B Acquisitions were completed on 28 June 2018. Similar to our past practice, we have retained the majority of its existing management team and work force to ensure operational continuity, which we believe will assist the integration process as well as maintain the production at the newly acquired blocks. The Group now possesses working interest in 5 exploration concessions and two development and production leases which have not yet been designated a concession in Sindh province, Pakistan ("UEP A&B Pakistan Assets"). Together, the UEP A&B Pakistan Assets provide us an additional area of approximately 10,436 square kilometers in which we are able to expand our exploration and development activities. We are in the progress of formulating an exploration program to unlock the potentials of these new assets with the objective to replicate our past successes on the Badin and MKK blocks.

On 4 June 2018, we signed a preliminary development and production contract ("DPC") with Basra Oil Company of the Iraqi Ministry of Oil ("BOC") to conduct development and production operations on the Sindbad block, which is located in Basra Province, Iraq. The DPC has a term of 20 years and require us 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. The DPC stipulates that we are entitled to remuneration of 4.55% of all net 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. We expect to sign the formal DPC in 2019.

KEC acquisition:

The Group has entered into the transaction agreement on 23 September 2018 to acquire all issued shares of KEC through a scheme of arrangement. KEC is principally engaged in exploration, appraisal, development and production activities in Middle East and North Africa. The Group has issued a transaction circular on the website designated by the Hong Kong Stock Exchange on 27 December 2018. The acquisition has been completed on 21 March 2019.

The transaction is a significant milestone in implementing the Group's medium and long-term growth strategy of becoming an independent international oil and gas company. The transaction will transform the Group into a strong medium-sized international independent oil and gas company with a diversified portfolio of high-quality assets. The production base and long reserve life of KEC are highly complementary to the Group's existing portfolio and provides a sustainable development profile to the Group for the next two decades. It will also allow the Group to materially enter the resource rich oil and gas markets in Middle East and North Africa, and allow cooperation and competition with best-in-class international companies on the same platform.

Oilfield Support Services:

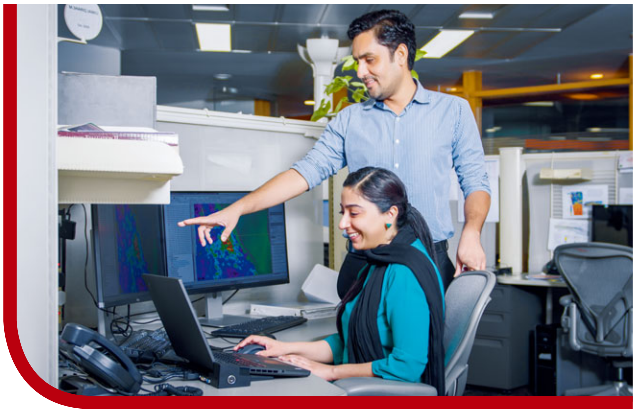
As part of the Group's strategic actions, we have divested the oilfield support services to focus on our exploration and production segment. The divestment was completed on 15 March 2018. The divestment allows the Group to direct our resources to focus on the core upstream oil and gas business in Pakistan where we expect to have significant growth potentials.

Business and market outlook

According to the World Bank Group's global Economic Prospects released in January 2019, global growth in 2019 is projected to be 2.9%, slower than that of 3.1% in 2018. Growth rate is expected to be weakened by further 2.8%. The slowdown is mainly due to changes in monetary policies for developed countries and slide in global trade. The Group will pay close attention to risk factors such as trade protectionism and geopolitical situation, as the upgrade of these factors may hinder global economic growth and thus affect commodity prices.

For 2019, the Group targets a daily average net production in the range of 72,000 to 78,000 boed. As the consolidation of AROL, UEP Alpha and UEP Beta and the completion of KEC acquisition, the Group is likely to achieve a high end of the range. The Group target net 1P reserve replacement ratio of Pakistan Assets of 75%. As the exploration and development of the Pakistan block is highly mature, the remaining traps are getting smaller and thus the development is being more difficult. It is expected that the exploration and development costs will increase slightly. Budget for capital expenditure may exceed US$300 million considering completion of AROL, UEP Alpha, UEP Beta and KEC acquisitions. However, we will manage these overruns by optimizing exploration.

The Group continued to maintain a strong financial position at as 31 December 2018 with bank and cash balances of approximately HK$2,517 million, slightly dropped compared with HK$2,747 million a year earlier, mainly due to the completion of the acquisitions of AROL, UEP Alpha, UEP Beta and Orient Group Beijing Investment Holding Limited ("OGBIHL") as well as payment of final dividend for the year 2017.



Pakistan Assets:

According to a Pakistan industry report performed by an independent third party, the current natural gas demand in Pakistan is approximately 4.0 billion cubic feet per day ("bcfd"). While the demand is expected to grow by 2-4% per annum for the next few years, the current indigenous natural sales of approximately 3 bcfd are declining fast to below approximately 2 bcfd in 2024. The gas shortage in Pakistan is being mitigated by importing significantly more expensive LNG from international market. Pakistan received its first LNG in March 2015 from Qatar together with the arrival of the first floating storage regasification unit ("FSRU"). The second FSRU commenced operation at the end of 2017. Given that the Group's production in Pakistan is predominantly natural gas, our sale of gas is almost guaranteed to be taken up by state-owned gas transmission and distribution companies. With the addition of AROL and UEP A&B Pakistan Assets, we can leverage our experience and understanding of the geology and geophysics in the Lower and Middle Indus Basins 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 to expand our E&P footprint in Pakistan.

Conclusion

United Energy has achieved a robust financial performance on the back of a strong recovery from international commodity prices. We have announced and successfully completed several important acquisitions in 2018 which provided us ample exploration opportunities as well as an immediate addition to reserve. Our next step will be to deploy an integrated exploration program to exploit the upside of the newly acquired assets. Despite these achievements, we will continue to seek for quality assets to develop United Energy into an international mid-sized upstream oil and gas company.

Material Acquisitions and Disposal

Pursuant to the share purchase agreement dated 24 October 2017, the Group acquired the entire issued share capital of AROL from the shareholders of AROL. The total consideration of the AROL Acquisition comprises of (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 has been completed on 17 April 2018. Details of the acquisition of AROL were set out in the Company's announcement dated 24 October 2017 and 17 April 2018.

Pursuant to the share purchase agreement dated 28 February 2018, the Group acquired the entire issued share capital of UEP Alpha and UEP Beta 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) 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 A&B Acquisitions were completed on 28 June 2018. Details of the UEP A&B Acquisitions were set out in the Company's announcement dated 28 February 2018 and 28 June 2018.

On 27 June 2018, Super Success International Holdings Limited ("SSIHL"), a directly wholly-owned subsidiary of the Company, and Orient Group Investment Holding Limited ("OGIHL") entered into the share sale and purchase agreement, pursuant to which SSIHL has agreed to purchase, and OGIHL has agreed to sell, 48% of the equity interests of OGBIHL with a consideration of US$48,000,000 (equivalent to approximately HK$374,400,000) ("Wind Power Project"). OGBIHL through its subsidiaries and associates, is engaged in the business of developing and operating a wind power project of approximately 100 megawatts located in Pakistan and development of renewable energy projects in the PRC. The acquisition has been completed on 29 December 2018.

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 to implement the transaction pursuant to the agreement for a consideration of up to US$650,857,000 (equivalent to approximately HK$5,076,686,000). 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 acquisition has been completed on 21 March 2019. Details of the transaction are set out in the Company's announcements dated 24 September 2018, 21 March 2019 and 22 March 2019 and the circular dated 27 December 2018.

Save as disclosed above and information set out in note 16, note 21 and note 38 of the Notes to the Consolidated Financial Statements in this annual report, the Group and the Company do not have other material acquisition and disposal during the reporting period.

Segment Information

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

Liquidity and Financial Resources

During the year, the Group settled the final considerations for the AROL Acquisition, UEP A&B Acquisitions and Wind Power Project and distributed a final dividend of year 2017 to shareholders as a reward for their continuing support. Subsequent to these non-recurring cash outflows, the Group maintained its strong financial position for the year, with cash and cash equivalents amounting to approximately HK$2,516,532,000 as at 31 December 2018 (31 December 2017: approximately HK$2,746,793,000).

On 29 March 2018, a reserve based facility letter was entered between Oasis Natural Energy, Inc. and BowEnergy Resources (Pakistan) SRL ("BowEnergy"), the indirectly wholly-owned subsidiaries of the Company, with BowEnergy as the borrower and Standard Chartered Bank, Dubai International Financial Centre ("SCB-DIFC") and Standard Chartered Bank ("SCB") with SCB-DIFC as the lender (the "SCB Lender"), pursuant to which the SCB Lender agreed to make available to BowEnergy a reserve based facility up to US$100,000,000 (the "SCB Facility"), with a term of 5 years since first utilisation. As at 31 December 2018, the outstanding nominal principal amount of the SCB Facility was US$84,000,000 (equivalent to approximately HK$655,200,000) (31 December 2017: HK$Nil).

On 23 October 2018 and 3 December 2018, United Energy Group (Hong Kong) Limited, a wholly-owned subsidiary of the Company, as the borrower, and China Minsheng Banking Corp., Ltd., Hong Kong Branch as the lender, has entered into two facility agreements for a total facility amount up to US$570,000,000 (the "CMBC Facilities"), with a term of 5 years since the first utilisation. As at 31 December 2018, the CMBC Facilities have not been utilised yet.

On 14 November 2018, United Energy Pakistan Limited ("UEPL"), an indirectly wholly-owned subsidiary of the Company, and Trafigura PTE. LTD ("Trafigura") has entered into a trade finance agreement, as such Trafigura agreed to make available to UEPL a facility amount up to US$150,000,000 (the "Trafigura Facility"), with a term of 2 years since the first utilisation. As at 31 December 2018, the Trafigura Facility has not been utilised yet.

As at 31 December 2018, the gearing ratio was approximately 4.0% (31 December 2017: Nil), based on borrowings under current liabilities and non-current liabilities of approximately HK$181,123,000 (31 December 2017: HK$Nil) and approximately HK$460,613,000 (31 December 2017: HK$Nil) respectively and total assets of approximately HK$16,147,438,000 (31 December 2017: approximately HK$13,275,537,000). As at 31 December 2018, the current ratio was approximately 1.84 times (31 December 2017: approximately 2.67 times), based on current assets of approximately HK$5,317,390,000 (31 December 2017: approximately HK$4,627,008,000) and current liabilities of approximately HK$2,890,561,000 (31 December 2017: approximately HK$1,731,469,000).

As at 31 December 2018, the Group's total borrowings amounted to approximately HK$641,736,000 (31 December 2017: HK$Nil), all of them are denominated in United States dollars. The weighted average interest rate of the borrowings as at 31 December 2018 was 7.82% (31 December 2017: Nil).

Capital Structure

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

On 6 July 2018, the Company resolved to award 20,348,257 new ordinary shares as the scheme shares to Pakistan employees under the employees performance shares schemes adopted by the Company on 28 December 2012. The allotment of the 20,348,257 scheme shares was completed on 23 July 2018.

On 21 November 2018, the Company resolved to award 4,741,780 new ordinary shares as the scheme shares to 704 Pakistan employees under the Share Match Scheme approved and adopted by the Company for Pakistan employees on 16 September 2011. The allotment of the 4,741,780 scheme shares was completed on 30 November 2018.

After completion of the above allotment of shares during the reporting period, the total number of issued shares of the Company was increased from 26,269,065,172 shares as at 1 January 2018 to 26,294,155,209 shares as at 31 December 2018.

Subsequent to year ended 31 December 2018, the Company has repurchased 23,494,000 shares from market. All the repurchased shares were cancelled on 19 February 2019.

