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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS			
	Six months ended 30 June		Change
	<u>2021</u>	<u>2020</u>	
	HK\$'000	HK\$'000	%
Results			
Turnover	3,456,367	2,865,634	+20.6
Gross profit	1,504,883	889,872	+69.1
EBITDA ^(Note 1)	2,605,374	2,209,877	+17.9
Profit for the period	958,735	423,264	+126.5
Profit for the period attributable to owners of the Company	958,735	423,264	+126.5
Basic earnings per share (HK cents)	3.66	1.61	+127.3
	30 June	31 December	
	<u>2021</u>	<u>2020</u>	Change
	HK\$'000	HK\$'000	%
Key items in Consolidated Statement of Financial Position			
Equity attributable to owners of the Company	13,244,010	12,907,170	+2.6
Total assets	24,161,451	24,941,385	-3.1
Net assets	13,250,806	12,915,792	+2.6
OPERATION HIGHLIGHTS			
	Six months ended 30 June		
	<u>2021</u>	<u>2020</u>	Change
			%
Average Daily Working Interest Production (boed) ^(Note 2)			
Pakistan Assets	47,729	59,707	-20.1
MENA Assets	43,706	35,213	+24.1
Iraq	30,329	21,026	+44.2
Egypt	13,377	14,187	-5.7
Note:			
1. EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, gain on disposal of subsidiaries, share of profits/losses of associates, reversals of impairment losses on/impairment losses for trade receivables and impairment losses for other receivables.			
2. Working interest production represents Group's proportion prior to application of the state share under the concession agreements governing the assets.			

* For identification purposes only

The board of directors of the Company (the “Board”) of United Energy Group Limited (the “Company”) hereby present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021 together with unaudited comparative figures for the six months ended 30 June 2020 as follows:–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2021

		Six months ended 30 June	
	Note	2021	2020
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	6	3,456,367	2,865,634
Cost of sales and services rendered		<u>(1,951,484)</u>	<u>(1,975,762)</u>
Gross profit		1,504,883	889,872
Investment and other income		24,524	35,949
Other gains and losses		1,737	93,506
Reversals of impairment losses on/(impairment losses for) trade receivables		1,530	(1,825)
Impairment losses for other receivables		(652)	(182)
Exploration expenses		(3,662)	(8,789)
Administrative expenses		(241,899)	(194,068)
Other operating expenses		<u>(31,046)</u>	<u>(48,443)</u>
Profit from operations		1,255,415	766,020
Finance costs	7	(136,663)	(162,417)
Share of profits/(losses) of associates		<u>46,882</u>	<u>(20,950)</u>
Profit before tax		1,165,634	582,653
Income tax expense	8	<u>(206,899)</u>	<u>(159,389)</u>
Profit for the period	9	<u>958,735</u>	<u>423,264</u>
Attributable to:			
Owners of the Company		958,735	423,264
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>958,735</u>	<u>423,264</u>
Earnings per share	10		
Basic (cents per share)		<u>3.66</u>	<u>1.61</u>
Diluted (cents per share)		<u>3.65</u>	<u>1.61</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>958,735</u>	<u>423,264</u>
Other comprehensive income after tax:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>(3,422)</u>	<u>2,809</u>
Other comprehensive income for the period, net of tax	<u>(3,422)</u>	<u>2,809</u>
Total comprehensive income for the period	<u>955,313</u>	<u>426,073</u>
Attributable to:		
Owners of the Company	955,313	426,073
Non-controlling interests	<u>-</u>	<u>-</u>
	<u>955,313</u>	<u>426,073</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2021

	Note	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	12	10,829,623	10,847,114
Right-of-use assets	13	557,735	584,915
Intangible assets		5,512,576	5,701,247
Investment in associates		511,107	464,417
Investment in a joint venture		200,891	-
Advances, deposits and prepayments		60,322	62,845
Deferred tax assets		656	648
		<u>17,672,910</u>	<u>17,661,186</u>
Current assets			
Inventories		363,715	331,440
Trade and other receivables	14	4,169,274	3,761,951
Financial assets at fair value through profit or loss ("FVTPL")		1,906	1,732
Employee retirement benefits assets		13,946	13,521
Current tax assets		56,893	78,274
Bank and cash balances		1,882,807	3,093,281
		<u>6,488,541</u>	<u>7,280,199</u>
Current liabilities			
Trade and other payables	15	3,114,883	3,652,609
Due to a director		3,621	22
Borrowings	16	1,507,592	1,369,532
Lease liabilities		106,708	107,027
Financial guarantee contracts		20,404	22,605
Current tax liabilities		227,230	189,506
		<u>4,980,438</u>	<u>5,341,301</u>
Net current assets		<u>1,508,103</u>	<u>1,938,898</u>
Total assets less current liabilities		<u>19,181,013</u>	<u>19,600,084</u>
Non-current liabilities			
Borrowings	16	3,107,546	3,866,279
Lease liabilities		283,041	331,304
Provisions	17	485,292	495,455
Employee retirement benefits obligations		39,272	35,838
Deferred tax liabilities		2,015,056	1,955,416
		<u>5,930,207</u>	<u>6,684,292</u>
NET ASSETS		<u>13,250,806</u>	<u>12,915,792</u>
Capital and reserves			
Share capital	18	262,839	262,839
Reserves		12,981,171	12,644,331
Equity attributable to owners of the Company		13,244,010	12,907,170
Non-controlling interests		6,796	8,622
TOTAL EQUITY		<u>13,250,806</u>	<u>12,915,792</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated financial statements should be read in conjunction with the 2020 annual consolidated financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2020.

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

The accounting policies applied in these financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2020. In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021 but they do not have a material effect on the Group’s condensed consolidated financial statements.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed interim financial statements.

4. FAIR VALUE MEASUREMENT

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

- | | |
|-----------------|--|
| Level 1 inputs: | quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date. |
| Level 2 inputs: | inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. |
| Level 3 inputs: | unobservable inputs for the asset or liability. |

The Group’s policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

4. **FAIR VALUE MEASUREMENT (CONT'D)**

The recurring fair value of the financial assets at fair value through profit or loss at 30 June 2021 and 31 December 2020 are measured by using Level 1 of the fair value hierarchy.

There were no changes in the valuation techniques used.

5. **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.

As the Group is principally engaged in the activities relating to the exploration and production of crude oil and natural gas in Pakistan, Middle East and North Africa, 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".

