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 2018

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2018

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

OPERATION HIGHLIGHTS
For the year ended 31 December 2018

	2018	2017	**Change** %
Average daily net production			
- Upstream oil and gas production in Pakistan	**66,453 boed**	62,327 boed	+6.6%
Lifting costs Note 2 (HK$/boe)			
- Upstream oil and gas production in Pakistan	**HK$29.2**	HK$27.8	+5.0%
Net 1P Reserve			
- Upstream oil and gas production in Pakistan	**95.3 mmboe**	96.4 mmboe	-1.1%

Note:
1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and property, plant and equipment written off, impairment losses on goodwill, share of profits/losses of associates, gain/loss on disposals of property, plant and equipment and profit/loss for the year from discontinued operations.
2. 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 2018 as follows:–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

	Note	**2018**	2017
		HK$'000	HK$'000 (Restated)
Continuing operations			
Turnover	4	**5,279,204**	4,420,508
Cost of sales and services rendered		**(2,321,995)**	(1,768,344)
Gross profit		**2,957,209**	2,652,164
Investment and other income	5	**59,928**	60,162
Other gains and losses	6	**41,287**	(76,089)
Exploration expenses		**(103,068)**	(366,813)
Administrative expenses		**(459,768)**	(304,983)
Other operating expenses		**(158,062)**	(87,583)
Profit from operations		**2,337,526**	1,876,858
Finance costs	8	**(54,337)**	(118,930)
Share of (losses)/profits of associates		**(333)**	52
Profit before tax		**2,282,856**	1,757,980
Income tax expense	10	**(680,145)**	(440,420)
Profit for the year from continuing operations	9	**1,602,711**	1,317,560
Discontinued operations			
Profit/(loss) for the year from discontinued operations	11	**34,621**	(1,743)
Profit for the year		**1,637,332**	1,315,817
Attributable to:			
Owners of the Company			
Profit for the year from continuing operations		**1,602,711**	1,317,560
Profit/(loss) for the year from discontinued operations		**35,280**	(1,220)
		1,637,991	1,316,340
Non-controlling interests from discontinued operations		**(659)**	(523)
		1,637,332	1,315,817
Earnings per share	12		
From continuing and discontinued operations			
Basic (cents per share)		**6.23**	5.02
Diluted (cents per share)		**6.23**	N/A
From continuing operations			
Basic (cents per share)		**6.10**	5.02
Diluted (cents per share)		**6.10**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000 (Restated)
Profit for the year	**1,637,332**	1,315,817
Other comprehensive income after tax:		
Items that will not be reclassified to profit or loss:		
Remeasurement gains on defined benefit pension plans, net of tax expenses of approximately HK$491,000 (2017: HK$Nil)	**737**	-
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**26,910**	(27,598)
Exchange differences reclassified to profit or loss on disposal of a subsidiary	**(21,109)**	-
	5,801	(27,598)
Other comprehensive income for the year, net of tax	**6,538**	(27,598)
Total comprehensive income for the year	**1,643,870**	1,288,219
Attributable to:		
Owners of the Company		
Profit for the year from continuing operations	**1,608,443**	1,288,216
Profit/(loss) for the year from discontinued operations	**35,280**	(1,220)
	1,643,723	1,286,996
Non-controlling interests from discontinued operations	**147**	1,223
	1,643,870	1,288,219

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Note	**2018** **HK$'000**	2017 HK$'000
Non-current assets			
Property, plant and equipment		**7,853,560**	5,833,375
Intangible assets		**2,383,040**	2,254,061
Investment in associates		**450,423**	70,049
Available-for-sale financial assets		**-**	4,914
Advances, deposits and prepayments		**143,025**	486,130
		10,830,048	8,648,529
Current assets			
Inventories		**337,998**	209,242
Trade and other receivables	14	**2,190,160**	1,366,553
Financial assets at fair value through profit or loss ("FVTPL")		**2,754**	3,398
Employee retirement benefits assets		**2,826**	-
Current tax assets		**267,120**	300,337
Pledged bank deposits		**-**	685
Bank and cash balances		**2,516,532**	2,746,793
		5,317,390	4,627,008
Current liabilities			
Trade and other payables	15	**2,647,003**	1,656,876
Due to a director		**9,433**	5,697
Borrowings		**181,123**	-
Provisions		**5,276**	-
Current tax liabilities		**47,726**	68,896
		2,890,561	1,731,469
Net current assets		**2,426,829**	2,895,539
Total assets less current liabilities		**13,256,877**	11,544,068
Non-current liabilities			
Borrowings		**460,613**	-
Provisions		**381,109**	326,463
Derivative financial liabilities		**1,165**	-
Deferred tax liabilities		**1,150,846**	540,586
		1,993,733	867,049
NET ASSETS		**11,263,144**	10,677,019
Capital and reserves			
Share capital		**262,941**	262,690
Reserves		**11,000,203**	10,389,779
Equity attributable to owners of the Company		**11,263,144**	10,652,469
Non-controlling interests		**-**	24,550
TOTAL EQUITY		**11,263,144**	10,677,019