Employees

As at 31 December 2018, the Group employed a total of 1,308 full time employees, located in Hong Kong, the PRC and Pakistan. Employees' remuneration packages have been reviewed periodically and determined with reference to the performance of the individual and prevailing market practices. Remuneration packages include base salaries, year-end bonuses, medical benefits and a contributory provident fund.

Contingent Liabilities

Particulars of the Group's contingent liabilities are set out in the note 40 of the Notes to the Consolidated Financial Statements in this annual report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Major Customers and Suppliers

In 2018, the Group's five largest customers represented 98.8% of total turnover (2017: 99.5% (as restated)) and the Group's five largest suppliers represented 39.2% of total cost of sales and services rendered (2017: 49.3% (as restated)).

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 gas prices in Pakistan Assets are regulated by Government Authority. The selling prices for gas used in the economic limit test are projected based on the historical realized gas price of each field in reporting period.

For the year ended 31 December 2018, the Group engaged an independent third party consulting firm ("Consulting Firm") to perform audit and review on the reserves estimates. The Consulting Firm has audited 21 major fields in Pakistan assets in total representing over 80% of the Group's total 1P reserves. The Consulting Firm also completed a high level review of the reasonableness of the process used by the Group on the other 141 fields in Pakistan assets and its opinion stated that the estimates are reasonable.

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

	Pakistan Assets		
Net proved reserves	**Oil, Condensate and LPG** (MMbbl)	**Sales Gas** (Bcf)	**Total** (MMboe)
As at 31 December 2017 and 1 January 2018	18.3	452.7	96.4
Acquisition	1.3	80.2	15.1
Production	(3.8)	(118.5)	(24.3)
Discoveries & revisions	2.6	31.8	8.1
As at 31 December 2018	18.4	446.2	95.3

Notes:

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

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

	Brent Market Crude (US$/Bbl)
2019	54.65
2020	62.50
2021	70.00
Thereafter	Escalated at 2% p.a.

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

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Pakistan Assets
Exploration activities:	• 22 Exploration wells
Development activities:	• 14 Development wells • 8 Rig workovers
Production activities:	• Average daily net production of 66,453 boed

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

The following table summarized the Group's share of costs incurred on exploration, development and production activities for the year ended 31 December 2018:

	Pakistan Assets (HK$'000)
Exploration costs	889,112
Development costs	707,730
Production costs(Note)	702,961

Note: Production costs recognized 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 2018, 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 2018.

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 2018, 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 40 of this annual report.

During the year ended 31 December 2018, save as disclosed above under the paragraph "Corporate Governance Practices", the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (representing at least one-third of the Board), with at least one independent non-executive Director possessing appropriate professional qualifications and accounting and related financial management expertise.

Each independent non-executive Director has pursuant to the Rule 3.13 of the Listing Rules, confirmed that he/she is independent of the Company and the Company also considers that they are independent.

Save as the family relationship between Mr. Zhang Hong Wei, Chairman of the Board, and Ms. Zhang Meiying, executive Director and daughter of the Chairman, there are no relationships among members of the Board. Except for the above, the Board considers that all Directors are free from any relationship that interfere the exercise of individual independent judgment.

Function

The Board, led by the Chairman, is responsible for formulation and approval of the Group's development and business strategies, key operational proposals, financial control procedures, material acquisition and disposal of investments, major funding decisions, financial announcements, interim report, annual report, share issuance/repurchase, nomination of Directors, appointment of key management personnel, related party transactions, remuneration to Directors and key management, ensures appropriate human and financial resources are appropriately applied and the performance for the achievement of results is evaluated periodically and other significant transactions in accordance with the rules governing the meeting of the Board, Bye-laws and rules governing the meeting of shareholders.

The executive Directors are responsible for day-to-day management of the Company's operations. These executive Directors conduct regular meetings with the senior management of the Company, its subsidiaries and associated companies, at which operational issues and financial performance are evaluated.

The Bye-laws of the Company contain description of responsibilities and operation procedures of the Board. The Board holds regular meeting to discuss and consider significant matters relating to existing operations and proposals of new operations and projects. Board meetings are formally held at least 4 times a year.

The Chairman ensures that Board meetings are being held whenever necessary. Though the Chairman is responsible to set the Board meeting agenda, all Board members are encouraged to participate to include matters in the agenda. The Board conducts meeting on a regular basis and extra meetings are convened when circumstances require. The Bye-Laws of the Company allow a Board meeting to be conducted by way of a tele-conference.

There are 14 Board meetings being held during the year ended 31 December 2018 and the attendance of individual Directors is as follows:

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

The attendance records of individual Directors of the 2018 AGM is set out below:

	AGM
Zhang Hong Wei	1/1
Zhang Meiying	0/1
Chau Siu Wai	1/1
San Fung	1/1
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 2018, 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 2018, the Directors have, among other things:

- Selected suitable accounting policies and applied them consistently;

- Approved adoption of all Hong Kong Financial Reporting Standards ("HKFRSs") which are in conformity with the International Financial Reporting Standards ("IFRSs"); and

- Made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Delegation by the Board

The Board has established Board committees, namely Audit Committee, Remuneration Committee and Nomination Committee to oversee particular aspects of the Company's affairs and to assist in sharing the Board's responsibilities. All the Board committees have clear written terms of reference and have to report to the Board regularly on their decisions and recommendations. The day-to-day running of the Company, including implementation of the strategies and plans adopted by the Board and its committees, is delegated to the management with divisional heads responsible for different aspects of the business.

Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. As at 31 December 2018, 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 2018, there are 2 audit committee meetings being held and the external auditor of the Company has attended 2 audit committee meetings. The individual attendance of each member is as follows:

	Audit Committee Meetings
Chau Siu Wai	2/2
San Fung	2/2
Wang Ying	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 2018: (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 3 meetings in 2018 at which all committee members were present. At the meeting, the Remuneration Committee reviewed and discussed the remuneration policy, the remuneration package and bonus arrangements.

Nomination Committee

With effective from 30 March 2012, a nomination committee, comprising Mr. San Fung, independent non-executive Director of the Company, as its Chairman with Mr. Chau Siu Wai, independent non-executive Director of the Company, and Ms. Zhang Meiying, executive Director of the Company, as its members, has been set up with written terms of reference in accordance with the requirements of the Listing Rules. The Nomination Committee is responsible for nomination of Directors, structure of the Board, number of Directors, the composition of the Board and review the Board Diversity Policy of the Company. The nominations of Directors were made in accordance with the Nomination Policy and the objective criteria (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity under the Board Diversity Policy of the Company. According to the Board Diversity Policy of the Company, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee held 3 meetings in 2018 at which all committee members were present. At the meeting, the Nomination Committee: (1) reviewed the structure, size and composition of the Board; (2) reviewed the Company's board diversity policy; (3) discussed the causal vacancies for the resigned Directors during the year; and (4) assessed the independence of independent non-executive Directors.

Responsibilities and Remuneration of External Auditors

The statement of the external auditors of the Company, Messrs. RSM Hong Kong, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor Report on pages 41 to 46.

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

Services rendered:	HK$
– audit services	2,964,000
– interim financial review	510,000
– non-audit services	1,711,000

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 2018, 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 2018.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 44 to the Consolidated Financial Statements of this annual report.

Business Review

General

For the review of the business of the Group including the future development in the Group's business and the analysis of financial key performance indicators, please refer to the section headed "Management Discussion and Analysis" on pages 8 to 19 of this annual report.

Principal risks and uncertainties facing the Group

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

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

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

Risks pertaining to the oil & gas market in Pakistan

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

Risks pertaining to exploration and replacement of reserves

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

Risks pertaining to operation

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

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

Risks pertaining to mergers and acquisitions

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

Past performance and forward looking statements

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

Environmental policies and performance

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

Compliance with Laws and Regulations

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

Key relationship with major stakeholders

The Group places value to develop mutually beneficial relationships with its stakeholders, including its shareholders, employees, government and local communities, customers and suppliers. Details of communication with shareholders are included in Corporate Governance Report of this annual report on pages 22 to 29.

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

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

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

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

Results

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the Consolidated Financial Statements on pages 47 to 145 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	67.6%	N/A
Five largest customers	98.8%	N/A
The largest supplier	N/A	12.1%
Five largest suppliers	N/A	39.2%

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 35 to the Consolidated Financial Statements and on page 51 of this annual report respectively.

Segment Information

The segment information of the Group for the year ended 31 December 2018 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 146 of this annual report. This summary is for information only and does not form part of the audited consolidated financial statements.

Property, Plant and Equipment

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

Bank Loans and Other Borrowings

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

Permitted Indemnity Provision

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

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

Directors and Directors' Service Contracts

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

Executive Directors:

Zhang Hong Wei *(Chairman)*
Zhang Meiying

Independent non-executive Directors:

Chau Siu Wai
San Fung
Wang Ying

Pursuant to Bye-laws 87(1) and 87(2), Ms. Zhang Meiying, Mr. San Fung and Mr. Chau Siu Wai shall retire by rotation and being eligible, will offer themselves for re-election at the Annual General Meeting to be held in 2019.

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 2018, 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 26,294,155,209 shares as at 31 December 2018 was 2.47%.

As at 31 December 2018, 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 1.1.2018	Granted	Exercised	Lapsed	Cancelled	As at 31.12.2018
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 2018, 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) which were otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code:

Name of Director	Name of Company	Nature of interest	Number of Shares Long Position	Number of Shares Short Position	Approximate % shareholding
Zhang Hong Wei	The Company	Attributable interest of controlled corporation	18,754,300,230	–	71.32

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 東方集團有限公司. 東方集團有限公司 is 94% owned by 名澤東方投資有限公司, 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 2018, 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 2018, 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)	71.32% (L)
名澤東方投資有限公司 (Note a)	Attributable interest of controlled corporation	10,657,758,250 (L)	40.53% (L)
東方集團有限公司 (Note b)	Attributable interest of controlled corporation	10,657,758,250 (L)	40.53% (L)
Huilan Investment Limited (Note c)	Attributable interest of controlled corporation	10,657,758,250 (L)	40.53% (L)
He Fu International Limited (Note d)	Beneficial owner	10,657,758,250 (L)	40.53% (L)
Million Fortune Enterprises Limited (Note a)	Attributable interest of controlled corporation	8,096,541,980 (L)	30.79% (L)
United Petroleum & Natural Gas Holdings Limited (Note e)	Beneficial owner	4,447,453,416 (L)	16.91% (L)
United Energy Holdings Limited (Note e)	Beneficial owner	3,649,088,564 (L)	13.88% (L)

Note:

(a) 名澤東方投資有限公司 and Million Fortune Enterprises Limited are wholly owned by Mr. Zhang Hong Wei.

(b) 名澤東方投資有限公司 owns 94% shares of 東方集團有限公司.

(c) Huilan Investment Limited is wholly owned by 東方集團有限公司.

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

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

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

Save as disclosed above, as at 31 December 2018, 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 34 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 19 of this annual report.

Arrangements to Purchase Shares or Debentures

At no time during the reporting period was the Company, its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Directors' Material Interests in Transactions, Arrangements and Contracts of Significance

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, its subsidiaries or holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the reporting period, except as announced.

Emolument Policy

The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence. The Company has adopted the share option scheme as an incentive to qualified employees (with the meanings in the share option scheme of the Company). Details of the scheme are set out in the section headed "Share Option Scheme" on pages 33 to 34 and note 37 to the Consolidated Financial Statements of this annual report.

The emoluments of the Directors of the Company are decided by the Board, having regard to the Company's operating results, individual performance and comparable market statistics. Details of the remuneration of the Directors and those of the five highest paid individuals are set out in note 15 to the Consolidated Financial Statements of this annual report. Save as disclosed in note 15(a) to the Consolidated Financial Statements in this annual report, there has been no arrangement under which any Director has waived or agreed to waive any emoluments.