6. TURNOVER

Turnover from contracts with customers for the period is as follows:

	Six months ended 30 June	
	<u>2021</u>	<u>2020</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sales and production of crude oil, condensate, gas, liquefied petroleum gas and petrochemical	<u>3,456,367</u>	<u>2,865,634</u>

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

	Six months ended 30 June	
	<u>2021</u>	<u>2020</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Crude oil, condensate, gas, liquefied petroleum gas and petrochemical		
Primary geographical markets		
- Pakistan	1,164,069	1,653,835
- Singapore	364,096	240,347
- Egypt	556,889	357,529
- Iraq	1,274,020	613,923
- People's Republic of China ("PRC")	<u>97,293</u>	<u>-</u>
Revenue from external customers	<u>3,456,367</u>	<u>2,865,634</u>

The turnover from sales and production of crude oil, condensate, gas, liquefied petroleum gas and petrochemical are net of sales tax, royalty to government, sales discounts and windfall levy amounting to approximately HK\$212,282,000 (2020: HK\$322,623,000), HK\$210,944,000 (2020: HK\$258,119,000), HK\$948,000 (2020: HK\$581,000) and HK\$23,066,000 (2020: HK\$1,636,000) respectively.

7. **FINANCE COSTS**

	Six months ended 30 June	
	<u>2021</u>	<u>2020</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank loans	113,760	114,792
Interest expense on lease liabilities	9,777	7,045
Interest on advance from customers	10,727	35,863
Provisions - unwinding of discounts (note 17)	5,155	4,717
	<hr/>	<hr/>
Total borrowing costs	139,419	162,417
Amount capitalised	(2,756)	-
	<hr/>	<hr/>
	136,663	162,417
	<hr/> <hr/>	<hr/> <hr/>

The weighted average capitalisation rate on funds borrowed generally is at a rate of 6% per annum (2020: Nil).

8. **INCOME TAX EXPENSE**

	Six months ended 30 June	
	<u>2021</u>	<u>2020</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax - Overseas		
Provision for the period	146,905	212,969
Under-provision in prior years	-	4,612
	<hr/>	<hr/>
	146,905	217,581
	<hr/>	<hr/>
Deferred tax	59,994	(58,192)
	<hr/>	<hr/>
	206,899	159,389
	<hr/> <hr/>	<hr/> <hr/>

No provision for profits tax in Austria, Cayman Islands, Bermuda, British Virgin Islands, Jersey, Kuwait, Dubai, Netherlands, United States of America, Republic of Panama, Mauritius, PRC, Singapore or Hong Kong is required as the Group has no assessable profit for the period arising in or derived from these jurisdictions for the six months ended 30 June 2021 and 2020.

Egypt, Iraq and Pakistan Income Tax has been provided at a rate of 22.5%, 35% and ranging from 40% to 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.

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.

9. PROFIT FOR THE PERIOD

The Group's profit for the period is arrived at after charging/(crediting) the following:

	Six months ended 30 June	
	<u>2021</u>	<u>2020</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income	(7,843)	(9,178)
(Reversal of allowance)/allowance for trade receivables	(1,530)	1,825
Allowance for other receivables	652	182
Amortisation of intangible assets	188,671	220,376
Depreciation	1,162,166	1,258,691
Directors' remuneration	15,386	9,428
Fair value (gains)/losses on financial assets at FVTPL	(174)	1,047

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the period attributable to owners of the Company of approximately HK\$958,735,000 (2020: HK\$423,264,000) and the weighted average number of ordinary shares of 26,226,916,410 (2020: 26,223,326,053) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company for the six months ended 30 June 2021 is based on the profit for the period attributable to owners of the Company of approximately HK\$958,735,000 (2020: HK\$423,264,000) and the weighted average number of ordinary shares of 26,234,835,019 (2020: 26,231,519,240), being the weighted average number of ordinary shares of 26,226,916,410 (2020: 26,223,326,053) in issue during the period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 7,918,609 (2020: 8,193,187) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the period.

11. DIVIDEND

	Six months ended 30 June	
	<u>2021</u>	<u>2020</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
2020 Final dividend of HK2.36 cents per ordinary share paid	620,299	-

The directors of the Company do not recommend any interim dividend for the six months ended 30 June 2021 (2020: HK\$Nil).

12. **PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2021, the Group acquired property, plant and equipment of approximately HK\$1,115,783,000 (2020: HK\$736,001,000).

13. **RIGHT-OF-USE ASSETS**

During the six months ended 30 June 2021, the Group entered into a number of new lease agreements for use of properties and motor vehicles for fixed terms of 2 to 5 years (2020: 5 years). The Group makes fixed payments during the contract period. On lease commencement, the Group recognised approximately HK\$2,997,000 (2020: HK\$2,015,000) of right-of-use assets and lease liabilities.

14. **TRADE AND OTHER RECEIVABLES**

	30 June <u>2021</u> HK\$'000 (unaudited)	31 December <u>2020</u> HK\$'000 (audited)
Trade receivables (note (a))	3,735,303	2,913,364
Allowance for trade receivables	(67,602)	(69,132)
Allowance for price adjustments (note (b))	(229,766)	(292,802)
	<u>3,437,935</u>	<u>2,551,430</u>
Other receivables (note (c))	733,829	1,212,359
Allowance for other receivables	(2,490)	(1,838)
	<u>731,339</u>	<u>1,210,521</u>
Total trade and other receivables	<u>4,169,274</u>	<u>3,761,951</u>

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 (31 December 2020: 30 to 45 days) except for the customers in Iraq which were settled by having physical delivery of crude oil on accumulation of balance sufficient enough for cargo lifting. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
0 to 30 days	1,919,406	1,372,226
31 to 60 days	290,965	373,556
61 to 90 days	974,228	481,033
Over 90 days	550,704	686,549
	<u>3,735,303</u>	<u>2,913,364</u>

(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\$229,766,000 (31 December 2020: HK\$292,802,000) was provided.

