UNITED ENERGY GROUP LIMITED

聯合能源集團有限公司

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

(Stock Code: 467)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000 (Restated)	Change %
Results			
Turnover	**4,061,024**	5,231,023	-22.4%
Gross profit	**2,135,894**	2,937,657	-27.3%
EBITDA (Note 1)	**3,043,694**	4,073,152	-25.3%
Profit/ (loss) for the year	**960,353**	(2,950,620)	N/A
Profit/ (loss) for the year attributable to owners of the Company	**965,008**	(2,943,674)	N/A
Basic earnings/ (loss) per share (HK cents)	**4.90**	(17.43)	N/A
Key items in Consolidated Statement of Financial Position			
Equity attributable to owners of the Company	**10,400,217**	6,811,894	+52.7%
Total assets	**15,496,639**	13,713,810	+13.0%
Net assets	**10,423,544**	6,841,609	+52.4%

OPERATION HIGHLIGHTS
For the year ended 31 December 2016

	2016	2015	Change %
Average daily net production			
- Upstream oil and gas production in Pakistan	**64,252 boed**	64,464 boed	-0.3%
Lifting costs Note 2 (HK$/boe)			
- Upstream oil and gas production in Pakistan	**HK$22.9**	HK$28.3	-19.1%
1P Reserve			
- Upstream oil and gas production in Pakistan	**95.6 mmboe**	95.0 mmboe	+0.6%

Note:

1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, impairment and written off losses on intangible assets and property, plant and equipment, allowances for trade and other receivables, reversal of allowance for other receivables, gain/loss on disposals of property, plant and equipment, gain on disposal of subsidiaries and loss for the year from discontinued operation.

2. Depreciation and amortisation and sales expenses are excluded in lifting costs.

The board of directors ("Directors") of the Company (the "Board") of United Energy Group Limited (the "Company") hereby present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016 as follows:–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

	Note	**2016 HK$'000**	2015 HK$'000 (Restated)
Continuing operations			
Turnover	4	**4,061,024**	5,231,023
Cost of sales and services rendered		**(1,925,130)**	(2,293,366)
Gross profit		**2,135,894**	2,937,657
Investment and other income	5	**31,021**	33,229
Other gains and losses	6	**(83,396)**	(641,392)
Exploration expenses		**(165,749)**	(946,712)
Administrative expenses		**(380,401)**	(386,612)
Other operating expenses		**(103,344)**	(100,651)
Profit from operations		**1,434,025**	895,519
Finance costs	8	**(232,447)**	(253,815)
Share of losses of an associate		**(3)**	-
Profit before tax		**1,201,575**	641,704
Income tax expense	10	**(176,662)**	(117,429)
Profit for the year from continuing operations	9	**1,024,913**	524,275
Discontinued operation			
Loss for the year from discontinued operation	11	**(64,560)**	(3,474,895)
Profit/(loss) for the year		**960,353**	(2,950,620)
Attributable to:			
Owners of the Company			
Profit for the year from continuing operations		**1,029,568**	531,221
Loss for the year from discontinued operation		**(64,560)**	(3,474,895)
		965,008	(2,943,674)
Non-controlling interests			
Loss for the year from continuing operations		**(4,655)**	(6,946)
		960,353	(2,950,620)
Earnings/(loss) per share	12		
From continuing and discontinued operations			
Basic (cents per share)		**4.90**	(17.43)
Diluted (cents per share)		**N/A**	N/A
From continuing operations			
Basic (cents per share)		**5.23**	3.14
Diluted (cents per share)		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000 (Restated)
Profit/(loss) for the year	**960,353**	(2,950,620)
Other comprehensive income after tax:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**20,082**	8,993
Exchange gains reclassified to profit or loss on disposal of subsidiaries	**-**	(54,158)
Other comprehensive income for the year, net of tax	**20,082**	(45,165)
Total comprehensive income for the year	**980,435**	(2,995,785)
Attributable to:		
Owners of the Company		
Profit for the year from continuing operations	**1,051,383**	487,809
Loss for the year from discontinued operation	**(64,560)**	(3,474,895)
	986,823	(2,987,086)
Non-controlling interests		
Loss for the year from continuing operations	**(6,388)**	(8,699)
	980,435	(2,995,785)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Note	**2016**	2015
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment		**5,350,975**	5,479,120
Intangible assets		**2,514,303**	2,781,833
Investment in an associate		**69,997**	-
Available-for-sale financial assets		**4,914**	-
Advances, deposits and prepayments		**62,072**	98,213
Pledged bank deposits		**-**	146,038
Deferred tax assets		**113,891**	168,621
		8,116,152	8,673,825
Current assets			
Restricted deposits		**-**	412,001
Inventories		**207,794**	223,703
Trade and other receivables	13	**724,587**	1,704,047
Financial assets at fair value through profit or loss		**259,771**	201,831
Current tax assets		**337,114**	305,215
Pledged bank deposits		**1,123**	31,558
Bank and cash balances		**5,850,098**	2,161,630
		7,380,487	5,039,985
Current liabilities			
Trade and other payables	14	**1,078,943**	1,495,940
Due to directors		**9,558**	8,324
Borrowings		**773,268**	1,460,224
Current tax liabilities		**18,617**	12,139
		1,880,386	2,976,627
Net current assets		**5,500,101**	2,063,358
Total assets less current liabilities		**13,616,253**	10,737,183
Non-current liabilities			
Trade and other payables	14	**-**	89,859
Borrowings		**2,496,000**	3,120,000
Provisions		**291,268**	287,696
Deferred tax liabilities		**405,441**	398,019
		3,192,709	3,895,574
NET ASSETS		**10,423,544**	6,841,609
Capital and reserves			
Share capital		**262,256**	130,857
Reserves		**10,137,961**	6,681,037
Equity attributable to owners of the Company		**10,400,217**	6,811,894
Non-controlling interests		**23,327**	29,715
TOTAL EQUITY		**10,423,544**	6,841,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and redomiciled to Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Unit 2505, 25/F, Two Pacific Place, 88 Queensway, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was primarily involved in investment holding. The Group was mainly engaged in the development of strategic energy reserves, focusing on the investment and operation of upstream oil and natural gas and other energy related businesses. The Group is committed to develop itself to be a highly competitive international energy company. This is accomplished by the merger and acquisition of oil and natural gas assets; the exploration, development and production of crude oil and natural gas; and the provision of oilfield support services in China using patented technologies.

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).

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 2016. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(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 2016. These new and revised HKFRSs include the following which may be relevant to the Group.