Management Contracts

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 2018.

Directors' Interests in Competing Business

During the year ended 31 December 2018, 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 2018.

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 39 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 39 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 2018.

Connected Transactions

Save as disclosed below, 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 2018.

On 27 June 2018, Super Success International Holdings Limited ("SSIHL", a wholly-owned subsidiary of the Company) and Orient Group Limited ("Orient Group, previously named Orient Group Investment Holding Limited") entered into the share sale and purchase agreement (the "Target SPA"), pursuant to which SSIHL has agreed to purchase, and Orient Group has agreed to sell, approximately 48% of the equity interests in Orient Group Beijing Investment Holding Limited (the "Target") held by Orient Group comprising 22,929,377 shares (the "Target Equity Interests") with the aggregate consideration of approximately HK$374,400,000 (equivalent to US$48,000,000). As the ultimate substantial shareholder of Orient Group is Mr. Zhang Hong Wei who holds approximate 94% controlling shareholdings of Orient Group and Mr. Zhang Hong Wei is the Chairman and Director of the Company, Orient Group is a connected person of the Company and so the acquisition of the Target Equity Interests is deemed to be a connected transaction of the Company. The conditions to completion under the Target SPA were satisfied or waived in accordance with the Target SPA and the completion of the acquisition of the Target Equity Interests took place on 29 December 2018. Details of the transaction are set out in the Company's announcements dated 27 June 2018 and 30 December 2018 and the Company's circular dated 26 July 2018.

Corporate Governance

In the opinion of the Directors, the Company has complied throughout the financial year for the year ended 31 December 2018 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 22 to 29 of this annual report for details.

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

Distributable Reserves

As at 31 December 2018, the aggregate amounts of the Company's reserves available for distribution to equity shareholders of the Company was approximately HK$11,211,040,000 (31 December 2017: approximately HK$12,261,803,000).

Dividends

No final dividend has been paid or declared by the Company during the year ended 31 December 2018.

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 "AGM") will be held on Thursday, 30 May 2019. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 24 May 2019.

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 2018.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2018.

Events After Reporting Period

The events after reporting period are set out in note 46 to the Consolidated Financial Statements of this annual report.

Auditors

At the Company's last annual general meeting held on 20 April 2018, RSM Hong Kong was re-appointed as auditor of the Company. RSM Hong Kong retires, and, being eligible, offers themselves for re-appointment. A resolution for the reappointment of RSM Hong Kong will be put at the forthcoming AGM.

By order of the Board
United Energy Group Limited

Zhang Hong Wei
Chairman
Hong Kong, 29 March 2019

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Hong Wei, aged 64, joined the Company on 27 February 1998. Mr. Zhang is the Chairman of the Group. Mr. Zhang is also the Deputy Chairman of China Minsheng Banking Corporation Ltd., a joint-stock bank listed on the Shanghai Stock Exchange and on the Stock Exchange of Hong Kong Limited. Mr. Zhang has 30 more years of experience in management in the PRC. As at the date of this annual report, Mr. Zhang is beneficially interested in 18,754,300,230 shares of the Company, representing approximately 71.39% of the existing issued share capital of the Company, and is the controlling shareholder of the Company. Mr. Zhang is the father of Ms. Zhang Meiying, an executive Director appointed on 19 June 2006.

Ms. Zhang Meiying, aged 40, 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 15 years of experience in banking and financial management. Ms. Zhang Meiying holds a BBA degree in Finance and International Business from the George Washington University, USA. Ms. Zhang has not held any directorship with other listed companies in the last 3 years. Ms. Zhang is the daughter of Mr. Zhang Hong Wei, the Chairman, executive Director and controlling shareholder of the Company.

Independent Non-executive Directors

Mr. San Fung, aged 54, 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 21 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 49, joined the Company on 9 November 2004 as an independent non-executive Director. Mr. Chau is a university graduate with a bachelor degree in law. He further obtained a master degree in business administration from Murdoch University in Australia. Mr. Chau has over 15 years of experience in financial reporting and investment analysis and is now the Managing Director of an investment company.

Ms. Wang Ying, aged 41, 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 17 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 58, 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 35 years' work experience in oil and gas industry, nearly 21 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 Reginal Manager of CNPC in Venezuela, Sudan, Iraq and Middle East during the period of 2001 to 2017.

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of United Energy Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 145, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 intangible assets and property, plant and equipment

2. Estimate of oil and gas reserves

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of intangible assets and property, plant and equipment of exploration and production segment Refer to Note 19 and Note 20 to the consolidated financial statements and the accounting policies on pages 63, 66 to 68 and 77. The exploration and production segment represents the Group's upstream oil and natural gas businesses in Pakistan. As at 31 December 2018, the Group had intangible assets and property, plant and equipment with carrying values of approximately HK$2,366,040,000 and HK$7,814,483,000 respectively attributable to the exploration and production segment. Management has carried out an impairment review on the intangible assets and 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. Impairment loss of goodwill included in intangible assets and write-off of exploration and production assets included in property, plant and equipment of approximately of HK$38,003,000 and HK$78,114,000 respectively were recognised during the year.	**Audit procedures performed by the component auditors in Pakistan and by the Group audit engagement team included:** • Understanding management's impairment assessment process. • Meeting with operations and finance management to discuss asset performance, production and reserves data and future plans in order to identify any performance-related indicators of impairment. • For those oil and gas fields which were considered no longer commercially viable with marginal or no production, we obtained the list of written off assets and their carrying values and: – Assessed the mathematical accuracy of the write-off amounts; – Assessed the written off assets performance by inspecting supporting evidence such as reserves estimates, current production information and future production plans; – Reviewed the reserves estimates report and current production information to ensure all cash generating units with indications of no commercial viability had been considered; and – Assessed the adequacy of the disclosures in the financial statements in relation to the write off of exploration and production assets.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of intangible assets and property, plant and equipment of exploration and production segment (Continued)	**Audit procedures performed by the component auditors in Pakistan and by the Group audit engagement team included: (Continued)** • For impairment of goodwill included in intangible assets, we obtained the discounted cash flow forecast prepared by management and: – Assessed the integrity of the value in use model; – Challenged the reasonableness of management's key assumptions based on our knowledge of the business and the industry; – Reconciled input data to supporting evidence, such as approved budgets and considered the historical accuracy of those budgets; – Assessed the appropriateness of the discount rates used with the assistance of our internal valuation specialists; and – Assessed the adequacy of the impairment disclosures in the consolidated financial statements.

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 in Pakistan 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 82. 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.

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

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations			
Turnover	8	**5,279,204**	4,420,508
Cost of sales and services rendered		**(2,321,995)**	(1,768,344)
Gross profit		**2,957,209**	2,652,164
Investment and other income	9	**59,928**	60,162
Other gains and losses	10	**41,287**	(76,089)
Exploration expenses		**(103,068)**	(366,813)
Administrative expenses		**(459,768)**	(304,983)
Other operating expenses		**(158,062)**	(87,583)
Profit from operations		**2,337,526**	1,876,858
Finance costs	12	**(54,337)**	(118,930)
Share of (losses)/profits of associates		**(333)**	52
Profit before tax		**2,282,856**	1,757,980
Income tax expense	14	**(680,145)**	(440,420)
Profit for the year from continuing operations	13	**1,602,711**	1,317,560
Discontinued operations			
Profit/(loss) for the year from discontinued operations	16	**34,621**	(1,743)
Profit for the year		**1,637,332**	1,315,817
Attributable to:			
Owners of the Company			
Profit for the year from continuing operations		**1,602,711**	1,317,560
Profit/(loss) for the year from discontinued operations		**35,280**	(1,220)
		1,637,991	1,316,340
Non-controlling interests from discontinued operations		**(659)**	(523)
		1,637,332	1,315,817
Earnings per share	17		
From continuing and discontinued operations			
Basic (cents per share)		**6.23**	5.02
Diluted (cents per share)		**6.23**	N/A
From continuing operations			
Basic (cents per share)		**6.10**	5.02
Diluted (cents per share)		**6.10**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000 (Restated)
Profit for the year	**1,637,332**	1,315,817
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$491,000 (2017: HK$Nil)	**737**	–
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**26,910**	(27,598)
Exchange differences reclassified to profit or loss on disposal of a subsidiary	**(21,109)**	–
	5,801	(27,598)
Other comprehensive income for the year, net of tax	**6,538**	(27,598)
Total comprehensive income for the year	**1,643,870**	1,288,219
Attributable to:		
Owners of the Company		
Profit for the year from continuing operations	**1,608,443**	1,288,216
Profit/(loss) for the year from discontinued operations	**35,280**	(1,220)
	1,643,723	1,286,996
Non-controlling interests from discontinued operations	**147**	1,223
	1,643,870	1,288,219

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	19	**7,853,560**	5,833,375
Intangible assets	20	**2,383,040**	2,254,061
Investment in associates	21	**450,423**	70,049
Available-for-sale financial assets	22	**–**	4,914
Advances, deposits and prepayments	23	**143,025**	486,130
		10,830,048	8,648,529
Current assets			
Inventories	24	**337,998**	209,242
Trade and other receivables	25	**2,190,160**	1,366,553
Financial assets at fair value through profit or loss ("FVTPL")	26	**2,754**	3,398
Employee retirement benefits assets	43(c)	**2,826**	–
Current tax assets		**267,120**	300,337
Pledged bank deposits	27(b)	**–**	685
Bank and cash balances	27(a)	**2,516,532**	2,746,793
		5,317,390	4,627,008
Current liabilities			
Trade and other payables	28	**2,647,003**	1,656,876
Due to a director	29	**9,433**	5,697
Borrowings	30	**181,123**	–
Provisions	31	**5,276**	–
Current tax liabilities		**47,726**	68,896
		2,890,561	1,731,469
Net current assets		**2,426,829**	2,895,539
Total assets less current liabilities		**13,256,877**	11,544,068

Consolidated Statement of Financial Position (Continued)

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Borrowings	30	**460,613**	–
Provisions	31	**381,109**	326,463
Derivative financial instruments	32	**1,165**	–
Deferred tax liabilities	33	**1,150,846**	540,586
		1,993,733	867,049
NET ASSETS		**11,263,144**	10,677,019
Capital and reserves			
Share capital	34	**262,941**	262,690
Reserves	36(a)	**11,000,203**	10,389,779
Equity attributable to owners of the Company		**11,263,144**	10,652,469
Non-controlling interests		**–**	24,550
TOTAL EQUITY		**11,263,144**	10,677,019

Approved by the Board of Directors on 29 March 2019 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 2018