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

(c) **Other receivables**

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

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Due from joint operators	226,396	423,556
Advances to staff	13,698	9,712
Central excise duty receivables	25,860	21,321
Deposits and prepayments	112,708	75,320
Sales tax receivables	246,693	217,351
Other tax receivables	9,325	6,369
Withholding tax receivables	3,988	4,482
Deferred sales consideration (note (i))	55,557	238,058
Amount due from an associate (note (ii))	28,823	27,169
Advance to a supplier	-	180,218
Others	8,291	6,965
	<u>731,339</u>	<u>1,210,521</u>

Notes:

- (i) In October 2016, the Group signed a farm-out agreement with an effective date of 1 January 2016 to assign a 20% paying and 15% revenue interest in the Iraq Siba area gas development and production service contract. Following completion of the transaction, the Group has a 40% paying and 30% revenue interest in Siba. Under the terms of the farm-out agreement, the farmee will settle the consideration by paying the Group's share of costs of a major related contract.
- (ii) As at 30 June 2021, the amount due from associate of the Group, Orient Group Beijing Investment Holding Limited, other than approximately HK\$27,419,000 is unsecured, interest bearing at a rate of 3 months LIBOR plus 1.7% per annum and repayable on or before 25 September 2021, the remaining balances are unsecured, interest free and repayable on demand (31 December 2020: the whole amount is unsecured, interest bearing at a rate of 3 months LIBOR plus 1.7% per annum and repayable on or before 25 September 2021).

15. **TRADE AND OTHER PAYABLES**

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Trade payables (note (a))	230,779	475,064
Other payables (note (b))	2,884,104	3,177,545
Total trade and other payables	<u>3,114,883</u>	<u>3,652,609</u>

(a) **Trade payables**

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

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
0 to 30 days	126,660	161,876
31 to 60 days	28,296	100,840
61 to 90 days	15,607	35,735
Over 90 days	60,216	176,613
	<u>230,779</u>	<u>475,064</u>

(b) **Other payables**

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Accrual for operating and capital expenses	1,153,770	1,086,472
Due to joint operators	84,847	164,922
Deposits received	72	71
Dividend payable	16,470	-
Advances from customers (note (i))	50,700	538,200
Salaries and welfare payables	72,507	103,164
Provision for infrastructure funds	644,618	463,982
Other tax payables	803,834	773,354
Others	57,286	47,380
	<u>2,884,104</u>	<u>3,177,545</u>

15. TRADE AND OTHER PAYABLES (CONT'D)

(b) Other payables (cont'd)

Note:

- (i) The Group entered into agreements with customers for secured crude oil prepayment facilities of up to approximately HK\$1,755,000,000 (equivalent to approximately US\$225,000,000). The facilities bearing interest rates ranging from 4% plus LIBOR per annum to 5% plus LIBOR per annum (31 December 2020: 4% plus LIBOR per annum to 5% plus LIBOR per annum). The crude oil prepayment facilities are repayable principally by the delivery of the Group's crude oil entitlement. As at 30 June 2021, the total undrawn crude oil prepayment facilities amounted to approximately HK\$390,000,000 (equivalent to approximately US\$50,000,000) (31 December 2020: HK\$390,000,000 (equivalent to approximately US\$50,000,000)).

As at 30 June 2021, the advance from customers are guaranteed by the unlimited corporate guarantee provided by the Company.

16. BORROWINGS

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Bank loans, secured (note)	4,615,138	5,235,811
Analysed as:		
Current liabilities	1,507,592	1,369,532
Non-current liabilities	3,107,546	3,866,279
	4,615,138	5,235,811

Note:

The Group has obtained banking facilities in aggregate of approximately HK\$5,825,244,000 (equivalent to approximately US\$746,826,000) (31 December 2020: HK\$5,825,244,000 (equivalent to approximately US\$746,826,000)), all of the banking facilities have been utilized at 30 June 2021 and 31 December 2020. Bank loans of approximately HK\$636,480,000 (equivalent to approximately US\$81,600,000) (2020: HK\$564,330,000 (equivalent to approximately US\$72,350,000)) was repaid by the Group during the period.

17. PROVISIONS

	Dismantling costs in respect of leasehold improvements	Decommissioning costs	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021 (audited)	530	494,925	495,455
Less:			
Actual costs incurred during the period	-	(12,477)	(12,477)
Reversal of provisions recognised during the period	-	(3,078)	(3,078)
Add:			
Unwinding of discounts	-	5,155	5,155
Provisions recognised during the period	-	237	237
At 30 June 2021 (unaudited)	<u>530</u>	<u>484,762</u>	<u>485,292</u>

Oil and gas exploration and production activities may result in land subsidence and damage to the environment of the concession areas. Pursuant to the relevant rules and regulations, the Group is required to restore the concession areas back to acceptable conditions.

The decommissioning costs obligation has been determined by management by discounting the expected future expenditures to their net present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. The amounts provided in relation to the decommissioning costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

The provision for dismantling costs in respect of leasehold improvements is calculated based on the net present value of costs to be incurred to remove leasehold improvements from the leased properties of the Group. The amounts are determined with reference to the quotations from external contractors and the management's estimation.

18. SHARE CAPITAL

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Authorised:		
60,000,000,000 ordinary shares of HK\$0.01 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:		
26,283,850,410 (At 31 December 2020: 26,283,850,410) ordinary shares of HK\$0.01 each	<u>262,839</u>	<u>262,839</u>

18. **SHARE CAPITAL (CONT'D)**

A summary of the issued share capital of the company is as follows:

	Number of shares issued '000	Nominal value of shares issued HK\$'000
At 31 December 2020 and 1 January 2021 (audited) and 30 June 2021 (unaudited)	<u>26,283,850</u>	<u>262,839</u>

19. **PERFORMANCE SHARE UNIT SCHEME**

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

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

During the six months ended 30 June 2021, no shares were purchased by the trustee and no shares were granted to eligible employees pursuant to the PSU Scheme. At 30 June 2021, 56,934,000 shares (31 December 2020: 56,934,000 shares) are held by the trustee.