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)**

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

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4 Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 16 Leases	1 January 2019
Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures : Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

HKFRS 9 Financial Instruments

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)**

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

HKFRS 9 Financial Instruments (continued)

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The Group's financial assets that are currently classified as available-for-sale include unlisted equity securities. The Group expects to irrevocably designate these equity securities as fair value through other comprehensive income. This will give rise to a change in accounting policy. The unlisted equity securities are currently measured at cost less impairment with any impairment losses recognised in profit or loss. HKFRS 9 requires fair value measurement with fair value changes recognised in other comprehensive income without recycling.

The Group is unable to quantity the impact until a more detailed assessment is completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)**

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

HKFRS 15 Revenue from Contracts with Customers (continued)

The standard also includes comprehensive disclosure requirements relating to revenue.

The standard is not effective until 1 January 2018. The Group is currently assessing the effects of applying the new standard on the Group's consolidated financial statements. At this stage, the Group is unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed. The Group does not expect to adopt the new standard before 1 January 2018.

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.

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

The Group's future minimum lease payments under non-cancellable operating leases for its office premises, staff quarters, motor vehicles and plant and machinery amounted to approximately HK$36,372,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

4. **TURNOVER**

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

	2016 **HK$'000**	2015 HK$'000 (Restated)
Continuing operations		
Sales and production of crude oil, condensate, gas and liquefied petroleum gas	**4,028,839**	5,193,370
Provision of patented technology support services to oilfields	**32,185**	37,653
	4,061,024	5,231,023

The turnover from sales and production of crude oil, condensate, gas and liquefied petroleum gas are net of sales tax, royalty to government and sales discounts amounting to approximately HK$674,319,000 (2015: HK$725,414,000), HK$559,022,000 (2015: HK$698,315,000) and HK$17,877,000 (2015: HK$16,106,000) respectively.

5. INVESTMENT AND OTHER INCOME

	2016 **HK$'000**	2015 HK$'000 (Restated)
Continuing operations		
Dividends income from listed equity investments	**167**	164
Interest income on bank deposits	**18,035**	15,364
Investment income from held-to-maturity investments	**-**	5,667
Investment income from financial assets at fair value through profit or loss	**1,845**	-
Liquefied petroleum gas processing fees charged to concessions, net	**2,494**	5,122
Management fees income	**2,402**	3,549
Others	**6,078**	3,363
	31,021	33,229

6. OTHER GAINS AND LOSSES

	2016 **HK$'000**	2015 HK$'000 (Restated)
Continuing operations		
Allowance for trade and other receivables	**-**	(19,326)
Fair value gains/(losses) on financial assets at fair value through profit or loss	**135**	(515)
(Loss)/gain on disposals of property, plant and equipment	**(3,441)**	31,816
Gain on disposal of subsidiaries	**-**	54,158
Impairment losses on intangible assets	**-**	(239,456)
Impairment losses on property, plant and equipment	**-**	(102,112)
Net foreign exchange (losses)/gains	**(27,162)**	31,167
Reversal of allowance for other receivables	**2,136**	-
Written off of intangible assets	**(3,383)**	(134,567)
Written off of property, plant and equipment	**(51,681)**	(262,557)
	(83,396)	(641,392)

7. SEGMENT INFORMATION

The Group has two operating segments as follows:

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

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

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

An operating segment regarding the oil exploitation of crude oil in PRC was discontinued in the current year. The discontinued operation has resulted in a change in the Group's structure and therefore its composition of reporting segment. The segment information reported below does not include any amounts for this discontinued operation, which is described in more details in note 11. The comparative figures of segment disclosure has been restated to conform to current year's presentation.

7. **SEGMENT INFORMATION (CONTINUED)**

Segment profit or loss does not include the following items:

- unallocated investment and other income
- unallocated other gains and losses
- unallocated corporate expenses
- finance costs (except for provisions - unwinding of discounts included in the exploration and production segment)

Segment assets do not include the following items:

- investment in an associate
- available-for-sale financial assets
- deferred tax assets
- restricted deposits
- financial assets at fair value through profit or loss
- current tax assets
- pledged bank deposits
- bank and cash balances
- other unallocated assets

Segment liabilities do not include the following items:

- due to directors
- borrowings
- current tax liabilities
- provisions (except for provision for decommissioning costs included in the exploration and production segment)
- other unallocated liabilities

7. SEGMENT INFORMATION (CONTINUED)

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

	Exploration and production	Oilfield support services	Total
	HK$'000	HK$'000	HK$'000
Year ended 31 December 2016			
Turnover from external customers	**4,028,839**	**32,185**	**4,061,024**
Segment profit/(loss)	**1,513,581**	**(17,794)**	**1,495,787**
Interest revenue	**5,371**	**470**	**5,841**
Interest expenses	**8,938**	**-**	**8,938**
Depreciation and amortisation	**1,393,176**	**26,363**	**1,419,539**
Income tax expense	**149,168**	**-**	**149,168**
Other material non-cash items:			
Reversal of allowance for other receivables	**2,136**	**-**	**2,136**
Written off of intangible assets	**3,383**	**-**	**3,383**
Written off of property, plant and equipment	**184,122**	**-**	**184,122**
Additions to segment non-current assets	**1,220,451**	**5,435**	**1,225,886**
As at 31 December 2016			
Segment assets	**8,715,284**	**41,919**	**8,757,203**
Segment liabilities	**1,582,081**	**13,461**	**1,595,542**

	Exploration and production	Oilfield support services	Total
	HK$'000	HK$'000	HK$'000 (Restated)
Year ended 31 December 2015			
Turnover from external customers	5,193,370	37,653	5,231,023
Segment profit/(loss)	906,245	(18,720)	887,525
Interest revenue	5,873	477	6,350
Interest expenses	8,792	-	8,792
Depreciation and amortisation	1,606,002	31,089	1,637,091
Income tax expense/(credit)	88,475	(2)	88,473
Other material non-cash items:			
Allowance for trade and other receivables	16,610	2,716	19,326
Impairment losses on intangible assets	239,456	-	239,456
Impairment losses on property, plant and equipment	102,112	-	102,112
Written off of intangible assets	134,567	-	134,567
Written off of property, plant and equipment	1,129,075	-	1,129,075
Additions to segment non-current assets	2,606,673	22,089	2,628,762
As at 31 December 2015			
Segment assets	10,125,530	68,489	10,194,019
Segment liabilities	2,014,310	17,948	2,032,258