	Attributable to owners of the Company									
	Share capital (note 34) HK$'000	Share premium account (note 36(b)) HK$'000	Merger reserve (note 36(b)) HK$'000	Contributed surplus reserve (note 36(b)) HK$'000	Foreign currency translation reserve (note 36(b)) HK$'000	Share-based capital reserve (note 36(b)) HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	262,256	2,487,238	(2,286,000)	13,312,566	54,131	14,924	(3,444,898)	10,400,217	23,327	10,423,544
Total comprehensive income for the year	–	–	–	–	(29,344)	–	1,316,340	1,286,996	1,223	1,288,219
Issue of shares under employees performance share schemes (note 34(a))	271	10,282	–	–	–	–	–	10,553	–	10,553
Issue of shares under share match scheme (note 34(b))	163	5,303	–	–	–	–	–	5,466	–	5,466
Special dividend paid (note 18)	–	–	–	(1,050,763)	–	–	–	(1,050,763)	–	(1,050,763)
Changes in equity for the year	434	15,585	–	(1,050,763)	(29,344)	–	1,316,340	252,252	1,223	253,475
At 31 December 2017	262,690	2,502,823	(2,286,000)	12,261,803	24,787	14,924	(2,128,558)	10,652,469	24,550	10,677,019
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 34(a))	**203**	**11,395**	**–**	**–**	**–**	**–**	**–**	**11,598**	**–**	**11,598**
Issue of shares under share match scheme (note 34(b))	**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**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
Continuing operations		**2,282,856**	1,757,980
Discontinued operations		**34,621**	(1,743)
		2,317,477	1,756,237
Adjustments for:			
Amount due to directors written back		**–**	(3,880)
Depreciation and amortisation		**1,645,377**	1,190,928
Fair value losses/(gains) on financial assets at FVTPL		**644**	(1,402)
Fair value losses on derivative financial instruments		**1,165**	–
Finance costs		**54,337**	118,930
Gain on disposals of property, plant and equipment		**(4,522)**	(1,037)
Gain on disposal of a subsidiary		**(36,818)**	–
Gain on bargain purchase		**(29,111)**	–
Impairment of goodwill		**38,003**	–
Intangible assets written off		**–**	39,932
Investment income		**(46,111)**	(49,363)
Property, plant and equipment written off		**78,114**	334,787
Share-based payments		**10,413**	10,709
Share of losses/(profits) of associates		**333**	(52)
Operating profit before working capital changes		**4,029,301**	3,395,789
Increase in inventories		**(88,828)**	(1,068)
Increase in trade and other receivables		**(461,023)**	(638,196)
(Increase)/decrease in advances, deposits and prepayments		**(1,847)**	722
Decrease in financial assets at FVTPL		**–**	257,775
Increase in trade and other payables		**629,200**	620,988
Increase in employee retirement benefits assets		**(48)**	–
Increase in due to directors		**3,736**	19
Increase in provisions		**4,311**	33,179
Cash generated from operations		**4,114,802**	3,669,208
Interest paid		**(37,028)**	(159,282)
Income taxes paid		**(184,338)**	(92,346)
Net cash generated from operating activities		**3,893,436**	3,417,580

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	38(a)	**(1,373,033)**	–
Acquisition of associates		**(374,400)**	–
Disposal of a subsidiary	38(b)	**18,454**	–
Decrease/(increase) in term deposits		**154,517**	(136,016)
Decrease in pledged bank deposits		**–**	503
Increase in deposit paid for acquisition of property, plant and equipment		**–**	(43,852)
Increase in deposit paid for acquisition of subsidiaries		**(117,000)**	–
Increase in loan receivables		**–**	(436,800)
Purchases of property, plant and equipment		**(1,891,239)**	(1,720,893)
Purchases of intangible assets		**–**	(17,000)
Proceeds from disposals of property, plant and equipment		**297**	1,140
Interest received		**45,942**	49,195
Net cash used in investing activities		**(3,536,462)**	(2,303,723)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under share match scheme		**6,117**	5,466
Dividends received		**169**	168
Borrowings raised, net of direct transaction cost	38(c)	**757,380**	–
Repayment of borrowings	38(c)	**(121,680)**	(3,269,268)
Dividends paid to owners of the Company		**(1,050,760)**	(1,050,756)
Net cash used in financing activities		**(408,774)**	(4,314,390)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(51,800)**	(3,200,533)
Effect of foreign exchange rate changes		**(22,189)**	(45,403)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**2,590,521**	5,836,457
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,516,532**	2,590,521
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**2,516,532**	2,746,793
Less: Term deposits matured over 3 months but within 1 year		**–**	(156,272)
Cash and cash equivalents	27(a)	**2,516,532**	2,590,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 subsidiaries are set out in note 44 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 – 名澤東方投資有限公司 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 number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 Financial Instruments;

(ii) HKFRS 15 Revenue from Contracts with Customers; and

(iii) HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration.

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)

(i) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

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

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

(i) HKFRS 9 Financial Instruments (Continued)

(a) Classification (Continued)

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	Note	Classification under HKAS 39	Classification under HKFRS 9	Carrying amount under HKAS 39 HK$'000	Carrying amount under HKFRS 9 HK$'000
Unlisted equity investments	(a)	Available -for-sale	FVTOCI	4,914	4,914
Listed equity investments	(b)	FVTPL	FVTPL	3,398	3,398
Trade and other receivables	(c)	Loans and receivables	Amortised cost	1,366,553	1,366,553

Notes:

(a) These equity investments represent investments that the Group intends to hold for the long term for strategic purposes. The Group elected to present in OCI changes in the fair value of these investments because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at FVTOCI. The reclassification of available-for-sale financial assets to equity investments at FVTOCI does not result in any significant impact on the Group's opening accumulated losses as at 1 January 2018. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(b) Equity securities – held for trading are required to be held as FVTPL as under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

(c) Trade and other receivables that were classified as loans and receivables under HKAS 39 are now classified at amortised cost. No additional impairment over these receivables was recognised in the opening accumulated losses at 1 January 2018 on transition to HKFRS 9 as the amount of additional impairment measured under the expected credit loss model is immaterial.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

The Group did not de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018.

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

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

(i) HKFRS 9 Financial Instruments (Continued)

(b) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amoristed cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

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

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

(i) HKFRS 9 Financial Instruments (Continued)

(b) Measurement (Continued)

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 January 2018, the Group assesses on a forward looking basis for the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

No additional impairment for trade and other receivables as at 1 January 2018 is recognised as the amount of additional impairment measured under the expected credit loss model is immaterial.

(ii) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's financial position and financial result upon initial application at 1 January 2018.

There is no significant impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018. Further, there was no material impact on the Group's consolidated statement of cash flow for the year ended 31 December 2018.

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

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

(iii) HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) Interpretation 22 does not have any material impact on the financial position and the financial result of the Group.

(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 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16 Leases	1 January 2019
HK(IFRIC) Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28 Long-term Interest in Associates and Joint Ventures	1 January 2019

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

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

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

(i) HKFRS 16 Leases

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

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

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

As disclosed in note 42, the Group's future minimum lease payments under non-cancellable operating leases for its office properties and property, plant and equipment amounted to approximately HK$17,316,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

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

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

(i) HKFRS 16 Leases (Continued)

The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

(ii) HK(IFRIC) Interpretation 23 Uncertainty over Income Tax Treatments

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

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

4. Significant Accounting Policies

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

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

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

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

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.

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%
Leasehold improvements	5% – 33.33%
Vessels	20%
Aircrafts	6.67%
Motor vehicles	25% – 30%
Furniture, fixtures and equipment	20% – 33.33%
Plant and machinery	20%

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

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

Construction in progress represents plant and machinery pending installation and 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

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(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.

(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.

4. Significant Accounting Policies (Continued)

(m) Recognition and derecognition of financial instruments (Continued)

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.

(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.

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.

Policy prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments were recognised in profit or loss. Foreign exchange gains and losses arising from equity investment were also recognised in profit or loss. When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss measured at cost.

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

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 cash flow statement. 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.

(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 recognition

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.

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

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

Policy prior to 1 January 2018
Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales and production of crude oil, condensate, gas and liquefied petroleum gas and provision of patented technology support services to oilfield in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts/petroleum concession agreements and on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the crude oil, condensate, gas and liquefied petroleum gas are delivered and the title has passed to the customers. This generally occurs when crude oil, condensate, gas and liquefied petroleum gas are physically transferred into an oil tanker, pipe or other delivery mechanism.

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

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

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

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

4. Significant Accounting Policies (Continued)

(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.

(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 benefit 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.

4. Significant Accounting Policies (Continued)

(y) Employee benefits (Continued)

(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.

(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.

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.

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.

4. Significant Accounting Policies (Continued)

(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 expected credit losses on trade receivables, as well as on financial guarantee contracts. The amount of expected credit losses 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 expected credit losses ("ECL") for trade receivables. The expected credit losses 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 expected credit losses 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.

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.

4. Significant Accounting Policies (Continued)

(ee) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

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.

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.

4. Significant Accounting Policies (Continued)

(ee) Impairment of financial assets (Continued)

Measurement and recognition of ECL

The measurement of expected credit losses 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.

For financial assets, the expected credit loss 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.

Policy prior to 1 January 2018

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

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

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

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

4. Significant Accounting Policies (Continued)

(ee) Impairment of financial assets (Continued)

Policy prior to 1 January 2018 (Continued)

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

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

(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.

(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 judgement that has the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Joint control assessment

The Group holds certain interests on its joint arrangements (note 45). 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.

(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 2018 was approximately HK$253,911,000 (2017: HK$140,348,000).

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

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

Property, plant and equipment 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) and property, plant and equipment (2017: 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 2018 was approximately HK$385,965,000 (2017: HK$326,043,000).

(e) Impairment of trade receivables

Prior to the adoption of HKFRS 9 on 1 January 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade receivables is approximately HK$1,292,623,000.

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on number of days past due for groups of debtors that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime ECLs to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and financial position and an assessment of both current and forecast general economic conditions, all of which involve a significant degree of management judgement.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(e) Impairment of trade receivables (Continued)

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

As at 31 December 2018, the carrying amount of trade receivables is approximately HK$1,851,365,000.

(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$680,145,000 (2017: HK$440,420,000) 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 2018 (2017: HK$Nil).

(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.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(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 benefit 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 benefit obligations.

The carrying amount of retirement benefit plan assets as at 31 December 2018 was approximately HK$2,826,000 (2017: HK$Nil).

(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.

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 during the year. Details of the impairment loss calculation are provided in note 20 to the consolidated financial statements.

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 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.

At 31 December 2017, if interest rates at that date had been 50 basis points lower/higher with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$2,823,000 lower/higher and accumulated losses as at 31 December 2017 would have been approximately HK$2,823,000 higher/lower, arising mainly as a result of lower/higher interest income on the bank deposits bearing interest at variable rates.

6. Financial Risk Management (Continued)

(b) Liquidity risk

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

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

	Carrying amount HK$'000	Total contractual undiscounted cash outflow HK$'000	Less than 1 year or on demand HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 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**	**–**
At 31 December 2017						
Trade and other payables	1,255,294	1,255,294	1,255,294	–	–	–
Due to a director	5,697	5,697	5,697	–	–	–

(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 and PRC large state-controlled banks, for which the Group considers to have low credit risk.

Trade receivables

As at 31 December 2018, approximately 89% (2017: 92%) of the Group's trade receivables were due from the largest customer within exploration and production segment in Pakistan. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable 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 2018, trade receivables of approximately 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 measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 as at 31 December 2018.

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, no trade receivables was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	869,496
Past due but not impaired	
1–30 days past due	334,216
31–60 days past due	88,623
Over 90 days past due	288
	423,127
Total	1,292,623

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

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 period 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.

The Group assessed that there is no significant loss allowance recognised for financial assets at amortised costs in accordance with HKFRS 9 as at 31 December 2018.

(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 2018 and 2017 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") and Pakistani Rupees ("PKR"), 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 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 2017, if the HK$ had weakened/strengthened by 6 per cent against the RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately HK$20,370,000 higher/lower and accumulated losses as at 31 December 2017 would have been approximately HK$20,370,000 lower/higher, arising mainly as a result of the foreign exchange gain/loss on bank and cash balances, trade and other receivables and trade and other payables denominated in RMB.

6. Financial Risk Management (Continued)

(e) Foreign currency risk (Continued)

At 31 December 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.

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

The directors of the Company consider that the foreign currency exposure in respect of US$ for the years ended 31 December 2018 and 2017 are insignificant to the Group and therefore no sensitivity analysis is presented thereon.

(f) Categories of financial instruments at 31 December

	2018 HK$'000	2017 HK$'000
Financial assets:		
Financial assets at FVTPL:		
Mandatorily measured at FVTPL		
– Held for trading	**2,754**	3,398
Available-for-sale financial assets	**–**	4,914
Financial assets measured at amortised cost	**4,433,807**	–
Loans and receivables (including cash and cash equivalents)	**–**	4,470,141
Financial liabilities:		
Derivative financial instruments	**1,165**	–
Financial liabilities at amortised cost	**2,448,353**	1,260,991

(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.