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

The English translation of the ultimate parent company is for reference only. The official name is 名澤東方投資有限公司 in Chinese.

2. BASIS OF PREPARATION

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

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

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 Financial Instruments;
(ii) HKFRS 15 Revenue from Contracts with Customers; and
(iii) HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

(a) **Application of new and revised HKFRSs (cont'd)**

(i) **HKFRS 9 Financial instruments**

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

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

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

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

(a) **Classification**

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

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

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

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

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

(a) **Application of new and revised HKFRSs (cont'd)**

(i) **HKFRS 9 Financial instruments (cont'd)**

(a) **Classification (cont'd)**

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

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

Notes:

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

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

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

(a) **Application of new and revised HKFRSs (cont'd)**

(i) **HKFRS 9 Financial instruments (cont'd)**

(a) **Classification (cont'd)**

Notes: (cont'd)

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

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

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

(b) **Measurement**

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

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

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

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

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

(a) **Application of new and revised HKFRSs (cont'd)**

(i) **HKFRS 9 Financial instruments (cont'd)**

(b) **Measurement (cont'd)**

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

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

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

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

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

(a) **Application of new and revised HKFRSs (cont'd)**

(i) **HKFRS 9 Financial instruments (cont'd)**

(c) **Impairment**

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

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

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

(ii) **HKFRS 15 Revenue from Contracts with Customers**

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

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

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

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

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

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

(a) **Application of new and revised HKFRSs (cont'd)**

(iii) **HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration (cont'd)**

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

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised HKFRSs include the following which may be relevant to the Group:

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

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

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)**

(i) **HKFRS 16 Leases**

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

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

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

The Group's future minimum lease payments under non-cancellable operating leases for its office properties and property, plant and equipment amounted to approximately HK$17,316,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

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

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

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

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

4. TURNOVER

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

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

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

For the year ended 31 December	Crude oil, condensate, gas and liquefied petroleum gas	
	2018 HK$'000	2017 HK$'000
Primary geographical markets		
- Pakistan	**3,919,412**	3,799,827
- Singapore	**1,359,792**	620,681
Revenue from external customers	**5,279,204**	4,420,508

The turnover from sales and production of crude oil, condensate, gas and liquefied petroleum gas are net of sales tax, royalty to government, sales discounts, and windfall levy amounting to approximately HK$729,940,000(2017: HK$642,106,000),HK$725,683,000 (2017: HK$612,737,000), HK$19,043,000 (2017: HK$20,925,000), and HK$59,227,000 (2017: HK$Nil) respectively.

5. INVESTMENT AND OTHER INCOME

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

6. **OTHER GAINS AND LOSSES**

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

7. **SEGMENT INFORMATION**

Operating segment information

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

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

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

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

Operating segment relating to the oilfield support services in PRC was discontinued in the current year. The segment information for this discontinued operations has been described in note 11.

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

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 and financial assets at fair value through other comprehensive income) by location of assets are detailed below:

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

Turnover from major customers:

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

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

8. FINANCE COSTS

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

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:

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

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

Note b: Cost of inventories sold includes staff costs, depreciation and amortisation and operating lease charges of approximately HK$1,811,798,000 (2017: HK$1,358,982,000) which are included in the amounts disclosed separately above.

10. INCOME TAX EXPENSE

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

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

No provision for profits tax in Austria, Cayman Islands, Bermuda, British Virgin Islands ("BVI"), Republic of Panama, Mauritius, People's Republic of China ("PRC"), Singapore or Hong Kong is required as the Group has no assessable profit for the year arising in or derived from these jurisdictions for the years ended 31 December 2018 and 2017.

Pakistan Income Tax has been provided at a rate ranging from 40% to 50% on the estimated taxable income earned by the companies with certain tax preference, based on existing legislation, interpretation and practices in respect thereof.