7. **SEGMENT INFORMATION (CONTINUED)**

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

	2016	2015
	HK$'000	HK$'000 (Restated)
Profit or loss		
Total profit of reportable segments	**1,495,787**	887,525
Share of losses of an associate	**(3)**	-
Unallocated amounts:		
Investment and other income	**18,018**	14,931
Other gains and losses	**(28,122)**	81,017
Corporate expenses	**(237,258)**	(214,175)
Finance costs (except for provisions - unwinding of discounts included in the exploration and production segment)	**(223,509)**	(245,023)
Consolidated profit from continuing operations	**1,024,913**	524,275
Assets		
Total assets of reportable segments	**8,757,203**	10,194,019
Assets relating to discontinued operation	**19,604**	63,193
Unallocated amounts:		
Other receivables and other assets	**82,924**	29,704
Investment in an associate	**69,997**	-
Available-for-sale financial assets	**4,914**	-
Deferred tax assets	**113,891**	168,621
Restricted deposits	**-**	412,001
Financial assets at fair value through profit or loss	**259,771**	201,831
Current tax assets	**337,114**	305,215
Pledged bank deposits	**1,123**	177,596
Bank and cash balances	**5,850,098**	2,161,630
Consolidated total assets	**15,496,639**	13,713,810
Liabilities		
Total liabilities of reportable segments	**1,595,542**	2,032,258
Liabilities relating to discontinued operation	**66,937**	162,522
Unallocated amounts:		
Other liabilities	**112,753**	76,314
Due to directors	**9,558**	8,324
Borrowings	**3,269,268**	4,580,224
Current tax liabilities	**18,617**	12,139
Provisions (except for provision for decommissioning costs included in the exploration and production segment)	**420**	420
Consolidated total liabilities	**5,073,095**	6,872,201

7. 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 available-for-sale financial assets and deferred tax assets) by location of assets are detailed below:

	Turnover		Non-current assets	
	2016	2015	**2016**	2015
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Hong Kong	**-**	-	**126,289**	12,059
PRC except Hong Kong	**32,185**	37,653	**33,853**	217,279
Pakistan	**4,028,839**	5,193,370	**7,837,205**	8,275,866
Consolidated total	**4,061,024**	5,231,023	**7,997,347**	8,505,204

Turnover from major customers:

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

	2016	2015
	HK$'000	HK$'000
Exploration and production segment		
Customer A	**3,331,218**	3,397,200
Customer B (note i)	**N/A**	933,636

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

8. FINANCE COSTS

	2016	2015
	HK$'000	HK$'000
Continuing operations		
Interest on bank loans	**187,538**	198,979
Interest on medium term notes	**35,971**	46,044
Interest on other borrowings	**-**	29,101
Provisions - unwinding of discounts	**8,938**	8,792
	232,447	282,916
Amount capitalised	**-**	(29,101)
	232,447	253,815

9. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2016	2015
	HK$'000	HK$'000
		(Restated)
Continuing operations		
Depreciation and amortisation (note a)	**1,420,862**	1,639,071
Auditors' remuneration		
- Current	**3,341**	3,906
- Over-provision in prior year	**-**	(10)
	3,341	3,896
Cost of inventories sold (note b)	**1,889,332**	2,228,069
Operating lease charges		
- Hire of office equipment, machineries and motor vehicles	**20,568**	36,040
- Land and buildings	**39,383**	29,608
	59,951	65,648
Staff costs excluding directors' emoluments		
- Salaries, bonuses and allowances	**236,960**	304,616
- Retirement benefits scheme contributions	**31,406**	36,446
- Share-based payments	**13,695**	13,573
	282,061	354,635
Allowance for trade and other receivables	**-**	19,326
Impairment losses on intangible assets	**-**	239,456
Impairment losses on property, plant and equipment	**-**	102,112
Reversals of allowance for other receivables	**(2,136)**	-
Written off of intangible assets	**3,383**	134,567
Written off of property, plant and equipment (included in other gains and losses of approximately HK$51,681,000 (2015: HK$262,557,000) and exploration expenses of approximately HK$132,441,000 (2015: HK$866,518,000))	**184,122**	1,129,075

Note a: Depreciation and amortisation charges include the amortisation charges on intangible assets of approximately HK$264,146,000 (2015: HK$410,878,000 (as restated)) 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$1,558,418,000 (2015: HK$1,814,232,000 (as restated)) which are included in the amounts disclosed separately above.

10. INCOME TAX EXPENSE

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

	2016	2015
	HK$'000	HK$'000
		(Restated)
Continuing operations		
Current tax - PRC Enterprise Income Tax		
Provision for the year	**-**	878
Current tax - Overseas		
Provision for the year	**139,284**	28,752
(Over)/under-provision in prior years	**(24,545)**	10,543
	114,739	39,295
	114,739	40,173
Deferred tax	**61,923**	77,256
	176,662	117,429

No provision for profits tax in Bermuda, British Virgin Islands, Republic of Panama, Mauritius, Singapore or Hong Kong is required as the Group has no assessable profit for the year arising in or derived from these jurisdictions for the years ended 31 December 2016 and 2015.

PRC Enterprise Income Tax and Pakistan Income Tax are calculated at 25% and 50% respectively on the estimated taxable income earned by the companies with certain tax preference, based on existing legislation, interpretation and practices in respect thereof.

During the year ended 31 December 2016, the Group's subsidiary in the PRC was approved as a high technology enterprise pursuant to which a PRC subsidiary can enjoy a preferential income tax rate of 15% during the financial year (2015: the coming financial years).

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

11. DISCONTINUED OPERATION

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

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

11. **DISCONTINUED OPERATION (CONTINUED)**

Loss for the year from discontinued operation:

	2016	2015
	HK$'000	HK$'000
Turnover	**23,432**	186,862
Cost of sales and services rendered	**(36,690)**	(331,692)
Gross loss	**(13,258)**	(144,830)
Investment and other income	**1,561**	7,269
Other gains and losses	**(41,512)**	(4,258,416)
Administrative expenses	**(5,932)**	(15,902)
Other operating expenses	**(5,419)**	(4,348)
Loss before tax	**(64,560)**	(4,416,227)
Income tax credit	**-**	941,332
Loss for the year from discontinued operation (attributable to owners of the Company)	**(64,560)**	(3,474,895)

Loss for the year from discontinued operation include the following:

	2016	2015
	HK$'000	HK$'000
Depreciation and amortisation (note a)	**-**	166,175
Auditors' remuneration		
- Current	**27**	77
Cost of inventories sold (note b)	**35,420**	325,162
Operating lease charges		
- Hire of office equipment, machineries and motor vehicles	**89**	603
- Land and buildings	**3**	22
	92	625
Staff costs excluding directors' emoluments		
- Salaries, bonuses and allowances	**2,215**	7,485
- Retirement benefits scheme contributions	**502**	1,338
	2,717	8,823
Allowance for inventories	**-**	4,872
Impairment losses on advances, deposits and prepayments	**-**	271
Impairment losses on intangible assets	**-**	3,624,592
Impairment losses on property, plant and equipment (note c)	**-**	591,211

Note a: Depreciation and amortisation includes the amortisation charges of intangible assets of HK$ Nil (2015: approximately HK$139,544,000) which are included in the costs of sales.