(a) Disclosures of level in fair value hierarchy at 31 December 2018:

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**

Description	Fair value measurements using: Level 1 HK$'000	Level 2 HK$'000	Total 2017 HK$'000
Recurring fair value measurements:			
Financial assets			
Financial assets at FVTPL			
Listed equity securities	3,398	–	3,398

7. Fair Value Measurements (Continued)

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

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

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

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

Level 2 fair value measurements

Description	Valuation technique	Inputs	Fair value 2018 HK$'000 Assets	Fair value 2018 HK$'000 Liabilities	Fair value 2017 HK$'000 Assets	Fair value 2017 HK$'000 Liabilities
Derivative financial instruments – interest rate swaps	Discounted cash flows	Forward interest rate	–	(1,165)	–	–

8. Turnover

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

	2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations		
Sales and production of crude oil, condensate, gas and liquefied petroleum gas	5,279,204	4,420,508

8. Turnover (Continued)

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	
	2018	2017
	HK$'000	HK$'000
Primary geographical markets		
– Pakistan	**3,919,412**	3,799,827
– Singapore	**1,359,792**	620,681
Revenue from external customers	**5,279,204**	4,420,508

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$729,940,000 (2017: HK$642,106,000), HK$725,683,000 (2017: HK$612,737,000), HK$19,043,000 (2017: HK$20,925,000), and HK$59,227,000 (2017: HK$Nil) respectively.

9. Investment and Other Income

	2018	2017
	HK$'000	HK$'000
		(Restated)
Continuing operations		
Dividends income from listed equity investments	**169**	168
Interest income on:		
Bank deposits	**33,282**	39,087
Loan receivables	**12,193**	8,138
Total interest income	**45,475**	47,225
Investment income from financial assets at FVTPL	**467**	1,665
Liquefied petroleum gas processing fees charged to concessions, net	**4,821**	1,427
Management fees income	**3,022**	4,448
Others	**5,974**	5,229
	59,928	60,162

10. Other Gains and Losses

	2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations		
Amount due to directors written back	–	3,880
Fair value (losses)/gains on financial assets at FVTPL	(644)	1,402
Fair value losses on derivative financial instruments	(1,165)	–
Gain on bargain purchase	29,111	–
Gain on disposals of property, plant and equipment	4,522	87
Impairment losses on goodwill	(38,003)	–
Intangible asset written off	–	(39,932)
Net foreign exchange gains	47,466	51,073
Property, plant and equipment written off	–	(92,599)
	41,287	(76,089)

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.

In 2017, the Group had two operating segments as follows:

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

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

Operating segment relating to the oilfield support services in PRC was discontinued in the current year. 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, 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".

11. Segment Information (Continued)

Geographical information:

The Group's turnover from continuing operations from external customers by location of operations and information about its non-current assets (excluding loan and other receivables and financial assets at fair value through other comprehensive income) by location of assets are detailed below:

	Turnover		Non-current assets	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Hong Kong	**–**	–	**238,283**	132,299
PRC except Hong Kong	**–**	–	**4,510**	4,616
Pakistan	**3,919,412**	3,799,827	**10,565,263**	8,050,279
Singapore	**1,359,792**	620,681	**–**	–
Consolidated total	**5,279,204**	4,420,508	**10,808,056**	8,187,194

Turnover from major customers:

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

	2018	2017
	HK$'000	HK$'000
Exploration and production segment		
Customer A	**3,566,146**	3,549,859
Customer B	**1,359,792**	620,681

12. Finance Costs

	2018	2017
	HK$'000	HK$'000
Continuing operations		
Interest on bank loans	**33,341**	110,140
Other finance costs	**9,905**	–
Provisions – unwinding of discounts (note 31)	**11,091**	8,790
	54,337	118,930

13. Profit for the Year from Continuing Operations

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

	2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations		
Acquisition related costs (included in administrative expenses)	92,085	–
Amount due to directors written back	–	(3,880)
Auditors' remuneration	4,633	3,351
Depreciation and amortisation (note a)	1,643,732	1,176,896
Cost of inventories sold (note b)	2,210,951	1,725,083
Intangible asset written off	–	39,932
Operating lease charges		
– Hire of office equipment, machineries and motor vehicles	11,842	14,010
– Land and buildings	48,451	59,028
	60,293	73,038
Property, plant and equipment written off (included in other gains and losses of approximately HK$Nil (2017: HK$92,599,000) and exploration expenses of approximately HK$78,114,000 (2017: HK$242,188,000))	78,114	334,787
Staff costs excluding directors' emoluments		
– Salaries, bonuses and allowances	251,297	213,179
– Retirement benefits scheme contributions	32,577	42,354
– Share-based payments	13,195	13,583
	297,069	269,116

Note a: Depreciation and amortisation charges include the amortisation charges on intangible assets of approximately HK$222,801,000 (2017: HK$237,310,000) which are included in the costs of sales and services rendered.

Note b: Cost of inventories sold includes staff costs, depreciation and amortisation and operating lease charges of approximately HK$1,811,798,000 (2017: HK$1,358,982,000) 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:

	2018 HK$'000	2017 HK$'000
Continuing operations		
Current tax – Overseas		
Provision for the year	227,693	165,587
(Over)/under-provision in prior years	(4,288)	13,821
	223,405	179,408
Deferred tax (note 33)	456,740	261,012
	680,145	440,420

14. Income Tax Expense (Continued)

No provision for profits tax in Austria, Cayman Islands, Bermuda, British Virgin Islands ("BVI"), 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 2018 and 2017.

Pakistan Income Tax has been provided 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.

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:

	2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations		
Profit before tax	**2,282,856**	1,757,980
Tax at the weighted average tax rate of 46% (2017: 46%)	**1,060,100**	800,257
Tax effect of income that is not taxable	**(50,549)**	(28,755)
Tax effect of expenses that are not deductible	**176,026**	65,641
Tax effect of tax losses not recognised	**1,138**	22,136
Tax effect of utilisation of tax losses not previously recognised	**(17,263)**	–
Tax losses previously recognised and reversed	**(12,150)**	–
Tax effect of other temporary differences not recognised	**25,338**	(9,234)
Tax effect of withholding tax at 10% on gain derived from the Group's Mauritius subsidiary	**28,193**	30,675
Tax effect of withholding tax at 12.5% on gain derived from the Group's PRC subsidiary	**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	**(318,755)**	(236,753)
Tax effect of royalty deduction	**(263,292)**	(217,368)
Tax effect of super tax charged in Pakistan	**20,874**	–
(Over)/under-provision in prior years	**(4,288)**	13,821
Income tax expense	**680,145**	440,420

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 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 (Note)	120	–	–	–	–	120
	360	–	–	–	–	360
	4,910	7,800	–	18	7,693	20,421
Year ended 31 December 2017						
Executive directors:						
Mr. Zhang Hong Wei	–	1,000	–	–	10,033	11,033
Ms. Zhang Meiying	3,350	–	7,000	18	840	11,208
	3,350	1,000	7,000	18	10,873	22,241
Independent non-executive directors:						
Mr. Chau Siu Wai	120	–	–	–	–	120
Mr. San Fung	120	–	–	–	–	120
Ms. Wang Ying (Note)	60	–	–	–	–	60
	300	–	–	–	–	300
	3,650	1,000	7,000	18	10,873	22,541

Note: Appointed on 1 July 2017

None of the directors waived any emoluments during the year (2017: Mr. Zhu Jun and Mr. Zhu Chengwu waived their emoluments which amounted to approximately HK$240,000 and HK$30,000 respectively).

15. Directors' and Employee Benefits (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included two (2017: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2017: three) individuals are set out below:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	20,807	17,842
Share-based payments	5,446	5,611
	26,253	23,453

The emoluments fell within the following bands:

	Number of individuals 2018	2017
HK$3,500,001 to HK$4,000,000	–	1
HK$7,500,001 to HK$8,000,000	2	–
HK$8,500,001 to HK$9,000,000	–	1
HK$10,500,001 to HK$11,000,000	1	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 (2017: Nil).

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

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

16. Discontinued Operations

On 30 January 2018, the Group entered into shares sale agreement to dispose of 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 38(b).

Profit/(loss) for the year from discontinued operations:

	2018 **HK$'000**	2017 HK$'000
Turnover	–	20,758
Cost of sales and services rendered	–	(14,680)
Gross profit	–	6,078
Investment and other income	52	322
Other gains and losses	–	950
Administrative expenses	(805)	(7,202)
Other operating expenses	(1,444)	(1,891)
Loss before tax	(2,197)	(1,743)
Income tax expense	–	–
	(2,197)	(1,743)
Gain on disposal of a subsidiary (note 38(b))	36,818	–
Profit/(loss) for the year from discontinued operations	34,621	(1,743)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

16. Discontinued Operations (Continued)

Profit/(loss) for the year from discontinued operations include the following:

	2018 HK$'000	2017 HK$'000
Auditors' remuneration	–	6
Depreciation and amortisation	1,645	14,032
Staff costs excluding directors' emoluments		
– Salaries, bonuses and allowances	460	5,172
– Retirement benefits scheme contributions	34	443
	494	5,615
Gain on disposals of property, plant and equipment	–	(950)

Cash flows from discontinued operations:

	2018 HK$'000	2017 HK$'000
Net cash inflows from/(outflows to) operating activities	10,580	(14,086)
Net cash inflows from investing activities	178	12,312
Net cash (outflows to)/inflows from financing activities	(246)	9
Effect of foreign exchange rate changes	(772)	3,160
Net cash inflows	9,740	1,395

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$1,637,991,000 (2017: HK$1,316,340,000) and the weighted average number of ordinary shares of 26,278,512,171 (2017: 26,239,949,794) 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$1,602,711,000 (2017: HK$1,317,560,000 (as restated)) and the weighted average number of ordinary shares of 26,278,512,171 (2017: 26,239,949,794) in issue during the year.

(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 ended 31 December 2018 is based on the profit for the year attributable to owners of the Company of approximately HK$1,637,991,000 and the weighted average number of ordinary shares of 26,280,773,076, being the weighted average number of ordinary shares of 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 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 ended 31 December 2018 is based on the profit for the year attributable to owners of the Company of approximately HK$1,602,711,000 and the denominator used are the same as those detailed above for diluted earnings per share.

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

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

Basic earnings per share from discontinued operations 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

	2018 HK$'000	2017 HK$'000
2017 Final dividend of HK$4 cents (2017: 2016 Final dividend of HK$Nil) per ordinary share paid	**1,050,763**	–
2017 Special dividend of HK$4 cents per ordinary share paid	**–**	1,050,763
	1,050,763	1,050,763

No final dividend for the year ended 31 December 2018 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$'000	Spare part HK$'000	Total HK$'000
Cost													
At 1 January 2017	15,844	6,981	9,589	–	–	58,345	283,191	791,302	8,649,964	244,765	376,076	423,866	10,859,923
Additions	–	–	262	55,918	–	–	456	–	–	809,804	587,652	282,853	1,736,945
Addition due to revision in decommissioning costs estimate	–	–	–	–	–	–	–	–	33,179	–	–	–	33,179
Disposals	–	(147)	–	–	–	(1,673)	(64)	(4,514)	–	–	–	–	(6,398)
Written off	–	–	–	–	–	–	–	–	(237,224)	(1,201)	(242,188)	–	(480,613)
Transfers	–	–	–	–	–	7,411	(974)	(632,783)	1,405,377	(323,320)	(166,481)	(289,230)	–
Exchange differences	–	525	657	–	–	269	915	7,032	1,043	–	–	–	10,441
At 31 December 2017 and 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 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	**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**
Accumulated depreciation and impairment losses													
At 1 January 2017	–	5,242	8,637	–	–	40,996	194,559	308,918	4,950,596	–	–	–	5,508,948
Charge for the year	–	136	914	11,184	–	11,443	33,910	19,685	877,344	–	–	–	954,616
Disposals	–	(147)	–	–	–	(1,520)	(64)	(4,477)	–	–	–	–	(6,208)
Written off	–	–	–	–	–	–	–	–	(145,826)	–	–	–	(145,826)
Transfers	–	–	–	–	–	–	–	(194,596)	194,596	–	–	–	–
Exchange differences	–	398	619	–	–	262	523	5,728	1,042	–	–	–	8,572
At 31 December 2017 and 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 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	**–**	**3,885**	**5,507**	**22,368**	**4,961**	**63,572**	**270,413**	**66,883**	**7,207,212**	**–**	**–**	**–**	**7,644,801**
Carrying amount													
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**
At 31 December 2017	15,844	1,730	338	44,734	–	13,171	54,596	25,779	3,974,587	730,048	555,059	417,489	5,833,375

19. Property, Plant and Equipment (Continued)

During the year, the Group has written off oil and gas properties, construction in progress and exploration and evaluation expenditures attributable to the exploration and production segment which amounted to approximately HK$78,114,000 (2017: HK$334,787,000). The assessment by the management are disclosed in note 20 to the consolidated financial statements.