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

11. **DISCONTINUED OPERATIONS**

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

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

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

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

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

11. **DISCONTINUED OPERATIONS (CONT'D)**

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

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

Cash flows from discontinued operations:

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

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

(b) Basic earnings per share from continuing operations

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$1,602,711,000 (2017: HK$1,317,560,000 (as restated)) and the weighted average number of ordinary shares of 26,278,512,171 (2017: 26,239,949,794) in issue during the year.

(c) Diluted earnings per share

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

The calculation of diluted earnings per share attributable to owners of the Company for the year ended 31 December 2018 is based on the profit for the year attributable to owners of the Company of approximately HK$1,637,991,000 and the weighted average number of ordinary shares of 26,280,773,076, being the weighted average number of ordinary shares of 26,278,512,171 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 2,260,905 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

(ii) Diluted earnings per share from continuing operations

The calculation of diluted earnings per share attributable to owners of the Company for the year ended 31 December 2018 is based on the profit for the year attributable to owners of the Company of approximately HK$1,602,711,000 and the denominator used are the same as those detailed above for diluted earnings per share.

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

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

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

13. DIVIDEND

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

No final dividend for the year ended 31 December 2018 has been declared by the Company.

14. TRADE AND OTHER RECEIVABLES

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

(a) Trade receivables

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

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

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

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

(b) Allowance for price adjustments

This represents the provision for the possible price adjustment in gas prices as per the draft gas price notifications submitted to the relevant regulatory authorities in Pakistan in respect of certain gas sales agreements. Since the final price notification has not yet been received from the regulatory authorities, the management had estimated the potential price differential based on the draft notifications and a possible price reduction (excluding royalty expenses) of approximately HK$207,807,000 (2017: HK$214,371,000) was provided.

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

(c) **Other receivables**

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

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

(i) As at 31 December 2018, the deposits included a collateral of approximately HK$39,000,000 (equivalent to approximately US$5,000,000) placed in a customer of the Group for issuing an irrevocable standby letter of credit on behalf of the Company of the same amount in favour of the Petroleum Contracts and Licensing Directorate ("PCLD"), a division of the Ministry of Oil of the Republic of Iraq. Such deposits bearing interest at a rate of 2.0% to 2.5% per annum and repayable within 3 days upon the expiry of the facility on 30 June 2019 or in the event that no withdrawal was made by PCLD.

15. **TRADE AND OTHER PAYABLES**

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

(a) **Trade payables**

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

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

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

(b) **Other payables**

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

16. **CONTINGENT LIABILITIES**

(a) For the years ended 31 December 2018 and 2017, the Company issued various unlimited corporate guarantees in favour of the President of the Islamic Republic of Pakistan for providing 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) For the years ended 31 December 2018 and 2017, the Group had issued corporate guarantees granted to the collector of customs of Pakistan in case of any dispute arising on claim of exemptions of levies including custom duties and sales tax on import of machinery, equipment, materials, specialised vehicles, spares, chemicals and consumables under the petroleum concession agreement amounting to approximately HK$3,657,000 (2017: HK$4,107,000).

(c) Certain subsidiaries of the Group had dispute with the Pakistan government on the applicability of windfall levy on its production of oil and condensate. On 27 December 2017, the government's approval for the execution of windfall levy was granted and the windfall levy became applicable on the subsidiaries. Based on legal advice from external lawyers, the management believes that the applicability of the windfall levy is prospective, i.e. from the date of the government's approval. If the applicability of windfall levy is retrospective, further provision for the windfall levy of approximately HK$191,969,000 (2017: HK$194,261,000) would be required to be made in the financial statements for the year ended 31 December 2018.

(d) As at 31 December 2018, certain subsidiaries of the Group received various tax orders in an attempt to re-assess tax liability for prior years by the Pakistan tax department. The subsidiaries of the Group are currently appealing against these orders and the cumulative potential tax exposure for the pending tax cases was approximately HK$398,732,000 (2017: HK$Nil).

(e) At the end of the reporting period, bank guarantees to the extent of approximately HK$9,750,000 (equivalent to US$1,250,000) (2017: HK$Nil (equivalent to US$Nil)) in favour of the President of the Islamic Republic of Pakistan was obtained by UEP Beta GmbH (formerly known as OMV (Pakistan) Exploration Gsesllschaft m.b.H.) ("UEP Beta") to guarantee its performance and financial obligations as stipulated in the concession agreements.