Note b: Cost of inventories sold includes staff costs, depreciation and amortisation and allowance for inventories of approximately HK$289,000 (2015: HK$173,786,000) which are included in the amounts disclosed separately above.

Note c: Impairment losses on property, plant and equipment are presented net of reimbursement of HK$ Nil (2015 : approximately HK$231,546,000) from the joint operator under the joint venture agreement.

11. **DISCONTINUED OPERATION (CONTINUED)**

Cash flows from discontinued operation:

	2016 **HK$'000**	2015 HK$'000
Net cash outflows from operating activities	**(112,807)**	(83,265)
Net cash inflows/(outflows) from investing activities	**29,564**	(8,897)
Net cash inflows from financing activities	**8,913**	108,576
Effect of foreign exchange rate changes	**15,365**	21,885
Net cash (outflows)/inflows	**(58,965)**	38,299

12. **EARNINGS/ (LOSS) PER SHARE**

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

The calculation of basic earnings/ (loss) 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$965,008,000 (2015: loss of HK$2,943,674,000) and the weighted average number of ordinary shares of 19,695,424,431 (2015: 16,892,707,963 (as restated)) 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$1,029,568,000 (2015: HK$531,221,000) and the weighted average number of ordinary shares of 19,695,424,431 (2015: 16,892,707,963 (as restated)) in issue during the year.

(c) **Basic loss per share from discontinued operation**

Basic loss per share from the discontinued operation is HK$0.33 cent per share (2015: HK$20.57 cents per share) based on the loss for the year from discontinued operation attributable to owners of the Company of approximately HK$64,560,000 (2015: HK$3,474,895,000) and the denominator used is the same as the above for basic earnings per share.

(d) **Diluted earnings/(loss) per share**

No diluted earnings/ (loss) per share are presented as the Company did not have any dilutive potential ordinary share for the years ended 31 December 2016 and 2015.

Note: The weighted average number of ordinary shares in 2015 has been retrospectively adjusted for the open offer which was completed on 30 August 2016.

13. TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables (note a)	**882,101**	1,743,325
Allowance for trade receivables	**-**	(2,165)
Allowance for price adjustments (note b)	**(402,815)**	(526,584)
	479,286	1,214,576
Other receivables (note c)	**247,740**	506,553
Allowance for other receivables	**(2,439)**	(17,082)
	245,301	489,471
Total trade and other receivables	**724,587**	1,704,047

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit term generally ranges from 30 to 45 days (2015: 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:

	2016 HK$'000	2015 HK$'000
0 to 30 days	**464,690**	1,142,224
31 to 60 days	**320,725**	342,927
61 to 90 days	**83,022**	22,586
Over 90 days	**13,664**	235,588
	882,101	1,743,325

(b) Allowance for price adjustments

It represents the provision for the possible price adjustment in gas prices as per the draft gas price notifications submitted to the relevant regulatory authorities in Pakistan in respect of certain gas sales agreements. Since the final price notification has not yet been received from the regulatory authorities, the management had estimated the potential price differential based on the draft notifications and a possible price reduction (excluding royalty expenses) of approximately HK$402,815,000 (2015: HK$526,584,000) was provided.

(c) Other receivables

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

	2016 HK$'000	2015 HK$'000
Due from joint operators	**131,427**	276,706
Advances to staff	**9,027**	9,958
Central excise duty receivables	**10,123**	12,052
Deposits and prepayments	**22,079**	18,538
Sales tax receivables	**53,759**	166,986
Others	**18,886**	5,231
	245,301	489,471

14. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	HK$'000
Trade payables (note a)	**136,508**	271,363
Other payables (note b)	**942,435**	1,314,436
Total trade and other payables	**1,078,943**	1,585,799
Analysed as		
- Current	**1,078,943**	1,495,940
- Non-current	**-**	89,859
	1,078,943	1,585,799

(a) Trade payables

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

	2016	2015
	HK$'000	HK$'000
0 to 30 days	**80,781**	223,457
31 to 45 days	**38,711**	39,205
Over 45 days	**17,016**	8,701
	136,508	271,363

(b) Other payables

	2016	2015
	HK$'000	HK$'000
Accrual for operating expenses	**543,221**	599,446
Bills payables	**46,474**	31,558
Deposits received	**5,300**	9,697
Salaries and welfare payables	**109,898**	106,381
Other tax payables	**200,459**	553,162
Others	**37,083**	14,192
	942,435	1,314,436

15. DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2016 and 2015.

16. CONTINGENT LIABILITIES

(a) For the years ended 31 December 2016 and 2015, the Company issued various unlimited corporate guarantees in favour of the President of the Islamic Republic of Pakistan and certain joint operators of the Group, as guarantee to provide United Energy Pakistan Limited ("UEPL"), the wholly-owned subsidiary of the Company, with all necessary financial and other means to enable UEPL to fully perform its obligations as stipulated in the concession agreements.

(b) At the end of the reporting period, the Company has issued an unlimited cross guarantee to a bank in respect of a banking facility granted to a subsidiary of the Company, United Energy Group (Hong Kong) Limited. At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under the above guarantee. The maximum liability of the Company at the end of the reporting period is the amount of bank loans drawn under the cross guarantee at that date of approximately HK$3,169,142,000 (2015: HK$3,796,766,000).

(c) As at 31 December 2015, the Company has issued a corporate guarantee in respect of the S$100,000,000 (equivalent to approximately HK$609,210,000) first medium term notes ("First Drawdown Note") issued by United Energy Financing (Bermuda) Limited ("UEFBL"), a wholly owned subsidiary of the Company, under the S$1,000,000,000 multicurrency medium term notes programme. As at 31 December 2015, the directors do not consider it probable that a claim will be made against the Company under the above guarantee. The maximum liability of the Company as at 31 December 2015 is the amount of First Drawdown Note drawn under the corporate guarantee at that date of approximately HK$542,656,000 (equivalent to approximately S$100,000,000). Such corporate guarantee has been released during the year.