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

20. 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 2017	5,119,587	339,385	62,587	–	–	5,521,559
Additions	–	–	–	17,000	–	17,000
Written off	(52,725)	–	–	–	–	(52,725)
Exchange differences	–	25,791	4,756	–	–	30,547
At 31 December 2017 and 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	**5,418,642**	**–**	**–**	**17,000**	**38,003**	**5,473,645**
Accumulated amortisation and impairment losses						
At 1 January 2017	2,605,284	339,385	62,587	–	–	3,007,256
Amortisation for the year	237,310	–	–	–	–	237,310
Written off	(12,793)	–	–	–	–	(12,793)
Exchange differences	–	25,791	4,756	–	–	30,547
At 31 December 2017 and 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	**3,052,602**	**–**	**–**	**–**	**38,003**	**3,090,605**
Carrying amount						
At 31 December 2018	**2,366,040**	**–**	**–**	**17,000**	**–**	**2,383,040**
At 31 December 2017	2,237,061	–	–	17,000	–	2,254,061

20. Intangible Assets (Continued)

Concession and lease rights

Concession and lease rights represent the rights for oil and gas exploration and production in Pakistan which will expire on various dates, in accordance with the respective development and production leases, between years 2018 and 2039. The amortisation of concession and lease rights is determined using the unit-of-production method over the proved and probable reserves of petroleum.

Due to the depletion of commercial oil and gas reserves and the results of technical evaluation, the management considered that future economic benefits of certain property, plant and equipment and intangible assets in the exploration and production segment are no longer expected. As such, the carrying amounts of property, plant and equipment (note 19) and intangible assets of approximately HK$78,114,000 (2017: HK$334,787,000) and HK$Nil (2017: HK$39,932,000) respectively had been written off during the year.

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 current year, 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 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.

21. Investment in Associates

	2018 HK$'000	2017 HK$'000
Unlisted investments:		
Share of net assets	**303,580**	70,049
Goodwill	**146,843**	–
	450,423	70,049

Details of the Group's associates at 31 December 2018 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest/voting power/profit sharing 2018	2017	Principal activities
Orient Group Beijing Investment Holding Limited (note a)	Mauritius	47,769,535 ordinary shares of US$1 each	**48%**	–	Investment holding
UEP Wind Power (Private) Limited	Pakistan	659,974,655 ordinary shares of PKR10 each	**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 (2017: investment in artworks)
東方藝術品有限公司	PRC	Registered capital of RMB100,000,000 (Note 41(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: 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 megawatt 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 (note 22). 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

21. 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 2018	2017
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%**	N/A
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**1,886,330**	–
Current assets	**175,932**	–
Non-current liabilities	**(1,149,575)**	–
Current liabilities	**(301,263)**	–
Net assets	**611,424**	–
Group's share of net assets	**296,663**	–
Goodwill	**146,843**	–
Group's share of carrying amount of interests	**443,506**	–
Year ended 31 December:		
Revenue	**–**	–
Profit from continuing operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

21. Investment in Associates (Continued)

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

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.

	2018 HK$'000	2017 HK$'000
At 31 December:		
Carrying amounts of the Group's investments in associates	6,917	70,049
Year ended 31 December:		
Share of the associate's (loss)/profit for the year	(333)	52
Share of the associate's other comprehensive income	–	–
Share of the associate's total comprehensive income	(333)	52

22. Financial Assets at FVTOCI (2017: Available-For-Sale Financial Assets)

	2018 HK$'000	2017 HK$'000
Unlisted equity securities	–	4,914

As at 31 December 2017, unlisted equity securities were carried at cost as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

As at 31 December 2017, available-for-sale financial assets are denominated in the US dollars.

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

23. Advances, Deposits and Prepayments

	2018 HK$'000	2017 HK$'000
Advances to staff	1,175	1,399
Deposits and prepayments	6,758	3,420
Deposits paid for acquisition of property, plant and equipment	–	44,511
Deposit paid for acquisition of subsidiaries (note a)	117,000	–
Due from joint operators	18,092	–
Loan receivables (note b)	–	436,800
	143,025	486,130

Note a: 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 46(a). The deposit is non-interest bearing and subsequently formed part of the purchase consideration upon the completion of the acquisition.

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

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

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

The loan receivables subsequently formed part of the consideration upon the completion of the Acquisition on 17 April 2018 (note 38(a)). Details of the Acquisition are set out in the Company's announcements dated 24 October 2017 and 17 April 2018.

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

	2018 HK$'000	2017 HK$'000
RMB	–	653
US$	137,052	436,800
PKR	5,973	48,677
Total	143,025	486,130

24. Inventories

	2018 HK$'000	2017 HK$'000
Finished goods	**25,440**	38,329
Spare parts and consumables	**332,058**	190,413
Less: allowance for inventories	**(19,500)**	(19,500)
	337,998	209,242

25. Trade and Other Receivables

	2018 HK$'000	2017 HK$'000
Trade receivables (note a)	**1,851,365**	1,292,623
Allowance for price adjustments (note b)	**(207,807)**	(214,371)
	1,643,558	1,078,252
Other receivables (note c)	**546,602**	290,925
Allowance for other receivables	**–**	(2,624)
	546,602	288,301
Total trade and other receivables	**2,190,160**	1,366,553

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit term generally ranges from 30 to 45 days (2017: 30 to 45 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2018 HK$'000	2017 HK$'000
0 to 30 days	**1,050,172**	875,350
31 to 60 days	**361,217**	328,362
61 to 90 days	**297,992**	88,623
Over 90 days	**141,984**	288
	1,851,365	1,292,623

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

25. Trade and Other Receivables (Continued)

(a) Trade receivables (Continued)

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

	2018 HK$'000	2017 HK$'000
RMB	–	29,288
US$	1,847,869	1,249,479
PKR	3,496	13,856
Total	1,851,365	1,292,623

At 31 December 2018, the carrying amount of trade receivables pledged as security for the Group's borrowings amounted to approximately HK$457,810,000 (2017: HK$Nil) (note 30).

(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$207,807,000 (2017: HK$214,371,000) was provided.

(c) Other receivables

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

	2018 HK$'000	2017 HK$'000
Due from joint operators	189,855	173,930
Advances to staff	7,051	8,223
Central excise duty receivables	25,295	12,150
Deposits and prepayments (note i)	81,663	18,050
Sales tax receivables	221,613	58,110
Other tax receivables	2,863	1,288
Withholding tax receivables	8,298	–
Interest receivables	–	8,138
Others	9,964	8,412
	546,602	288,301

(i) As at 31 December 2018, the deposits included a collateral 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 2.0% to 2.5% per annum and repayable within 3 days upon the expiry of the facility on 30 June 2019 or in the event that no withdrawal was made by PCLD.

25. Trade and Other Receivables (Continued)

(c) Other receivables (Continued)

As at 31 December 2018, no allowance was made for estimated irrecoverable other receivables (2017: allowance was made for approximately HK$2,624,000).

	2018 HK$'000	2017 HK$'000
At 1 January	**2,624**	2,439
Disposal of subsidiaries	**(2,624)**	–
Exchange differences	**–**	185
At 31 December	**–**	2,624

As of 31 December 2018 and 2017, none of the other receivables were past due but not impaired.

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

	2018 HK$'000	2017 HK$'000
HK$	**9,410**	10,437
RMB	**8,720**	20,810
US$	**251,179**	213,608
Singapore dollars ("S$")	**12**	12
PKR	**277,281**	43,434
Total	**546,602**	288,301

26. Financial Assets at Fair Value through Profit or Loss

	2018 HK$'000	2017 HK$'000
Equity securities, at fair value		
Listed in Hong Kong at market value	**2,754**	3,398

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. Pledged Bank Deposits and Bank and Cash Balances

(a) Bank and cash balances

	2018 HK$'000	2017 HK$'000
Cash at bank and on hand	883,182	578,601
Term deposits matured within 3 months	1,633,350	2,011,920
Cash and cash equivalents	2,516,532	2,590,521
Term deposits matured over 3 months but within 1 year	–	156,272
Total	2,516,532	2,746,793

At 31 December 2018, the carrying amount of bank and cash balance pledged as security for the Group's borrowings amounted to HK$262,424,000 (2017: HK$Nil) (note 30).

At 31 December 2018, the bank and cash balances of the Group denominated in RMB amounted to approximately HK$191,230,000 (2017: HK$226,624,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

(b) Pledged bank deposits

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

28. Trade and Other Payables

	2018 HK$'000	2017 HK$'000
Trade payables (note a)	666,548	287,579
Other payables (note b)	1,980,455	1,369,297
Total trade and other payables	2,647,003	1,656,876

28. Trade and Other Payables (Continued)

(a) Trade payables

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

	2018 HK$'000	2017 HK$'000
0 to 30 days	**329,085**	250,407
31 to 45 days	**66,019**	11,345
Over 45 days	**271,444**	25,827
	666,548	287,579

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

	2018 HK$'000	2017 HK$'000
RMB	**196**	7,550
US$	**555,106**	196,665
PKR	**111,246**	83,364
Total	**666,548**	287,579

(b) Other payables

	2018 HK$'000	2017 HK$'000
Accrual for operating and capital expenses	**849,775**	810,556
Due to joint operators	**132,439**	–
Bills payables	**–**	685
Deposits received	**68**	83,420
Salaries and welfare payables	**108,758**	103,420
Other tax payables	**849,820**	317,653
Others	**39,595**	53,563
	1,980,455	1,369,297

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

	2018 HK$'000	2017 HK$'000
HK$	**5,820**	2,195
RMB	**44,010**	70,629
US$	**1,082,095**	982,746
PKR	**848,530**	313,727
Total	**1,980,455**	1,369,297

29. Due to a Director

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

30. Borrowings

	2018 HK$'000	2017 HK$'000
Bank loans, secured	**641,736**	–

The borrowings are repayable as follows*:

	2018 HK$'000	2017 HK$'000
Within one year	**181,123**	–
More than one year, but not exceeding two years	**198,578**	–
More than two years, but not more than five years	**262,035**	–
	641,736	–
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(181,123)**	–
Amount due for settlement after 12 months	**460,613**	–

* The amounts due are based on scheduled repayment dates as set out in the loan agreements.

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

The average effective interest rate of the secured bank loans as at 31 December 2018 was 7.82% (2017: Nil).