20. **CAPITAL COMMITMENTS**

(a) The Group's capital commitments at the end of reporting period are as follows:

	30 June 2021 HK\$'000 (unaudited)	31 December 2020 HK\$'000 (audited)
Contracted but not provided for:		
Acquisition of property, plant and equipment	2,496	356
Commitments for capital expenditure	<u>280,496</u>	<u>295,245</u>
	<u>282,992</u>	<u>295,601</u>

20. CAPITAL COMMITMENTS (CONT'D)

- (b) On 20 October 2014, the Group established a wholly owned subsidiary, United Energy (Beijing) Limited (“UEBL”) in the PRC with registered capital of approximately HK\$120,186,000 (equivalent to approximately RMB100,000,000) (31 December 2020: HK\$118,580,000 (equivalent to approximately RMB100,000,000)). At 30 June 2021, the Group has contributed approximately HK\$14,718,000 (equivalent to approximately RMB12,246,000) (31 December 2020: HK\$14,521,000 (equivalent to approximately RMB12,246,000)) to UEBL. In accordance with the memorandum of association of UEBL, the remaining balance of approximately HK\$105,468,000 (equivalent to approximately RMB87,754,000) (31 December 2020: HK\$104,059,000 (equivalent to approximately RMB87,754,000)) shall be contributed to UEBL within twenty years from the date of its establishment.
- (c) On 25 May 2017, the Company, UEBL, Orient Group Company Limited and Orient Group Co. Ltd. established a company, 東方藝術品有限公司 (“東方藝術品”) in the PRC with registered capital of approximately HK\$120,186,000 (equivalent to approximately RMB100,000,000) (31 December 2020: HK\$118,580,000 (equivalent to approximately RMB100,000,000)). In accordance with the memorandum of association of 東方藝術品, UEBL is committed to contribute approximately HK\$24,037,000 (equivalent to approximately RMB20,000,000) (31 December 2020: HK\$23,716,000 (equivalent to approximately RMB20,000,000)) as 20% registered share capital of 東方藝術品. At 30 June 2021, UEBL has not yet contributed any capital to 東方藝術品. In accordance with the memorandum of association of 東方藝術品, capital contribution shall be made to 東方藝術品 on or before 30 June 2045.

21. CONTINGENT LIABILITIES

- (a) As at 30 June 2021 and 31 December 2020, 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 30 June 2021 and 31 December 2020, 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\$5,749,000 (31 December 2020: HK\$4,632,000).
- (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 (31 December 2020: HK\$191,969,000) would be required to be made in the consolidated financial statements for the period ended 30 June 2021.
- (d) As at 30 June 2021, 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\$969,040,000 (31 December 2020: HK\$623,548,000).

21. CONTINGENT LIABILITIES (CONT'D)

- (e) At the end of the reporting period, bank guarantees to the extent of approximately HK\$10,852,000 (equivalent to US\$1,391,000) (31 December 2020: HK\$10,852,000 (equivalent to US\$1,391,000)) in favour of the Directorate General Petroleum Concessions was obtained by UEP Beta GmbH to guarantee its performance and financial obligations as stipulated in the concession agreements.

22. DISPOSAL OF SUBSIDIARIES

On 10 June 2020, the Group entered into shares sale agreement to dispose entire equity interest held in Merry Year Investments Limited (“Merry Year”) at a cash consideration of US\$1 (equivalent to approximately HK\$8) (“Disposal”). Merry Year held certain exploration and development assets in Middle East area. The Disposal was completed on 23 June 2020 and brought gain on disposal of subsidiary of approximately HK\$37,216,000 to the Group.

Net liabilities at the date of disposal were as follows:

	<i>HK\$ '000</i>
Advances, deposits and prepayments	51,547
Amount due from the Company	22,193
Bank and cash balances	1,239
Trade and other payables	(32,553)
Provisions	(74,226)
Employee retirement benefit obligations	<u>(5,416)</u>
Net liabilities disposed of:	(37,216)
Gain on disposal of a subsidiary	<u>37,216</u>
Total consideration - satisfied by cash	<u>- *</u>
Net cash inflow arising on disposal:	
Cash consideration received	- *
Bank and cash balances disposed of	<u>(1,239)</u>
	<u><u>(1,239)</u></u>

* Represents the amount less than HK\$1,000.

23. RELATED PARTIES

- (a) Name and relationship with related parties:

<u>Name of the related party</u>	<u>Relationship</u>
東方集團實業股份有限公司 (Orient Group Industrial Holdings Company Limited (“Orient Group Industrial”)) #	Mr. Zhang Hong Wei is the ultimate controlling party and authorised representative of Orient Group Industrial
東方集團股份有限公司 (Orient Group Co. Ltd. (“Orient Group”))	Mr. Zhang Hong Wei has significant influence over the Orient Group
東方集團有限公司 (Orient Group Company Limited (“OGCL”)) #	Mr. Zhang Hong Wei has significant influence over OGCL
北京大成飯店有限公司 (Beijing Dacheng Hotels Limited (“BDHL”)) #	BDHL is a subsidiary of Orient Group

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

- (b) At the end of the reporting period, OGCL and Orient Group Industrial has provided corporate guarantees to the bank for banking facilities granted to the associate of the Group, OGBIH. OGCL also entered into an entrusted guarantee agreement with OGBIH for the corporate guarantee services provided by OGCL. Under the entrusted guarantee agreement, 2% service fee was charged at outstanding bank loan. During the period, OGCL had waived such service charge of approximately HK\$5,287,000 to OGBIH (2020: service charge of approximately HK\$5,374,000).
- (c) The executive directors of the Company, Mr. Zhang Hong Wei and Ms. Zhang Meiying have provided joint personal guarantees to the bank loans made to the Group totaling approximately HK\$2,598,137,000 (31 December 2020: HK\$2,965,946,000).
- (d) The executive director of the Company, Mr. Zhang Hong Wei provided personal guarantees to the bank loans made to the Group totaling approximately HK\$956,380,000 (31 December 2020: HK\$1,113,912,000).
- (e) The executive director of the Company, Mr. Zhang Hong Wei provided personal guarantees to secure certain of the Group’s obligations under finance leases approximately HK\$295,089,000 (31 December 2020: HK\$333,693,000).
- (f) At 30 June 2021, the Group has provided an unlimited corporate guarantee in favour of its associate against the bank loans of approximately HK\$484,980,000 (31 December 2020: HK\$531,111,000) made to the associate of the Group.
- (g) For the period ended 30 June 2021, leases payments of approximately HK\$11,073,000 (2020: HK\$10,558,000) for leasing an office premises of the Group were paid to BDHL.
- (h) The details of the remuneration paid to the key management personnel are set out in note 9 to the condensed consolidated financial statements.

24. **EVENT AFTER THE REPORTING PERIOD**

- (a) On 12 July 2021, the Company resolved to award 6,078,376 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 6,078,376 scheme shares was completed on 19 July 2021. The Company has no funds raised in this issue. The total number of issued shares of the Company was increased from 26,283,850,410 shares as at 30 June 2021 to 26,289,928,786 shares as at 19 July 2021. Details of this issue are set out in the Company's announcement dated 12 July 2021.
- (b) On 27 July 2021, the Group signed a second amendment and restatement deed with a financial institution for a revolving facility of approximately HK\$733,200,000 (equivalent to approximately US\$94,000,000), of which HK\$374,400,000 (equivalent to approximately US\$48,000,000) has been drawn for the Group's general working capital purposes.