(d) For the years ended 31 December 2016 and 2015, 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$3,857,000 (2015: HK$243,000).

(e) During the year, certain subsidiaries of the Group have dispute with the Pakistan government on the applicability of windfall levy on its production of oil and condensate. The execution of windfall levy is subject to series of government's approval process and is still not effective at the end of the reporting period. The management believes that the likelihood of the execution and applicability of windfall levy to oil and gas industry is low. If the Group is found liable upon the approval and effective of the windfall levy, the contingent liability as at 31 December 2016 was approximately HK$179,229,000 (2015:HK$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group reported a profit attributable to owners of the Company of approximately HK$965,008,000 for the year ended 31 December 2016 (the "reporting period"), compared to a net loss of approximately HK$2,943,674,000 for the year ended 31 December 2015 ("last year"). The turnaround from net loss to net profit was mainly due to significantly lower impairment and written off losses during the reporting period as opposed to last year. The average net daily production of Pakistan Assets was approximately 64,252 barrels of oil equivalent ("boe"), declined slightly by 0.3% compared to last year.

Turnover

The Group's turnover for the reporting period was approximately HK$4,061,024,000, representing a decrease of 22.4% as compared with the turnover of approximately HK$5,231,023,000 (as restated) for last year. The decrease in turnover was mainly attributed to lower realized selling prices of oil and gas commodities.

Cost of sales and services rendered

The Group's cost of sales and services rendered decreased from approximately HK$2,293,366,000 (as restated) for last year to approximately HK$1,925,130,000 for the reporting period. The decrease in cost of sales and services rendered was contributed by the successful implementation of efficiency improvement and cost optimization measures which resulted in cost savings during the reporting period and the reduction in depreciation and amortization expenses contributed by the continuous improvement in drilling performance. The cost of sales and services rendered included depreciation and amortisation of approximately HK$1,361,510,000 (31 December 2015: approximately HK$1,587,902,000 (as restated)). The lifting cost, which is defined as the cost of sales excluding depreciation and amortization and sales expenses, of Pakistan Assets was further lowered to US$2.9 per boe (31 December 2015: US$3.6 per boe).

Gross profit

The Group's gross profit was approximately HK$2,135,894,000 (gross profit ratio 52.6%) which represented a decrease of 27.3% as compared with gross profit of approximately HK$2,937,657,000 (as restated) (gross profit ratio 56.2%) for last year. The decrease in gross profit was associated with weaker international oil price during the reporting period.

Exploration expenses

The Group's exploration expenses for the reporting period was approximately HK$165,749,000 (31 December 2015: approximately HK$946,712,000) which was incurred mainly for geological and geophysical studies, expenses for surface use rights, obligatory expenses such as marine research and training as well as the cost of dry exploratory wells for Pakistan Assets. The decline in exploration expenses was attributed to lower written off losses arising from dry exploration wells in the Pakistan Assets during the reporting period.

Administrative expenses

The Group's administrative expenses for the reporting period was approximately HK$380,401,000 (31 December 2015: approximately HK$386,612,000 (as restated)), representing 9.4% (31 December 2015: 7.4%) of turnover.

Finance costs

The Group's finance costs for the reporting period was approximately HK$232,447,000, representing 8.4% decrease compared with the finance costs of approximately HK$253,815,000 for last year. The decrease in finance costs was mainly due to lower total borrowings as compared to the corresponding period of last year. The average interest rate of borrowings for the reporting period was 5.69% (31 December 2015: 5.07%).

Income tax expense
The Group's income tax expense for the reporting period was approximately HK$176,662,000 (31 December 2015: approximately HK$117,429,000 (as restated)), representing an increase of 50.4% from last year, attributed to the decrease in tax losses available for offsetting the taxable income and the decrease in written off losses for tax deduction.

EBITDA
EBITDA represents the profit before finance costs, income tax expense, depreciation and amortization, impairment and written off losses on intangible assets and property, plant and equipment, allowances for trade and other receivables, reversal of allowance for other receivables, gain/loss on disposals of property, plant and equipment, gain on disposals of subsidiaries, and loss for the year from discontinued operation. It shall be noted that EBITDA is not a measure of operating performance or liquidity defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies. The EBITDA for the reporting period was approximately HK$3,043,694,000, decreased by 25.3% from the corresponding period of last year of approximately HK$4,073,152,000 (as restated). The drop in EBITDA was mainly due to lower realized selling prices of oil and gas commodities.

Business Review
The Group is one of the largest independent upstream oil and gas corporations listed 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 the oil and gas exploration, the Group has successfully grown its business into one of the major players in the upstream oil and gas industry. Based on the latest available information gathered by the Group, the Group is ranked as one of the largest independent upstream oil and gas operators listed on the Hong Kong Stock Exchange in terms of net production volume. The Group has established a sound track record of growing its business through both acquisition and aggressive capital investment.

The upstream oil and gas sector suffered significant headwinds in 2016 brought by volatile market conditions and unstable global political environment. Despite Brent oil price picked up some gains during the year, the average Brent oil price was still approximately 16.8% lower comparing to 2015, according to data from the U.S. Energy Information Administration ("EIA"). The Group reported a net profit attributable to the owners of the Company of approximately HK$965,008,000, a turnaround from last year's net loss of approximately HK$2,943,674,000. The turnaround of net profit was mainly due to the absence of significant impairment and written off charges such as the discontinuance of oil exploitation segment in 2015. On the other hand, the Group's EBITDA, which excludes contribution from discontinued business segment and non-recurring items, was approximately HK$3,043,694,000 for the reporting period, declined by 25.3% from last year as hindered by lowered realized selling prices. Against the backdrop of a low oil price environment, the Group continued to look into various measures, such as broadening our supplier base to introduce competition, reducing the number of drilling days through efficiency improvement and the introduction of new technologies and equipment. These measures have resulted in apparent savings in both operating expenses and capital costs.

Cost of sales and services rendered by the Group for the reporting period was approximately HK$1,925,130,000 (Pakistan Assets: approximately HK$1,901,376,000, Oilfield Support Services: approximately HK$23,755,000), and the Group invested approximately HK$1,192,137,000 of capital expenditure in oil exploration, development and production activities in Pakistan Assets.