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

As at 31 December 2018, bank loans are secured or guaranteed by the following:

(i) share charge over the entire equity interests of a wholly owned subsidiary, BowEnergy Resources (Pakistan) SRL;

(ii) certain property, plant and equipment, trade receivables and bank and cash balances with an aggregate carrying value of approximately HK$1,919,375,000 (equivalent to approximately US$246,074,000) (2017: HK$Nil); and

(iii) unlimited corporate guarantee provided by the Company.

31. Provisions

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

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.

32. Derivative Financial Instruments

	2018 HK$'000	2017 HK$'000
Financial liabilities		
Derivatives held for trading		
Interest rate swaps	**1,165**	–

As at 31 December 2018, 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 2018, the notional principal amounts of the outstanding interest rate swaps contracts were approximately HK$458,640,000 (equivalent to US$58,800,000) (2017:HK$Nil) with fixed interest rates at 2.8% per annum (2017: Nil). 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 2018. 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.

33. 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$'000	Pre-commercial expenditure for concession rights surrendered HK$'000	Defined benefit liabilities HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2017	933,907	(69,885)	(9,750)	(396,094)	(166,628)	–	–	–	291,550
Charge/(credit) to profit or loss for the year (note 14)	(64,717)	137,637	–	13,739	59,598	114,755	–	–	261,012
Exchange differences	(11,976)	–	–	–	–	–	–	–	(11,976)
At 31 December 2017 and 1 January 2018	**857,214**	**67,752**	**(9,750)**	**(382,355)**	**(107,030)**	**114,755**	**-**	**-**	**540,586**
Acquisition of subsidiaries (note 38(a))	**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	**1,331,832**	**374,831**	**(15,140)**	**(347,467)**	**(108,417)**	**114,755**	**540**	**(200,088)**	**1,150,846**

33. Deferred Tax (Continued)

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

	2018 HK$'000	2017 HK$'000
Deferred tax liabilities	**1,150,846**	540,586

At the end of the reporting period, the Group has unused tax losses and other deductible temporary differences of approximately HK$907,858,000 and HK$12,287,000 respectively (2017: HK$638,528,000 and HK$65,958,000 respectively) that are available for offsetting against future taxable profits. A deferred tax asset has been recognised in respect of approximately HK$500,218,000 (2017: HK$Nil) of such losses. No deferred tax assets have been recognised in respect of the remaining approximately HK$407,640,000 (2017: HK$638,528,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are of approximately HK$309,426,000 (2017: HK$506,671,000) that will expire from 2020 to 2023 (2017: from 2019 to 2022). 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.

34. Share Capital

	Note	**2018 Number of shares '000**	**2018 Amount HK$'000**	2017 Number of shares '000	2017 Amount HK$'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		**26,269,065**	**262,690**	26,225,692	262,256
Issue of shares under employees performance share schemes	(a)	**20,348**	**203**	27,057	271
Issue of shares under share match scheme	(b)	**4,742**	**48**	16,316	163
At 31 December		**26,294,155**	**262,941**	26,269,065	262,690

Notes:

(a) During the year ended 31 December 2018, 20,348,257 (2017: 27,057,124) ordinary shares of HK$0.01 each pursuant to the employees performance share schemes of the Company were issued and allotted to the employees in Pakistan.

(b) During the year ended 31 December 2018, 4,741,780 (2017: 16,316,450) ordinary shares of HK$0.01 each pursuant to the share match scheme of the Company were issued and allotted to the employees in Pakistan.

34. Share Capital (Continued)

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group monitors capital by maintaining a positive cash position throughout the year. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the Group may adjust the payment of dividends, issue new shares, buy back shares and raise new debts.

The Group's strategy is to maintain a solid base to support the operations and development of its business in the long term. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

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 2018 was 30% (2017: 20%).

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 2018, 28.68% (2017: 28.61%) 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 2018 and 2017.

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

(a) Statement of financial position of the Company

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries		22,206	69,814
Intangible assets		17,000	17,000
		39,206	86,814
Current assets			
Trade and other receivables		50,016	9,475
Financial assets at fair value through profit or loss		2,754	3,398
Due from subsidiaries		6,770,666	5,873,701
Bank and cash balances		1,532,932	1,745,712
		8,356,368	7,632,286
Current liabilities			
Trade and other payables		10,645	2,358
Due to subsidiaries		6,235,273	4,407,399
Due to a director		9,433	5,697
		6,255,351	4,415,454
Net current assets		2,101,017	3,216,832
Total assets less current liabilities		2,140,223	3,303,646
Capital and reserves			
Share capital		262,941	262,690
Reserves	35(b)	1,877,282	3,040,956
TOTAL EQUITY		2,140,223	3,303,646

The Company's statement of financial position was approved by the Board of Directors on 29 March 2019 and signed on its behalf by:

Zhang Hong Wei
Executive Director

Zhang Meiying
Executive Director

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

(b) Reserve movement of the Company

	Share premium account HK$'000	Contributed surplus reserve HK$'000	Share-based capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	2,487,238	13,312,566	14,924	(11,821,564)	3,993,164
Issue of shares under employees performance share schemes (note 34(a))	10,282	–	–	–	10,282
Issue of shares under share match scheme (note 34(b))	5,303	–	–	–	5,303
Special dividend paid (note 18)	–	(1,050,763)	–	–	(1,050,763)
Profit and other comprehensive income for the year	–	–	–	82,970	82,970
At 31 December 2017	2,502,823	12,261,803	14,924	(11,738,594)	3,040,956
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 34(a))	**11,395**	**–**	**–**	**–**	**11,395**
Issue of shares under share match scheme (note 34(b))	**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**

36. 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.

37. 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 2018 and 2017, no share options were granted, exercised, lapsed or cancelled under the Old Scheme and New Scheme.

37. 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 2018
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:

	2018 Number of share options	2018 Weighted average exercise price HK$	2017 Number of share options	2017 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 3.66 years (2017: 4.66 years) and the exercise price is HK$0.93 (2017: HK$0.93). During the year, no expense was recognised in relation to the Old Scheme (2017: HK$Nil).

37. 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 Employee 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.

37. 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$10,413,000 (2017: HK$10,709,000) for the year ended 31 December 2018 in relation to the Employees Performance Share Schemes.

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

37. 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 2018	Granted during the year	Vested during the year	Lapsed during the year	Outstanding as at 31 December 2018	Vesting period
Performance share scheme	2 January 2015	HK$1.12	4,434,140	–	(4,434,140)	–	–	2 January 2015 to 1 January 2018
Executive performance share scheme	2 January 2015	HK$1.12	1,727,835	–	(1,727,835)	–	–	2 January 2015 to 1 January 2018
Deferred annual bonus scheme	2 January 2015	HK$1.12	2,877,451	–	(2,877,451)	–	–	2 January 2015 to 1 January 2018
Performance share scheme	4 January 2016	HK$0.66	8,435,429	–	(1,328,897)	–	7,106,532	4 January 2016 to 3 January 2019
Executive performance share scheme	4 January 2016	HK$0.66	2,845,845	–	–	–	2,845,845	4 January 2016 to 3 January 2019
Deferred annual bonus scheme	4 January 2016	HK$0.66	4,841,015	–	–	–	4,841,015	4 January 2016 to 3 January 2019
Performance share scheme	3 January 2017	HK$0.42	15,169,042	–	(1,530,129)	–	13,638,913	3 January 2017 to 2 January 2020
Executive performance share scheme	3 January 2017	HK$0.42	4,961,987	–	–	–	4,961,987	3 January 2017 to 2 January 2020
Deferred annual bonus scheme	3 January 2017	HK$0.42	6,926,095	–	–	–	6,926,095	3 January 2017 to 2 January 2020
Performance share scheme	2 January 2018	HK$0.53	–	10,807,584	–	–	10,807,584	2 January 2018 to 1 January 2021
Executive performance share scheme	2 January 2018	HK$0.53	–	3,416,948	–	–	3,416,948	2 January 2018 to 1 January 2021
Deferred annual bonus scheme	2 January 2018	HK$0.53	–	6,123,725	–	–	6,123,725	2 January 2018 to 1 January 2021
			52,218,839	20,348,257	(11,898,452)	–	60,668,644	

37. 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 of Hong Kong Limited. 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.

37. 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$2,782,000 (2017: HK$2,874,000) for the year ended 31 December 2018 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 2018	Granted during the year	Vested during the year	Lapsed during the year	Outstanding as at 31 December 2018	Vesting period
2 September 2015	HK$0.85	3,398,637	–	(3,356,539)	(42,098)	–	2 September 2015 to 1 September 2018
1 September 2016	HK$0.26	10,695,676	–	(272,640)	(175,906)	10,247,130	1 September 2016 to 31 August 2019
1 September 2017	HK$0.34	8,158,225	–	(121,936)	(60,968)	7,975,321	1 September 2017 to 31 August 2020
31 August 2018	HK$1.29	–	2,370,890	(13,484)	(3,371)	2,354,035	31 August 2018 to 30 August 2021
		22,252,538	2,370,890	(3,764,599)	(282,343)	20,576,486	

38. Notes to the Consolidated Statement of Cash Flows

(a) Acquisition of subsidiaries

(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".

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

(a) Acquisition of subsidiaries (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

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

(a) Acquisition of subsidiaries (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 the end of the reporting period 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.

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

(b) 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

(c) Reconciliation of liabilities arising from financing activities

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

	1 January 2018 HK$'000	Borrowings raised, net of direct transaction cost HK$'000	Repayment of borrowings HK$'000	Non-cash transaction: Imputed interest expenses HK$'000	31 December 2018 HK$'000
Borrowings (note 30)	–	**757,380**	**(121,680)**	**6,036**	**641,736**

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

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

	1 January 2017 HK$'000	Repayment of borrowings HK$'000	Interest expenses HK$'000	31 December 2017 HK$'000
Borrowings (note 30)	3,269,268	(3,269,268)	–	–

39. 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

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 21 to the consolidated financial statements, the Group acquired 48% interest in OGBIH. 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.

(c) At the end of the reporting period, OGCL and Orient Group Industrial has provided corporate guarantees to the bank for banking facility 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. The service fee will be charged at 2% of the outstanding bank loan.

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

39. Related Party Transactions (Continued)

(e) On 23 September 2016, the Company and Orient Group entered into a banking facility commitment letter with the amount up to approximately HK$9,828,000,000 (equivalent to US$1,260,000,000) ("Loan Facility"). The Loan Facility would be available upon the fulfilment of conditions as set out in the facility commitment letter. Details of the Loan Facility are set out in the Company's announcement dated 19 September 2016. The Loan Facility was lapsed in 2017 as the conditions set out in the facility commitment letter was not fulfilled within the specified period.

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

40. Contingent Liabilities

(a) For the years ended 31 December 2018 and 2017, 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 2018 and 2017, 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$3,657,000 (2017: HK$4,107,000).

(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 (2017: HK$194,261,000) would be required to be made in the financial statements for the year ended 31 December 2018.

(d) As at 31 December 2018, 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$398,732,000 (2017: HK$Nil).

(e) At the end of the reporting period, bank guarantees to the extent of approximately HK$9,750,000 (equivalent to US$1,250,000) (2017:HK$Nil (equivalent to US$Nil)) 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.

41. CAPITAL COMMITMENTS

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

(a)

	2018 HK$'000	2017 HK$'000
Contracted but not provided for:		
Acquisition of property, plant and equipment	**6,287**	582
Commitments for capital expenditure	**404,842**	285,622
Acquisition of a subsidiary (note 46(a))	**4,959,686**	59,575
	5,370,815	345,779

(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$113,850,000 (equivalent to approximately RMB100,000,000) (2017: HK$120,070,000 (equivalent to approximately RMB100,000,000)). At 31 December 2018, the Group has contributed approximately HK$13,942,000 (equivalent to approximately RMB12,246,000) (2017: HK$14,704,000 (equivalent to approximately RMB12,246,000)) to UEBL. In accordance with the memorandum of association of UEBL, the remaining balance of approximately HK$99,908,000 (equivalent to approximately RMB87,754,000) (2017: HK$105,366,000 (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$113,850,000 (equivalent to approximately RMB100,000,000) (2017: HK$120,070,000 (equivalent to approximately RMB100,000,000)). In accordance with the memorandum of association of 東方藝術品, UEBL is committed to contribute approximately HK$22,770,000 (equivalent to approximately RMB20,000,000) (2017: HK$24,014,000 (equivalent to approximately RMB20,000,000)) as 20% registered share capital of 東方藝術品. At 31 December 2018, 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.