25. **APPROVAL OF THE FINANCIAL STATEMENTS**

The condensed consolidated financial statements for the six months ended 30 June 2021 has been approved for issue by the board of directors on 20 August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is one of the largest listed upstream oil and gas corporations in Hong Kong, with business presence in South Asia, Middle East and North Africa (“MENA”). The Group is principally engaged in the investment and operation of upstream oil, natural gas and other energy related businesses. Leveraging on management’s extensive experience in oil and gas exploration, the Group has successfully grown its business as one of the major players in the upstream oil and gas industry. The Group has established a sound track record of growing its business through acquisition and capital investment.

The global economic growth forecast for 2021 remains at 6%, which was projected by the International Monetary Fund (“IMF”), mainly depending on both the vaccine-powered recovery and the continued effective adaptation of economic activity. World oil demand growth in 2021 is forecasted at 6 million barrels per day (“mmbbl/d”) year-on-year to average of 96.6 mmbbl/d in 2021, reported by the Organisation of the Petroleum Exporting Countries (“OPEC”) Monthly Oil Market Report of July 2021. The oil price rose firmly in 2021, as investors turned increasingly optimistic about the outlook for oil demand recovery. Correspondingly, the average Brent Oil Price in the reporting period, is US\$64.95/barrel (“bbl”), which is 61.45% higher than US\$40.23/bbl for corresponding period of 2020, according to data from U.S. Energy Information Administration. The high international oil price was the main factor to the increase of net profit for the period, the Group reported a profit attributable to the owners of the Company for the reporting period of approximately HK\$958,735,000, representing an increase of 126.5% compared to corresponding period of approximately HK\$423,264,000.

Cost of sales and services rendered by the Group for the reporting period was approximately HK\$1,951,484,000, and the Group invested approximately HK\$1,122,777,000 of capital expenditure in oil exploration, development and production activities. The Group drilled 17 wells during the reporting period, including 10 wells in Pakistan Assets and 7 wells in MENA Assets.

Exploration, Development and Production

In the first half of 2021, the Group devoted continuous efforts in its oil and gas exploration. Adhering to the philosophy of value-driven and anchoring on exploration and discoveries of oil and gas fields, 5 commercial discoveries were achieved of which 3 were in Pakistan and 2 in Egypt.

For the six-month ended 30 June 2021, the Group’s average daily gross production was approximately 152,577 barrels of oil equivalent per day (“boed”) (Pakistan Assets – 68,304 boed plus MENA Assets – 84,273 boed), a 0.3% decrease compared to approximately 153,106 boed of the corresponding period, and gross accumulated production was approximately 27.62 million barrels of oil equivalent (“mmboe”), a 0.9% decrease compared to approximately 27.87 mmboe of the corresponding period, at the same time, the Group’s average working interest production was 91,435 boed (Pakistan Assets – 47,729 boed plus MENA Assets – 43,706 boed), a 3.7% decrease compared to approximately 94,920 boed of last period, and working interest accumulated production was approximately 16.55 mmboe, a 4.2% decrease compared to approximately 17.28 mmboe of the corresponding period. Both the accumulated gross production and working interest production were steady with a minor fluctuation in the reporting period, mainly due to postponed activities last year under COVID-19 pandemic. In the six-month ended 30 June 2021, the Group aggressively managed production profile of existing wells, at a relatively high level.

Pakistan

As of 30 June 2021, the Group holds interests in 5 areas dividing into 16 development concessions for oil and gas production in Pakistan.

For the six-month ended 30 June 2021, the Pakistan Assets achieved an average daily gross production of approximately 68,304 boed, decreased by 19.7% compared to the corresponding period, and an average daily working interest production of approximately 47,729 boed, decreased by 20.1% compared to the corresponding period. The Pakistan Assets have an oil and liquids ratio of 13.0% which was lower than the number of the corresponding period. The accumulated gross production and working interest production of the reporting period was approximately 12.36 mmboe and 8.64 mmboe respectively. The 3 commercial discoveries in Pakistan in the reporting period, will contribute to reserve base and production profile in the near future.

Iraq

The Group holds a 60% participating interest in the Exploration Development and Production Service Contract (“EDPSC”) of Block 9 in Iraq and is the Operator of this block. For the six-month ended 30 June 2021, the average daily gross production was approximately 40,615 boed, increased by 67.3% compared to the corresponding period, and the average daily working interest production was approximately 24,369 boed, increased by 67.3% compared to the corresponding period. The accumulated gross production and working interest production for the reporting period were approximately 7.35 mmboe and 4.41 mmboe respectively. Block 9 has an oil and liquids ratio of 100%. The significant increase in production is mainly due to efficient implementation of Block 9 Field Development Plan (“FDP”) by the Group.

The Group holds a 30% participating interest in the Gas Development and Production Service Contract for the Siba contract area in Iraq and is the Operator of this block. The average daily gross production in the six-month ended 30 June 2021 was approximately 19,867 boed, decreased by 7.7% compared to the corresponding period, and the average daily working interest production was approximately 5,960 boed, decreased by 7.7% compared to the corresponding period. The accumulated gross and working interest production were approximately 3.60 mmboe and 1.08 mmboe respectively. Siba has an oil and liquids ratio of 67.0%.

Egypt

The Group holds interests in four blocks in Egypt. It has a 100% participating interest in Burg El Arab and act as the Operator of this block. The participating interest in Area A, Abu Sennan and East Ras Qattara are 70%, 25% and 49.5% respectively. In the six-month ended 30 June 2021, the average daily gross production was approximately 23,791 boed, increased by 6.8% compared to the corresponding period, and the average daily working interest production was approximately 13,377 boed, decreased by 5.7% compared to the corresponding period. The accumulated gross production and working interest production for the reporting period were approximately 4.31 mmboe and 2.42 mmboe respectively. The Egypt Assets has an oil and liquids ratio of 96.0%. The 2 commercial discoveries in Egypt in the reporting period, will contribute to reserve base and production profile in the near future.