Following the abandonment of Liaohe EOR Project, Pakistan Assets become the Group's sole upstream oil and gas business segment. During the reporting period, production of the Pakistan Assets was kept at about the same level as last year and the assets continued to generate strong cash inflow in light of low oil price environment. Net cash generated from operating activities of the Group amounted to approximately HK$3,023,408,000 for year 2016. In order to strengthen our financial position, the Group successfully completed an open offer in August 2016 by raising approximately HK$2,620,399,000 in gross proceeds (or net proceeds after deduction of related expenses of approximately HK$ 2,584,098,000) (the "Open Offer"). As a result, bank and cash balances of the Group were boosted to approximately HK$5,850,098,000 as at 31 December 2016, increased by 170.6% comparing with the end of last year.

The net proceeds of the Open Offer are earmarked for capital expenditure of the Pakistan Assets (approximately HK$1,033,639,000), repayment of debt and interest expenses (approximately HK$1,033,639,000) as well as reserve for potential acquisition (approximately HK$516,820,000). As at 31 December 2016, approximately HK$509,496,000, HK$1,033,639,000 and HK$ 17,449,000 of the net proceeds have been used for capital expenditure of the Pakistan Assets, repayment of debt and interest expenses of the Group and spending on acquisition respectively.

Pakistan Assets:
For the year ended 31 December 2016, the Pakistan Assets achieved an average daily net production of approximately 64,252 boe, decreased slightly by 0.3% compared to last year. The Pakistan Assets has an oil and liquids ratio of 10.8%. Composite Average Sales Price Before Government Take amounted to US$24.9 per boe, dropped by approximately 22.7% compared to last year. Net 1P reserve added during the reporting period was approximately 24.1 mmboe, representing a net 1P reserve replacement ratio of approximately 102%.

The Group has been a leading investor in the upstream oil and gas sector in Pakistan since 2012. According to data from Pakistan Petroleum Information Services, an information service provider of Pakistan's upstream exploration activities, the Group have drilled the highest number of exploration wells between 2012 and 2016, significantly higher than those drilled by the Pakistan state-own peers such as Pakistan Petroleum Limited ("PPL") and Oil & Gas Development Company Limited. Our aggressive investment in exploration has resulted in an accelerated production growth rate that is far outpacing our peers in Pakistan.

During the reporting period, the Group drilled a total of 26 wells, comprising 17 exploration wells and 9 development wells which are located within the Badin and MKK blocks. 2016 marked a year of exploration frontier where we witnessed the transitioning from conventional medium to small pools to technically challenging high-risked stratigraphic opportunities. The Group made a number of breakthroughs during the year, including:

- Dang – the first oil discovery in eastern MKK
- Rawat – the first stratigraphic oil discovery in MKK
- Ali-2 – the first stratigraphic gas discovery in MKK
- Bhanoki & Makrani – new upper basal sand gas discoveries in MKK, and
- Chaman – gas condensate discovery in middle sand of Badin.

In-house and external studies have been carried out to delineate the potentials of new plays in existing assets and a number of business development opportunities were evaluated and pursued. During the reporting period, UEPL, a wholly-owned subsidiary of the Group, was proceeding with PPL to acquire its 50% working interest of the Kotri North block which has acreage of approximately 2,400 square kilometers and located adjacent to MKK block in the Sindh province. The Kotri North block provides exploration opportunities in the Lower Indus Basin where the Group have achieved significant success and developed a deep understanding and expertise. The Group will become operator of the block upon completion of the transaction.

During 2016, the Group successfully installed a skid mounted amine plant with a capacity of 30 million cubic feet per day ("mmcfd") at its existing Bukhari facility in Badin. The plant was built and commissioned in a record time of 5 months. The plant was built to process high CO^2 gas from various Badin fields to ensure on-specification gas sales to our customer. This plant is skid mounted and if high CO^2 gas declines in Badin, the plant can be relocated to any other concession area, hence giving a degree of flexibility to the Pakistan operations.

In addition, the Group has commenced a LPG plant upgrade project in Naimat with an aim to increase its processing capacity from 50 to 100 mmcfd as well as improving the recovery factor from ~50% to ~95% via the construction of a turbo expander. Construction work is currently underway and the revamped plant is expected to complete in the second half of 2017. The LPG plant feeds natural gas and which is reprocessed into LPG for higher selling value.

In light of prolonged low oil price environment, the Group continued to implement cost optimisation measures in the reporting period to improve both capital and operating efficiency. As a result, lifting cost and 1P reserve finding and development cost per boe were reduced by 19.1% and 6.7% to US$2.9 and US$5.6 respectively. The total exported sales of oil and condensate was approximately 1,430,000 boe for the reporting period, representing a decline of 48.4% from last year which was due to fewer oil and condensate produced.

Liaohe EOR Project, China:
The Group's Liaohe EOR Project adopts our patented fireflood technology to enhance oil recovery in mature and retiring oil fields located in Liaohe, China. Enhanced oil recovery project is classified as secondary recovery in the oil and gas industry. It carries high cost structure compares to our Pakistan Assets.

Impacted by the dramatic decline of international oil prices in 2015, the Group has strategically scaled down its capital investment for production and re-assessed the corresponding economic benefits under low oil prices. As a result, the Board on 23 February 2016 procured United Petroleum & Natural Gas Investments Limited ("United Petroleum"), a wholly-owned subsidiary of the Company, to issue a notice to China National Petroleum Corporation ("CNPC"), the joint venture partner of the Liaohe EOR Project, to propose the abandonment of the Liaohe EOR Project. Accordingly, all of the non-current assets of Liaohe EOR Project have been impaired in accordance with terms of the EOR contract and relevant financial reporting standards in the financial year ended 31 December 2015. On 20 May 2016, the Group received a notice from CNPC confirming and agreeing the abandonment. The parties have mutually agreed to set the abandonment date on 31 March 2016 and the Group will continue to work with CNPC to finalize the terms of the abandonment agreement in accordance with the EOR Contract.

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

Similar to the conventional oil and gas upstream operation, international oil prices play an important role to the application of fireflood technology. This is because oil price strongly correlates with the incremental returns generated from the application and hence affects the incentive of retiring oilfields to adopt its application. The Group will closely monitor the potential business risk of abated demand under weak international oil prices.