17. **EVENTS AFTER THE REPORTING PERIOD**

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

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

Turnover

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

Cost of sales and services rendered

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

Gross profit

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

Exploration expenses

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

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

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

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

EBITDA
EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and property, plant and equipment written off, impairment losses on goodwill, share of profits/losses of associates, gain/loss on disposals of property, plant and equipment and profit/loss for the year from discontinued operations. It shall be noted that EBITDA is not a measurement of operating performance or liquidity defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies. The EBITDA for the reporting period was approximately HK$4,092,854,000, increased by 19.4% from the last year of approximately HK$3,428,387,000 (as restated). The increase in EBITDA was mainly attributable to the increase in turnover of oil and gas commodities as aligned with higher international oil prices and production volume.

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

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

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

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

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

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

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

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

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

On 4 June 2018, we signed a preliminary development and production contract ("DPC") with Basra Oil Company of the Iraqi Ministry of Oil ("BOC") to conduct development and production operations on the Sindbad block, which is located in Basra Province, Iraq. The DPC has a term of 20 years and require us to carry out general exploration and development activities on behalf of BOC, including the acquisition of 3D seismic, conducting geophysical and geological studies and demining works. The DPC stipulates that we are entitled to remuneration of 4.55% of all net revenues, after taking into account petroleum cost recovery for costs incurred in the exploration, development and production as well as 25% of royalty payment due to the BOC. We expect to sign the formal DPC in 2019.

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

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

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

Business and market outlook

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

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

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

Pakistan Assets:

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

Conclusion

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

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

Pursuant to the share purchase agreement dated 28 February 2018, the Group acquired the entire issued share capital of UEP Alpha and UEP Beta at a cash consideration of approximately HK$735,950,000 (equivalent to approximately EUR80,616,000) and HK$703,547,000 (equivalent to approximately EUR77,066,000) respectively. UEP Alpha and UEP Beta are engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan. The acquisition of UEP Alpha and UEP Beta was completed on 28 June 2018. Details of the acquisition of UEP Alpha and UEP Beta were set out in the Company's announcement dated 28 February 2018 and 28 June 2018.

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

On 23 September 2018, Gold Cheers Corporation Limited ("GCCL"), an indirectly wholly-owned subsidiary of the Company, the Company and KEC entered into the agreement, pursuant to which GCCL has conditionally agreed to acquire all of the KEC's shares by way of the scheme of arrangement under Jersey law between the KEC and KEC's shareholders to implement the transaction pursuant to the agreement for a consideration of up to US$650,857,000 (equivalent to approximately HK$5,076,686,000). The transaction is a significant milestone in implementing the Company's medium and long-term growth strategy of becoming an independent international oil and gas company. The transaction will transform the Company into a strong medium-sized international independent oil and gas company with a diversified portfolio of high-quality assets. The acquisition has been completed on 21 March 2019. Details of the transaction are set out in the Company's announcements dated 24 September 2018, 21 March 2019 and 22 March 2019 and the circular dated 27 December 2018.

Save as disclosed above and information set out in note 11 of the Notes to the Consolidated Financial Statements 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 the Consolidated Financial Statements in this announcement.

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

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

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

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

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

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

Capital Structure

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

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

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

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

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

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

Contingent Liabilities
Particulars of the Group's contingent liabilities are set out in the note 16 of the Notes to the 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 Pakistani Rupee. As i) the exchange rates of United States dollars against Hong Kong dollars were relatively stable, ii) the exchange rate risk of Renminbi and Pakistan Rupee for the Group is relatively insignificant and iii) the Pakistan sales and purchase transactions are mainly settled in United States dollars, the Group did not use financial instruments for hedging purposes during the reporting period but the Group will keep closely monitoring on the effect on the fluctuation of the exchange rates of Renminbi and Pakistan Rupee and apply appropriate action to prevent any impact to the Group.

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

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 2018.

SUFFICIENCY OF PUBLIC FLOAT
The Company has maintained a sufficient public float throughout the year ended 31 December 2018.

AUDIT COMMITTEE
The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2018. 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.

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

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

CLOSURE OF REGISTER OF MEMBERS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the code of conduct with respect to the dealings in securities of the Company by the Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2018.

CODE OF CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2018, the Company has applied the principles and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, save for the deviations which are explained below.

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

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

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 2018 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 2018 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, 29 March 2019

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