SALES AND MARKETING

Sales of Crude Oil

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

For the six-month ended 30 June 2021, the Group’s total working interest crude and condensates selling volumes are 8.5 million barrels, representing a year-on-year increase of 17.7% and its average realised oil price (before government royalty, windfall levy and government take at working interest quantity) was approximately US\$63.07/bbl, representing a year-on-year increase of 82.4%, mainly due to the increase of Brent Oil Price.

Sales of Natural Gas

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

For the six-month ended 30 June 2021, the Group's total working interest natural gas selling volumes are 8.0 mmbœ, representing a year-on-year decrease of 18.8% and its average realised gas price (before government royalty, windfall levy and government take at working interest quantity) was approximately US\$23.13/bœ, representing a year-on-year decrease of 9.1%, mainly due to the lagging pricing mechanism of natural gas, which was pegged to lower oil price in 2020.

FINANCIAL RESULTS

Financial Review

For the six months ended 30 June 2021 (the “reporting period”), the Group reported a profit attributable to the owners of the Company of approximately HK\$958,735,000, representing a significant increase of 126.5% from the six months ended 30 June 2020 (the “corresponding period”) of approximately HK\$423,264,000. The increase in net profit was mainly due to the relief of COVID-19 pandemic lead to recovery of operations levels and the international oil price continuously bounced back since second half of 2020.

During the reporting period, the Group’s average daily working interest production was approximately 91,435 boed (Pakistan Assets of 47,729 boed plus MENA Assets of 43,706 boed), slightly decreased compared to approximately 94,920 boed (Pakistan Assets of 59,707 boed plus MENA Assets of 35,213 boed) of the corresponding period. The Group aggressively managed demand with the customers to achieve the above production results. The average realised oil and gas price (before government royalty, windfall levy and government take at working interest quantity) was approximately US\$43.70/boe, compared to approximately US\$29.32/boe of the corresponding period, representing an increase of 49.0%.

Turnover

The Group’s turnover for the reporting period was approximately HK\$3,456,367,000, representing a sharp increase of 20.6% as compared with the turnover of approximately HK\$2,865,634,000 of the corresponding period. The increase in turnover was mainly contributed by the effect of increase in realised sales prices during the reporting period.

Exploration and Production Category		Six months ended 30 June 2021	Six months ended 30 June 2020	Change
Oil and gas sales*	USD'000	721,001	500,273	+44.1%
Crude oil and liquids	USD'000	534,972	249,127	+114.7%
Natural gas	USD'000	184,360	249,703	-26.2%
LPG	USD'000	1,669	1,443	+15.7%
Sales Volume	mmboe	16.5	17.1	-0.6
Crude oil and liquids	mmboe	8.5	7.2	+1.3
Natural gas	mmboe	8.0	9.8	-1.8
LPG	mmboe	0.0 [#]	0.1	-0.1
Realised prices*	US\$/boe	43.70	29.32	+49.0%
Crude oil and liquids	US\$/bbl	63.07	34.57	+82.4%
Natural gas	US\$/boe	23.13	25.45	-9.1%
LPG	US\$/boe	38.04	33.32	+14.2%

* before government royalty, windfall levy and government take (at working interest quantity)

[#] represents the sales volume less than 100,000 boe

Cost of sales and services rendered

Operating expenses

The Group’s operating expenses for exploration and production activities (which is defined as the cost of sales excluding depreciation and amortisation and distribution expenses) increased 3.2% to approximately HK\$553,581,000 in the first half of 2021, compared with approximately HK\$536,430,000 in the corresponding period. The operating expenses per boe (at working interest production) was approximately US\$4.3 in the reporting period, compared with approximately US\$4.0 in the corresponding period, increased by 7.5%. For Pakistan Assets, operating expenses per boe was approximately US\$3.8, increased by 52.0% (30 June 2020: approximately US\$2.5 per boe); while for MENA Assets, operating expense per boe was approximately US\$4.8, decreased by 27.3% (30 June 2020: approximately US\$6.6 per boe).

Depreciation, depletion and amortisation

Included in the cost of sales and services rendered, the depreciation, depletion and amortisation was approximately HK\$1,291,694,000, representing a decrease of 9.5% as compared with the amount of approximately HK\$1,426,800,000 in the corresponding period.

Gross profit

The Group's gross profit for the reporting period was approximately HK\$1,504,883,000 (gross profit ratio 43.5%) which represented a significant increase of 69.1% as compared with gross profit of approximately HK\$889,872,000 (gross profit ratio 31.1%) for the corresponding period. The increase in gross profit was mainly due to the relief of COVID-19 pandemic lead to recovery of operations levels and the international oil price continuously bounced back since second half of 2020.

Exploration expenses

The Group's exploration expenses for the reporting period were approximately HK\$3,662,000 (30 June 2020: approximately HK\$8,789,000) which included the expenses for performance of geological and geophysical studies and surface use rights.

Administrative expenses

The Group's administrative expenses for the reporting period were approximately HK\$241,899,000 (30 June 2020: approximately HK\$194,068,000) representing 7.0% (30 June 2020: 6.8%) of the turnover.

Finance costs

The Group's finance costs for the reporting period were approximately HK\$136,663,000, which represented a decrease of 15.9% as compared with the finance costs of approximately HK\$162,417,000 for the corresponding period. The decrease in finance costs was mainly due to the lower average interest rate and average loan outstanding balance during the reporting period. The weighted average interest rate of borrowings for the reporting period was 4.81% (30 June 2020: 5.13%).

Income tax expense

The Group's income tax expense for the reporting period was approximately HK\$206,899,000. This included the current income tax of approximately HK\$146,905,000 and deferred tax expense of approximately HK\$59,994,000, compared with current income tax of approximately HK\$217,581,000 and deferred tax income of approximately HK\$58,192,000 for the corresponding period respectively. The Group's effective tax rate for the reporting period was approximately 17.7%, representing a decrease 9.7 percentage points as compared with 27.4% for the corresponding period.

EBITDA

EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, gain on disposal of subsidiaries, share of profits/losses of associates, reversals of impairment losses on/impairment losses for trade receivables and impairment losses for other receivables. It should 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\$2,605,374,000, increased by 17.9% from the corresponding period of approximately HK\$2,209,877,000. The increase in EBITDA was mainly attributable to the increase in average realised sales price during the reporting period.