Business and market outlook
As of early 2017, Brent oil prices were stabilized in the 50s level while market participants were observing whether members of the Organization of the Petroleum Exporting Countries ("OPEC") and non-OPEC producers will comply with their supply cut commitments. The steadfast implementation of the cartel and non-OPEC producers' supply cut commitment is essential to support Brent oil at the current price level. According to OPEC's Monthly Oil Market Report released on 14 March 2017 ("MOM Report"), production of OPEC and Non-OPEC producers in January 2017 achieved a conformity level of over 86%. Although the supply cut commitment is for a period of six months and extendable by another six months, the high compliance rate at least helped stabilized oil price at the current level. In view of these developments, the Group is optimistic of the short-to-medium term oil prices performance.

Following several years of successful exploration and development activities, the Pakistan Assets achieved significant breakthrough in terms of production and reserve growth. In order to maintain the growth spectrum, upstream oil and gas companies must over the time acquire new assets to broaden its asset portfolio. The Group has clear merger and acquisition principles and will target selected high quality fields that suit our requirements. Over the past 6 years, the Group has built a successful takeover model in Pakistan Assets with the heritage of an international standard of Health, Safety and Environment ("HSE"), well-integrated management and technical teams. These are important assets of the Group and the success in Pakistan Assets will be readily replicated in any newly acquired assets. The Group has been actively looking at opportunities in the global market to identify suitable targets. More resources will be deployed to this area in 2017 to bring our plans to materiality. This is particularly essential to support the Group's long-term growth strategy.

The Group reported a strong financial position at the end of 2016 with bank and cash balances of approximately HK$5,850 million, ballooned by 170.6% compared with approximately HK$2,162 million at the end of last year. This is attributable to the strong cash flow generation of the Pakistan Assets and the successful completion of the Open Offer in August 2016. Coupled with the ongoing support from our relationship banks, the Group have rather flexible funding structure to support our future capital investment as well as the acquisition of oil and gas assets.

Pakistan Assets:
Pakistan upstream oil and gas sector is characterized by production from mature basins where significant unlicensed and under-explored areas exist. Pakistan national oil companies are the largest operators and have the majority of hydrocarbon reserves. However, there is also significant presence of international oil companies such as United Energy, Eni SpA, OMV AG and MOL Group which have sizeable interests.

The countrywide oil and gas production in Pakistan was kept at around 4 billion cubic feet per day ("bcfd") in the recent 10 years while demand has accelerated at much faster pace causing a supply deficit of approximately 1.2 bcfd in 2015 and the gap is expected to widen further in future years, according to projection by Petroleum Institute of Pakistan. In light of the energy shortage, the Pakistan government has in 2016 signed an agreement to purchase natural gas of 180 billion cubic feet per year from Qatar and planned to build more LNG terminals to significantly increase gas import infrastructure over the next few years. In addition, pipeline projects to import natural gas from neighboring countries are underway though they involved security risks and technical challenges. The Group, being one of the largest foreign energy companies with solid and reputable brand in Pakistan, is in an advantageous position to capture the growing domestic demand.

For year 2017, the Group expects average daily net production of the Pakistan Assets to be in the range of 62,000 to 63,000 boe. Net 1P reserve replacement ratio of the Pakistan Assets is expected to be about 100%. The 2017 exploration drilling campaign focuses on expanding Rawat-alike stratigraphic play and other new play types in sands of Cretaceous age both in Badin and MKK blocks. Successes and learning from 2016 coupled with results from on-going studies would be carried on for 2017 to target significant reserve adds especially through stratigraphic plays. Upon completion of the Kotri North Block transaction, we will roll out aggressive exploration plan including the drilling of 2 exploration wells in 2017.

The new play tests are essential long-term exploration strategies of the Group so as to sustain the current production level. The Group plans to drill a total of 24 exploration wells and 8 development wells in 2017. Aggregate capital expenditure for 2017 is estimated to be approximately US$230 million (equivalent to approximately HK$1,794 million). Lifting cost and net 1P reserve finding and development cost per boe is expected to be in the range of US$3.0 to US$4.0 and US$8.0 to US$11.0 respectively. The increase in finding and development cost per boe is due to high-risked exploration activities and smaller reserve pool size in existing assets.

Conclusion

2016 was another challenging year where volatile international oil prices and market conditions have affected the Group's different business segments. Nonetheless, the Group have demonstrated its resilience and ability to navigate through these headwinds in a sustainable manner while maintaining a strong balance sheet with a healthy level of debt and liquidity. In spite of the exploration achievement in 2016, the Group has planned for more aggressive activities in 2017 to support our growth trajectory. The Group targets to maintain a stable production level for 2017 and will deploy more resources to look for suitable new opportunities. We are committed to deliver growth and sustainable return to our stakeholders.

Material Acquisition and Disposal

Except the discontinued operation disclosed in note 11 of the Notes to Consolidated Financial Statements in this announcement, the Group and the Company do not have material acquisition and disposal during the reporting period.

Segment Information

Particulars of the Group's segment information are set out in note 7 of the Notes to Consolidated Financial Statements in this announcement.

Liquidity and Financial Resources

The Group maintained its strong financial position for the reporting period, with bank and cash balances amounting to approximately HK$5,850,098,000 as at 31 December 2016 (2015: approximately HK$2,161,630,000).

As at 31 December 2016, the outstanding balance of the bank loan from China Development Bank Corporation Hong Kong Branch for acquisition of the Pakistan upstream oilfield assets from British Petroleum in September 2011 was US$400,000,000, equivalent to approximately HK$3,120,000,000 (2015: US$480,000,000, equivalent to approximately HK$3,744,000,000).

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

On 22 July 2015, United Energy International Finance Limited ("UEIFL"), a wholly-owned subsidiary of the Company, entered into a facility agreement with Industrial and Commercial Bank of China Limited – Abu Dhabi Branch ("ICBC"). On 4 August 2015, United Petroleum & Natural Gas (Panjin) Limited ("United Petroleum (Panjin)") , a wholly-owned subsidiary of the Company, entered into a financing guarantee agreement with China Citic Bank (Shenyang Branch) ("Citic") in which United Petroleum (Panjin) deposited cash of approximately RMB122,300,000 (equivalent to approximately HK$146,038,000) as pledge for issuing a financing guarantee to ICBC. As such, ICBC granted UEIFL a one-year loan facility with limit of US$18,500,000 (equivalent to approximately HK$144,300,000) at fixed interest rate of 1.90% per annum. The purpose of this loan facility was for settlement of trade payables of the Group. On 4 August 2015, UEIFL has drawdown the loan in the amount of US$18,500,000 (equivalent to approximately HK$144,300,000) for settlement of trade payables of the Group with same value. On 1 August 2016, the loan has been fully repaid.