42. OPERATING LEASE COMMITMENTS

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

	2018 HK$'000	2017 HK$'000
Within one year	**8,940**	13,615
In the second to fifth years inclusive	**8,376**	12,796
	17,316	26,411

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 (2017: 2.2 years) and rentals are fixed over the lease terms and do not include contingent rentals.

43. RETIREMENT BENEFITS SCHEME

Hong Kong

The Group participates in the mandatory provident fund scheme (the "MPF Scheme") established under the MPF Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce contributions payable in future years.

The Group's contribution under the MPF Scheme for the year ended 31 December 2018 amounted to approximately HK$231,000 (2017: HK$201,000).

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 2018 amounted to approximately HK$10,116,000 (2017: HK$9,466,000 (as restated)).

Pakistan

(a) Defined Contribution Gratuity Fund

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

The Group's contribution under the scheme for the year ended 31 December 2018 amounted to approximately HK$13,441,000 (2017: HK$22,027,000).

(b) Defined Contributory Provident Fund

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

The Group's contribution under the scheme for the year ended 31 December 2018 amounted to approximately HK$8,807,000 (2017: HK$10,678,000).

43. RETIREMENT BENEFITS SCHEME (Continued)

Pakistan (Continued)

(c) Defined Benefit Plans

The Group operates an approved gratuity fund in Pakistan for its eligible employees who complete the qualifying period of service. The annual provision for gratuity is 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.

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.

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

	2018 HK$'000	2017 HK$'000
Fair value of plan assets	**40,278**	–
Present value of defined benefit obligation	**(37,452)**	–
	2,826	–

43. RETIREMENT BENEFITS SCHEME (Continued)

Pakistan (Continued)

(c) Defined Benefit Plans (Continued)

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

	Fair value of plan assets HK$'000	Present value of defined benefit obligation HK$'000	Total HK$'000
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 benefit 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:

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents	**1,046**	–
Term deposits	**39,232**	–
	40,278	–

43. RETIREMENT BENEFITS SCHEME (Continued)

Pakistan (Continued)

(c) Defined Benefit Plans (Continued)

The principal actuarial assumptions adopted by the Group as at 31 December 2018 (expressed as weighted average) are as follows:

Discount rate	13.25%
Salary growth rate	13.25%
Mortality rates (note i)	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:	Death rate
20	0.094%
30	0.119%
40	0.208%
50	0.538%
59	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.

43. RETIREMENT BENEFITS SCHEME (Continued)

Pakistan (Continued)

(c) 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 obligation 2018 HK$'000	2017 HK$'000
Discount rate	1%	**(2,737)/3,092**	–
Salary growth rate	1%	**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 obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation 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 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 2019 is approximately HK$3,477,000.

The weighted average duration of the Group's defined benefit obligation is approximately 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 2018					
Pension payments	8,446	4,864	18,059	26,792	58,161

44. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2018 are as follows:

			Proportion of ownership interest			
Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Fine Profit Corporation Limited	Hong Kong	HK$10,000	100%	100%	–	Provision of administrative services
United Energy Group (Hong Kong) Limited	Hong Kong	HK$100	100%	100%	–	Investment holding and provision of group financing supporting services
United Energy International Finance Limited	Hong Kong	HK$1	100%	100%	–	Provision of group financing supporting services
Bright Advance International Investment Limited	Hong Kong	HK$1	100%	100%	–	Investment holding
Dragon Prime Hong Kong Limited	Hong Kong	HK$1	100%	100%	–	Investment holding
Easy Goal Development Limited	Hong Kong	HK$1	100%	–	100%	Not yet commenced business
Gold Cheers Corporation Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
United Petroleum & Natural Gas (Panjin) Limited # (note a)	PRC	RMB100,000,000	100%	–	100%	Provision of group financing supporting services
United Energy (Beijing) Limited # (note a)	PRC	RMB12,246,200	100%	–	100%	Provision of administrative services
United Petroleum & Natural Gas Investments Limited	British Virgin Islands	US$50,000	100%	100%	–	Investment holding
Merry Year Investments Limited	British Virgin Islands	US$100	100%	100%	–	Investment holding
Gold Trade Group Limited	British Virgin Islands	US$10	100%	100%	–	Investment holding
Classic Trade Holdings Limited	British Virgin Islands	US$100	100%	100%	–	Investment holding

44. SUBSIDIARIES (Continued)

Particulars of the subsidiaries as at 31 December 2018 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	
United Energy International Trading Limited	British Virgin Islands	US$100	100%	–	100%	Investment holding
Vision Peak Investments Limited	British Virgin Islands	US$10	100%	100%	–	Investment holding
United Energy (China) Limited	British Virgin Islands	US$1,000	100%	100%	–	Investment holding
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
Nice Sense Holdings Limited	British Virgin Islands	US$100	100%	100%	–	Investment holding
United Energy Group Investments Limited	British Virgin Islands	US$1	100%	100%	–	Investment holding
KNGS Exploration and Development Limited	Cayman Islands	US$100	100%	–	100%	Investment holding
Dragon Prime Holding Limited	Cayman Islands	US$100	100%	–	100%	Not yet commenced business
Oasis Natural Energy Inc	Republic of Panama	US$10,000	100%	–	100%	Investment holding
BowEnergy Resources (Pakistan) SRL	Barbados	US$9,775,568	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan

44. SUBSIDIARIES (Continued)

Particulars of the subsidiaries as at 31 December 2018 are as follows: (Continued)

Name	Place of incorporation/ registration	Issued and fully paid share capital/ registration capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
UEP Beta GmbH (formerly known as OMV (Pakistan) Exploration Gesellschaft m.b.H.)	Austria	US$50,000	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
United Energy Financing (Bermuda) Limited	Bermuda	US$100	100%	100%	–	Dormant
United Energy Pakistan Holdings Limited	Mauritius	US$1	100%	100%	–	Investment holding
United Energy Pakistan Limited	Mauritius	US$1	100%	–	100%	Engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan
Gold Trade International Limited	Mauritius	US$1	100%	–	100%	Provision of group financing supporting services
Super Success International Holdings Limited	Mauritius	US$1	100%	100%	–	Investment holding
United Energy Global Trading Limited	Mauritius	US$1	100%	100%	–	Dormant
UEP Alpha Limited (formerly known as OMV Maurice Energy 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 (Singapore) Resources Pte. Limited	Singapore	S$10,000,000	100%	–	100%	Not yet commenced business

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

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

45. JOINT OPERATIONS

As at 31 December 2018, the particulars of the joint arrangements of the Group, all of which are not structured through separate vehicles, are set out as follows:

Concession/project name	Place of business	Proportion of participating interest held by the Group		Principal activities
		2018	2017	
Badin II	Pakistan	51%	51%	Exploration and production of crude oil and natural gas
Badin II Revised	Pakistan	76%	76%	Exploration and production of crude oil and natural gas
Badin III	Pakistan	60%	60%	Exploration and production of crude oil and natural gas
Mehran	Pakistan	75%	75%	Exploration and production of crude oil and natural gas
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%	50%	Exploration of crude oil and natural gas
Gambat South	Pakistan	10%	–	Exploration and production of crude oil and natural gas
Mubarak	Pakistan			Exploration and production of crude oil and natural gas
– exploration		57%	–	
– development and production		45%	–	
Mehar	Pakistan			Exploration and production of crude oil and natural gas
– exploration		75%	–	
– development and production		59.2%	–	
Miano	Pakistan	17.7%	–	Exploration and production of crude oil and natural gas
Sawan	Pakistan	19.7%	–	Exploration and production of crude oil and natural gas

45. JOINT OPERATIONS (Continued)

As at 31 December 2018, the particulars of the 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 interest held by the Group		Principal activities
		2018	2017	
Gambat	Pakistan			Exploration and production of crude oil and natural gas
– exploration		36.8%	–	
– development and production		27.6%	–	
Latif	Pakistan			Exploration and production of crude oil and natural gas
– exploration and development		33.4%	–	
South West Miano II	Pakistan	33.4%	–	Exploration of crude oil and natural gas
Kuhan	Pakistan			Exploration of crude oil and natural gas
– exploration		47.5%	–	
Barkhan	Pakistan			Exploration of crude oil and natural gas
– exploration		15%	–	

46. EVENTS AFTER THE REPORTING PERIOD

(a) On 23 September 2018, the Group entered into a transaction agreement and conditionally agreed to acquire the entire issued share capital of Kuwait Energy Public Limited Company ("KEC") and its subsidiaries for a consideration of up to approximately HK$5,076,686,000 (equivalent to approximately US$650,857,000) by way of a scheme of arrangement under Jersey. KEC is an upstream oil and gas company and principally engaged in exploration, appraisal, development and production activities in Middle East and North Africa. In October 2018, deposit of approximately HK$117,000,000 (equivalent to approximately US$15,000,000) was made to a designated escrow account pursuant to the transaction agreement. The acquisition was completed on 21 March 2019.

Because the acquisition of KEC was effected shortly before the date of approval of these consolidated financial statements, it is not practicable to disclose further details about the acquisition.

Details of this acquisition were set out in the Company's announcements dated 24 September 2018, 10 October 2018, 30 November 2018, 27 December 2018, 21 March 2019 and 22 March 2019.

(b) On 13 March 2019, the Group signed a facility agreement with a financial institution for a term loan facility of approximately HK$1,560,000,000 (equivalent to approximately US$200,000,000). The proceeds from this facility will be used for the Group's general working capital purpose. The facility has been fully drawn by the Group.

47. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The new classification of the accounting items was considered to provide more appropriate presentation of the state of affairs of the Group. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000	HK$'000
Turnover	**5,279,204**	4,420,508	4,061,024	5,231,023	6,120,229
Profit before tax	**2,282,856**	1,757,980	1,201,575	641,704	2,118,457
Income tax expenses	**(680,145)**	(440,420)	(176,662)	(117,429)	(304,011)
Profit for the year from continuing operations	**1,602,711**	1,317,560	1,024,913	524,275	1,814,446
Profit/(loss) for the year from discontinued operations	**34,621**	(1,743)	(64,560)	(3,474,895)	–
Attributable to:					
Owners of the Company	**1,637,991**	1,316,340	965,008	(2,943,674)	1,827,887
Non-controlling interests	**(659)**	(523)	(4,655)	(6,946)	(13,441)
	1,637,332	1,315,817	960,353	(2,950,620)	1,814,446

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total Assets	**16,147,438**	13,275,537	15,496,639	13,713,810	18,540,265
Total Liabilities	**(4,884,294)**	(2,598,518)	(5,073,095)	(6,872,201)	(8,722,893)
Net Assets	**11,263,144**	10,677,019	10,423,544	6,841,609	9,817,372
Equity attributable to owners of the Company	**11,263,144**	10,652,469	10,400,217	6,811,894	9,778,958
Non-controlling interests	**–**	24,550	23,327	29,715	38,414
Total equity	**11,263,144**	10,677,019	10,423,544	6,841,609	9,817,372

Note:

The 2017 comparative figures have been restated and reclassified to conform to the current year's presentation. The comparative profit/loss from discontinued operation has been re-presented under discontinued operation separately in the current year.

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