Cash generated from operating activities

The Group's net cash inflow from operating activities for the reporting period was approximately HK\$1,228,692,000, representing an increase of 191.9% as compared with the corresponding period of approximately HK\$420,876,000. This was primarily attributed to the increase in oil and gas sales cash inflows due to increased realised sales prices during the current period.

Cash used in investing activities

In the first half 2021, the Group's net cash used in investing activities decreased by 17.3% to approximately HK\$908,942,000 from the corresponding period, mainly due to the development expenditure of approximately HK\$1,125,349,000 for the reporting period with an overall increase of 52.9% as compared to the corresponding period, acquisition of a joint venture but offset by decrease in restricted bank deposits.

Cash used in financing activities

In the first half 2021, the net cash used in financing activities was approximately HK\$1,292,811,000, mainly due to the payment of final dividend of approximately HK\$603,829,000 and repayment of bank loans of approximately HK\$636,480,000.

Dividend

The Board has not recommended the payment of interim dividend for the reporting period.

Business and market outlook

The global economy in 2021 is projected to rebound 6%, according to IMF forecast in July 2021. On the commodity front, global oil demand is forecast to increase by 6 mmbbl/d to average of 96.6 mmbbl/d, which is stated in OPEC Monthly Market Report of July 2021. The rapid recovery of economy and commodity market will rely on COVID-19 vaccine rollout and economic stimulation policies. The oil and gas industry is expected to increase steadily and gradually.

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

For our 2021 plan, the Group targets average daily gross production level of 150,000 to 165,000 boed, and average daily working interest production level of 88,000 to 96,000 boed. Capital expenditure is anticipated to reach US\$390 million to US\$450 million, which is essential to support exploration, development and construction plans of the Group, and also aligned with our pre-pandemic level. We will manage overruns in capital expenditure to the possible extent through the adjustments of our exploration program by deferring certain high risks exploration drilling and optimisation the schedule of development facilities construction. At the same time, we will balance the workload of each asset to reach economically efficient outputs.

Pakistan Assets:

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

For Pakistan Assets, we plan to achieve an average daily working interest production of 46,000 to 50,000 boed in 2021.

MENA Assets:

In March 2019, the Group completed the acquisition of KEC, which is engaged in exploration, appraisal, development and production of oil and gas assets in the MENA region. This acquisition brings high-quality assets to the Group’s portfolio with significant scale and strong development potential. The production base and long reserve life of these assets are highly complementary to the Group’s existing portfolio and will provide a sustainable development profile to the Group for the next two decades. As per reserve report issued by Gaffney, Cline & Associates as of 31 December 2020, the MENA Assets were reported with 2P working interest reserve of 958 mmboe with almost 97.6% located in Iraq. The Group will leverage its strong financial capability to further unlock the potential of MENA Assets and replicate its past success story in MENA regions. The average daily gross production of Block 9 in Iraq is expected to reach 100,000 boed in the near future. The gas production of Siba in Iraq is expected to reach a sustainable plateau production target in the near future. Egyptian assets are mature producing assets, it will stay stable in terms of both production and reserve, in the year of 2021.

In 2021, Iraq Assets are expected to achieve an average daily working interest production of 30,000 to 33,000 boed, whereas Egypt Assets will achieve an average daily working interest production of 12,000 to 13,000 boed.

Conclusion

In first half of 2021, United Energy has achieved outstanding financial performance on the back of a strong recovery of international commodity prices. Delicacy management greatly contributes to the desirable result. For the way forward, we will keep on ramping up production, optimizing operation and re-investing in our people and assets. Devoted to creating value for the shareholders, we expect a fruitful year of 2021.

Liquidity and Financial Resources

During the reporting period, the Group continues to maintain a strong financial position, with bank and cash balances amounting to approximately HK\$1,882,807,000 as at 30 June 2021 (31 December 2020: approximately HK\$3,093,281,000).

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

	Principal amount outstanding at 30 June 2021	
	US\$	Equivalent to HK\$
Revolving loan	336,875,000	2,627,625,000
Term loan	205,726,000	1,604,663,000
Reserves-based borrowing	55,575,000	433,485,000
Prepayment facilities	6,500,000	50,700,000
Finance leases	38,080,000	297,024,000
	642,756,000	5,013,497,000

As at 30 June 2021, the gearing ratio was approximately 20.9% (31 December 2020: 24.9%), based on borrowings, advance from customers, and lease liabilities under current liabilities and non-current liabilities of approximately HK\$1,665,000,000 (31 December 2020: approximately HK\$2,014,759,000) and approximately HK\$3,390,587,000 (31 December 2020: approximately HK\$4,197,583,000) respectively and total assets of approximately HK\$24,161,451,000 (31 December 2020: approximately HK\$24,941,385,000). As at 30 June 2021, the current ratio was approximately 1.30 times (31 December 2020: approximately 1.36 times), based on current assets of approximately HK\$6,488,541,000 (31 December 2020: approximately HK\$7,280,199,000) and current liabilities of approximately HK\$4,980,438,000 (31 December 2020: approximately HK\$5,341,301,000).

As at 30 June 2021, the Group's total borrowings amounted to approximately HK\$4,615,138,000 (31 December 2020: approximately HK\$5,235,811,000), all of them are denominated in United States dollars. The weighted average interest rate of the borrowings as at 30 June 2021 was 4.56% (31 December 2020: 4.70%).

As at 30 June 2021, the Group's property, plant and equipment, right-of-use assets, trade receivable and bank balances, with total carrying value of approximately HK\$3,914,568,000 (31 December 2020: approximately HK\$4,487,404,000) and share charges in respect of the equity interests of certain subsidiaries were pledged to secure the Group's general banking facilities.

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

Material Acquisitions and Disposal

On 28 March 2021, United Energy Financing (Bermuda) Limited, a wholly owned subsidiary of the Company, and third parties entered into a share acquisition agreement to purchase 40% equity interest of a joint venture company, at a consideration of approximately US\$25,755,000 (equivalent to approximately HK\$200,891,000).

Save as disclosed above, the Group and the Company do not have other material acquisition and disposal during the reporting period.

Segment Information

Particulars of the Group's segment information are set out in note 5 of the Notes to Condensed Consolidated Financial Statements in this announcement.

Capital Structure

During the reporting period, there was no change of the issued share capital of the Company. The total number of issued shares of the Company was 26,283,850,410 shares as at 1 January 2021 and 30 June 2021.