On 8 October 2014, UEFBL (or the "Issuer"), a wholly-owned subsidiary of the Company, has established the S$1,000,000,000 multicurrency medium term notes programme (the "Programme") under which it may issue the medium term notes (the "Notes") to institutional investors and/or professional investors, as applicable, in series of aggregate principal amount of up to S$1,000,000,000 (or its equivalent in other currencies). The Notes are expected to be issued by the Issuer and guaranteed by the Company. The Issuer has appointed CIMB Bank Berhad as arranger and dealer under the Programme. On 17 October 2014, the issue of the S$100,000,000, 6.85% per annum Notes due 17 October 2016 under the Programme (the "First Drawdown Notes") was completed. The First Drawdown Notes were admitted to the Official List of the Singapore Exchange Securities Trading Limited with effect on 20 October 2014. The net proceeds from the issue of the First Drawdown Notes under the Programme, after deducting the costs and expenses relating to the issue of the First Drawdown Notes, will be used for general corporate purposes of the Group. The First Drawdown Notes have been expired and fully repaid and redeemed on 17 October 2016.

On 22 July 2016, a shareholder resolution was passed in the special general meeting of the Company to approve for the proposed issue of 13,101,994,107 offer shares to the qualifying shareholders at the subscription price of HK$0.20 per shares on the basis of one share for every one share in issue ("Open Offer"). The Open Offer was completed on 30 August 2016 and total of 13,101,994,107 shares were allotted under the Open Offer. The net proceeds of the Open Offer after the deduction of related expenses were approximately HK$2,584,098,000.

As at 31 December 2016, the gearing ratio was approximately 21.1% (2015: approximately 33.4%), based on borrowings under current liabilities and non-current liabilities of approximately HK$773,268,000 (2015: approximately HK$1,460,224,000) and HK$2,496,000,000 (2015: approximately HK$3,120,000,000) respectively and total assets of approximately HK$15,496,639,000 (2015: approximately HK$13,713,810,000). As at 31 December 2016, the current ratio was approximately 3.92 times (2015: approximately 1.69 times), based on current assets of approximately HK$7,380,487,000 (2015: approximately HK$5,039,985,000) and current liabilities of approximately HK$1,880,386,000 (2015: approximately HK$2,976,627,000).

As at 31 December 2016, the Group's total borrowings amounted to approximately HK$3,269,268,000 (2015: approximately HK$4,580,224,000), including secured bank loans of approximately HK$3,120,000,000 (2015: approximately HK$3,888,300,000), medium term notes of Nil (2015: approximately HK$542,656,000) and other secured loans of approximately HK$149,268,000 (2015: approximately HK$149,268,000). The carrying value of the secured bank loans is denominated in United States dollars and the carrying value of the other secured loan is denominated in Hong Kong dollars. The secured bank loans are arranged at floating interest rates as at 31 December 2016 and the average effective interest rate as at 31 December 2016 was 5.35% (2015: 4.74%).

Capital Structure

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

On 12 July 2016, the Company resolved to award 16,272,730 new ordinary shares as the scheme shares to Pakistan employees under the employees' performance share schemes adopted by the Company on 28 December 2012. The allotment of the 16,272,730 scheme shares was completed on 25 July 2016.

On 22 July 2016, a shareholder resolution was passed in the special general meeting of the Company to approve for the proposed issue of 13,101,994,107 offer shares to the qualifying shareholders at the subscription price of HK$0.20 per shares on the basis of one share for every one share in issue ("Open Offer"). The Open Offer was completed on 30 August 2016 and total of 13,101,994,107 shares were allotted under the Open Offer.

On 11 November 2016, the Company resolved to award 21,703,384 new shares as the scheme shares to 557 Pakistan employees under the Share Match Scheme approved and adopted by the Company for Pakistan employees on 16 September 2011. The allotment of the 21,703,384 scheme shares was completed on 23 November 2016.

After completion of the above allotment of shares during the reporting period, the total number of issued shares of the Company was increased from 13,085,721,377 shares as at 1 January 2016 to 26,225,691,598 shares as at 31 December 2016.

Employees

As at 31 December 2016, the Group employed a total of 920 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 16 of the Notes to Consolidated Financial Statements in this announcement.

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 Pakistan Rupee and British Sterling Pound. As i) the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable, ii) the exchange rate risk of British Sterling Pound 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 rate of British Sterling Pound, Renminbi and Pakistan Rupee and apply appropriate action to prevent any impact to the Group.

Major Customers and Suppliers

In 2016, the Group's five largest customers represented 98.4% of total turnover (2015: 96.5%) and the Group's five largest suppliers represented 38.4% of total cost of sales and services rendered (2015: 47.8%).

EVENTS AFTER THE REPORTING PERIOD

The Group and the Company do not have material events happened after the reporting period.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares nor any or its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2016.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2016. The Audit Committee has also discussed with management and reviewed the accounting principles and practices adopted by the Group, as well as risk management, internal control and financial reporting matters, and found them to be satisfactory.

OTHER COMMITTEE

Besides the Audit Committee, the Board has also established Remuneration Committee and Nomination Committee. Each Committee has its defined scope of duties and written terms of reference.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2017 to 26 May 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming annual general meeting to be held on 26 May 2017 (the "AGM"). In order to be eligible to attend and vote at the forthcoming AGM, all transfer accompanied by the relevant share certificates and transfer forms 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 19 May 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the code of conduct with respect to the dealings in securities of the Company by the Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2016.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2016 except that:

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

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

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

Code provision A.4.1 of the Code provides that non-executive Directors should be appointed for a specific term, subject to re-election. None of the independent non-executive Directors and non-executive Director has entered into any service contracts with the Company or its subsidiaries. In view of the fact that the independent non-executive Directors are subject to retirement by rotation at least once every three years though they have no set term of office, the Board considers that the quality of good corporate governance will not be impaired.

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 of the Board Diversity Policy 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.

SCOPE OF WORK OF AUDITOR

The figures in respect of the preliminary announcement of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, RSM Hong Kong ("RSM"), to the amounts set out in the Group's draft audited consolidated financial statements for the year. The work performed by RSM in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The 2016 annual report will be despatched to the Shareholders and available on the Company's website at www.uegl.com.hk and HKEx news website at www.hkexnews.hk in due course.

By Order of the Board
United Energy Group Limited
Zhang Hong Wei
Chairman

Hong Kong, 20 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Hong Wei (Chairman), Mr. Zhu Jun and Ms. Zhang Meiying and the independent non-executive directors are Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu.