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 2017

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2017

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

OPERATION HIGHLIGHTS
For the year ended 31 December 2017

	2017	2016	**Change %**
Average daily net production			
- Upstream oil and gas production in Pakistan	**62,327 boed**	64,252 boed	-3.0%
Lifting costs Note 2 (HK$/boe)			
- Upstream oil and gas production in Pakistan	**HK$27.8**	HK$22.9	+21.4%
Net 1P Reserve			
- Upstream oil and gas production in Pakistan	**96.4 mmboe**	95.6 mmboe	+0.8%

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

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

* *For identification purposes only*

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 2017 as follows:–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
Continuing operations			
Turnover	4	**4,441,266**	4,061,024
Cost of sales and services rendered		**(1,783,024)**	(1,925,130)
Gross profit		**2,658,242**	2,135,894
Investment and other income	5	**60,484**	31,021
Other gains and losses	6	**(75,139)**	(83,396)
Exploration expenses		**(366,813)**	(165,749)
Administrative expenses		**(312,185)**	(380,401)
Other operating expenses		**(89,474)**	(103,344)
Profit from operations		**1,875,115**	1,434,025
Finance costs	8	**(118,930)**	(232,447)
Share of profits/(losses) of an associate		**52**	(3)
Profit before tax		**1,756,237**	1,201,575
Income tax expense	10	**(440,420)**	(176,662)
Profit for the year from continuing operations	9	**1,315,817**	1,024,913
Discontinued operations			
Loss for the year from discontinued operations	11	**-**	(64,560)
Profit for the year		**1,315,817**	960,353
Attributable to:			
Owners of the Company			
Profit for the year from continuing operations		**1,316,340**	1,029,568
Loss for the year from discontinued operations		**-**	(64,560)
		1,316,340	965,008
Non-controlling interests			
Loss for the year from continuing operations		**(523)**	(4,655)
		1,315,817	960,353
Earnings per share	12		
From continuing and discontinued operations			
Basic (cents per share)		**5.02**	4.90
Diluted (cents per share)		**N/A**	N/A
From continuing operations			
Basic (cents per share)		**5.02**	5.23
Diluted (cents per share)		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**5,833,375**	5,350,975
Intangible assets		**2,254,061**	2,514,303
Investment in associates		**70,049**	69,997
Available-for-sale financial assets		**4,914**	4,914
Advances, deposits and prepayments		**486,130**	62,072
Deferred tax assets		**-**	113,891
		8,648,529	8,116,152
Current assets			
Inventories		**209,242**	207,794
Trade and other receivables	14	**1,366,553**	724,587
Financial assets at fair value through profit or loss		**3,398**	259,771
Current tax assets		**300,337**	337,114
Pledged bank deposits		**685**	1,123
Bank and cash balances		**2,746,793**	5,850,098
		4,627,008	7,380,487
Current liabilities			
Trade and other payables	15	**1,656,876**	1,078,943
Due to directors		**5,697**	9,558
Borrowings		**-**	773,268
Current tax liabilities		**68,896**	18,617
		1,731,469	1,880,386
Net current assets		**2,895,539**	5,500,101
Total assets less current liabilities		**11,544,068**	13,616,253
Non-current liabilities			
Borrowings		**-**	2,496,000
Provisions		**326,463**	291,268
Deferred tax liabilities		**540,586**	405,441
		867,049	3,192,709
NET ASSETS		**10,677,019**	10,423,544
Capital and reserves			
Share capital		**262,690**	262,256
Reserves		**10,389,779**	10,137,961
Equity attributable to owners of the Company		**10,652,469**	10,400,217
Non-controlling interests		**24,550**	23,327
TOTAL EQUITY		**10,677,019**	10,423,544

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").

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

2. BASIS OF PREPARATION

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

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

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impacts on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)**

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

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

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

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

HKFRS 9 Financial Instruments

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

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

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)**

(b) **New and revised HKFRSs in issue but not yet effective (cont'd)**

HKFRS 9 Financial Instruments (cont'd)

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

(a) **Classification and measurement**

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

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

(b) **Impairment**

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

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

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)**

(b) **New and revised HKFRSs in issue but not yet effective (cont'd)**

HKFRS 15 Revenue from Contracts with Customers

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

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

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

(a) **Timing of revenue recognition**

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

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

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

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

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

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

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)**

(b) **New and revised HKFRSs in issue but not yet effective (cont'd)**

HKFRS 15 Revenue from Contracts with Customers (cont'd)

(b) **Provisional pricing adjustment**

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

HKFRS 16 Leases

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

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

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

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)**

(b) **New and revised HKFRSs in issue but not yet effective (cont'd)**

HKFRS 16 Leases (cont'd)

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

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

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

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

4. **TURNOVER**

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

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

The turnover from sales and production of crude oil, condensate, gas and liquefied petroleum gas are net of sales tax, royalty to government and sales discounts amounting to approximately HK$642,106,000 (2016: HK$674,319,000), HK$612,737,000 (2016: HK$559,022,000) and HK$20,925,000 (2016: HK$17,877,000) respectively.

5. INVESTMENT AND OTHER INCOME

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

6. OTHER GAINS AND LOSSES

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

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.

7. **SEGMENT INFORMATION (CONT'D)**

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

An operating segment regarding the oil exploitation of crude oil in PRC was discontinued in 2016. The discontinued operation has resulted in a change in the Group's structure and therefore its composition of reporting segment. The segment information reported below does not include any amounts for this discontinued operation, which is described in more details in note 11.

Segment profit or loss does not include the following items:

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

Segment assets do not include the following items:

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

Segment liabilities do not include the following items:

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

7. SEGMENT INFORMATION (CONT'D)

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

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

7. SEGMENT INFORMATION (CONT'D)

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

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

7. **SEGMENT INFORMATION (CONT'D)**

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

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

7. **SEGMENT INFORMATION (CONT'D)**

Geographical information:

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

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

Turnover from major customers:

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

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

Note 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**

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

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:

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

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

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

10. INCOME TAX EXPENSE

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

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

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

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

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

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

11. DISCONTINUED OPERATIONS

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

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

Loss for the year from discontinued operations:

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

11. DISCONTINUED OPERATIONS (CONT'D)

Loss for the year from discontinued operations include the following:

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

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

Cash flows from discontinued operations:

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

12. **EARNINGS PER SHARE**

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

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

(b) **Basic earnings per share from continuing operations**

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

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

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

(d) **Diluted earnings per share**

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

13. **DIVIDEND**

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

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

14. **TRADE AND OTHER RECEIVABLES**

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

14. **TRADE AND OTHER RECEIVABLES (CONT'D)**

(a) **Trade receivables**

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

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

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

(b) **Allowance for price adjustments**

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

(c) **Other receivables**

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

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

15. **TRADE AND OTHER PAYABLES**

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

15. **TRADE AND OTHER PAYABLES (CONT'D)**

(a) **Trade payables**

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

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

(b) **Other payables**

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

16. **CONTINGENT LIABILITIES**

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

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

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

16. CONTINGENT LIABILITIES (CONT'D)

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

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

17. EVENTS AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has been a leading investor in the upstream oil and gas sector in Pakistan since 2012. According to data from Pakistan Petroleum Information Services, an information service provider of Pakistan's upstream exploration activities, the Group had drilled the highest number of exploration wells between 2012 and 2016, significantly higher than those drilled by the Pakistan state-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 completed 13 exploration and appraisal wells and 14 development wells. The Group has made 7 new discoveries in Badin and MKK blocks, representing a success rate of approximately 53.9%. Net 1P reserve addition amounted to 23.6 mmboe, rendering a net 1P reserve replacement ratio of approximately 104%. The total exported sales of oil and condensate was approximately 1,731,000 barrels for the reporting period, increased by approximately 21.1% from last year.

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

During 2017, the Group continued to invest in surface facilities to enhance gas production. A LPG upgrade project has been carried out in Naimat with an aim to increase its processing capacity from 50 to 100 mmcfd as well as improving the recovery factor from ~50% to ~95%

via the construction of a turbo expander. The LPG plant feeds natural gas and which is reprocessed into LPG for higher selling value and it is expected to commission in first quarter of 2018. To increase the processing capacity of natural gas with high carbon dioxide content of our existing Naimat Phase 5A facilities from 60 mmcfd to 100 mmcfd, we have installing an additional amine train in parallel to existing two. In addition, a new hydrogen sulfide ("H2S") solid scavenger was being constructed to process high H2S content gas in order to conform to sales specifications. Both Naimat Phase 5A facilities and H2S solid scavenger have been duly completed and commissioned in the second half of 2017.

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

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

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

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

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

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

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

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

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

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

Except the disclosures in this announcement, 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 7 of the Notes to Consolidated Financial Statements in this announcement.

Liquidity and Financial Resources

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

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

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

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

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

Capital Structure

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

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

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

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

Employees
As at 31 December 2017, the Group employed a total of 930 full time employees, located in Hong Kong, the PRC and Pakistan. Employees' remuneration packages have been reviewed periodically and determined with reference to the performance of the individual and prevailing market practices. Remuneration packages include base salaries, year-end bonuses, medical benefits and a contributory provident fund.

Contingent Liabilities
Particulars of the Group's contingent liabilities are set out in the note 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. 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 2017, the Group's five largest customers represented 99.0% of total turnover (2016: 98.4%) and the Group's five largest suppliers represented 48.9% of total cost of sales and services rendered (2016: 38.4%).

EVENTS AFTER THE REPORTING PERIOD
Particulars of the Group's events after the reporting period are set out in the note 17 of the Notes to the Consolidated Financial Statements in this announcement.

PURCHASE, SALE OR REDEMPTION OF SHARES
The Company has not redeemed any of its shares nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT
The Company has maintained a sufficient public float throughout the year ended 31 December 2017.

AUDIT COMMITTEE
The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2017. 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.

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the code of conduct with respect to the dealings in securities of the Company by the Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2017.

CODE OF CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2017, the Company has applied the principles and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, save for the deviations which are explained below.

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

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

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

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

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

Code provision A.4.1 of the Code provides that non-executive Directors should be appointed for a specific term, subject to re-election. None of the independent non-executive Directors 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.

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

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

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 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.

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 2017 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 2017 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, 23 February 2018

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