Employees

As at 30 June 2021, the Group employed a total of 1,931 full time employees in Hong Kong, PRC, Pakistan, Dubai and other MENA locations. Employees' remuneration package is reviewed periodically and determined with reference to the performance of the individual and the prevailing market practices. Remuneration package included basis salaries, year-end bonus, medical and contributory provident fund.

Contingent Liabilities

Particulars of the Group's contingent liabilities are set out in the note 21 of the Notes to Condensed Consolidated Financial Statements in this announcement.

Events After the Reporting Period

Particulars of the Group's events after the reporting period are set out in the note 24 of the Notes to the Condensed 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 United States dollars and Hong Kong dollars, which are relatively stable. Other currency involved include Renminbi, Pakistani Rupee, Iraqi Dinar and Egyptian Pound which exchange rate impact is not considered significant. The Group did not use financial instruments for hedging purposes during the reporting period and will continue to monitor impact of any exchange fluctuations and take appropriate action to prevent any exposure to the Group.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the six months ended 30 June 2021.

Share Option Scheme

The Company's share option scheme (the "Old Scheme") with the maximum number of 9,598,537 shares of the Company to be issued upon on the exercise of share options under the Old Scheme (the "Old Scheme Limit") was adopted pursuant to the shareholders' resolution passed on 11 May 2006 for the primary purpose of providing opportunity to Directors, employees and consultants to acquire proprietary interests of the Group. On 3 December 2007, the Old Scheme Limit was approved to be refreshed to the maximum number of 1,277,709,163 shares of the Company to be issued upon on the exercise of share options under the Old Scheme by shareholders of the Company (the "Refreshed Old Scheme Limit"). The corresponding listing approval for the Refreshed Old Scheme Limit was granted by the Stock Exchange on 28 February 2008. The Old Scheme has been expired on 10 May 2016.

The new share option scheme of the Company (the “New Scheme”) with the maximum number of 1,308,572,137 shares of the Company to be issued on the exercise of share options under the New Scheme (the “New Scheme Limit”) was adopted pursuant to the shareholders’ resolution passed on 27 May 2016 for the primary purpose of providing opportunity to Directors, employees and consultants to acquire proprietary interests of the Group.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual is not permitted to exceed 10% of the shares of the Company in issue from time to time.

During the six months ended 30 June 2021, no share options were granted, exercised, lapsed or cancelled under both the Old Scheme and the New Scheme. As at 30 June 2021, 627,452,526 shares under the Refreshed Old Scheme Limit were not used for granting share option under the Old Scheme (“Unused Refreshed Old Scheme Limit”) and the total adjusted outstanding share options granted under the Old Scheme but not exercised was 23,256,637 units of the share options (“Outstanding Option Not Exercised”). The ratio of Unused Refreshed Old Scheme Limit and the Outstanding Option Not Exercised to the total issued shares of the Company of 26,283,850,410 shares as at 30 June 2021 was 2.48%.

As at 30 June 2021, details of outstanding share options granted but not exercised under the Old Scheme are as follows.

Grant Date	Adjusted Exercise Price (Note) HK\$	Vesting Period	Exercisable Period	Adjusted Number of Share Options (Note)					
				As at 1.1.2021	Granted	Exercised	Lapsed	Cancelled	As at 30.6.2021
Employees									
29.8.2012	0.93	29.8.2012 to 28.8.2013	29.8.2013 to 28.8.2022	6,976,991	-	-	-	-	6,976,991
29.8.2012	0.93	29.8.2012 to 28.8.2014	29.8.2014 to 28.8.2022	4,651,327	-	-	-	-	4,651,327
29.8.2012	0.93	29.8.2012 to 28.8.2015	29.8.2015 to 28.8.2022	4,651,327	-	-	-	-	4,651,327
29.8.2012	0.93	29.8.2012 to 28.8.2016	29.8.2016 to 28.8.2022	6,976,992	-	-	-	-	6,976,992
Total				23,256,637	-	-	-	-	23,256,637

Note: Upon completion of Open Offer on 30 August 2016, the exercise price and the number of shares that can be subscribed for upon the exercise of the outstanding share options was adjusted from HK\$1.20 to HK\$0.93 and 18,000,000 shares to 23,256,637 shares respectively.

Disclosure of Interests

Director's interests and short positions in the securities of the Company and its associated corporations

As at 30 June 2021, the following Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code:

Name of Director	Nature of interest	Number of Shares		Approximate % shareholding
		Long Position	Short Position	
Zhang Hong Wei (Note 1)	Attributable interest of controlled corporation	17,466,600,230	1,409,109,090	66.45% (L) 5.36% (S)
Zhang Meiyong (Note 2)	Attributable interest of controlled corporation	1,287,700,000	—	4.90% (L)

Note:

1. Out of the 17,466,600,230 shares (66.45%), 8,029,971,845 shares (30.55%) were beneficially held by He Fu International Limited, 5,787,539,821 shares (22.02%) were beneficially held by United Petroleum & Natural Gas Holdings Limited, and 3,649,088,564 shares (13.88%) were beneficially held by United Energy Holdings Limited. United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited are companies wholly-owned by Million Fortune Enterprises Limited, which is in turn wholly-owned by Mr. Zhang Hong Wei. He Fu International Limited is wholly-owned by Huilan Investment Limited, which is owned by 东方集团有限公司 (92%) and 东方集团产业发展有限公司 (8%). 东方集团产业发展有限公司 is wholly-owned by 东方集团有限公司, which is 94% owned by 名泽东方投资有限公司, which is in turn wholly-owned by Mr. Zhang Hong Wei. Therefore, Mr. Zhang Hong Wei is deemed to be interested in those 17,466,600,230 shares (66.45%).
2. 1,287,700,000 shares (4.9%) were beneficially held by Brand Master Group Limited which is wholly-owned by Ms. Zhang Meiyong.
3. (L) denotes long position and (S) denotes short position

Save as disclosed above, as at 30 June 2021, none of the Directors and chief executive of the Company and their respective associates had or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executives of the Company are taken or deemed to have under such provisions of the SFO); or (ii) were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (iii) which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at 30 June 2021, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity and nature of interest	Number of Shares	Approximate % shareholding
Zhang Hong Wei (Note a)	Attributable interest of controlled corporation	17,466,600,230 (L) 1,409,109,090 (S)	66.45% (L) 5.36% (S)
名泽东方投资有限公司 (Note a)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.55% (L)
东方集团有限公司 (Note b)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.55% (L)
东方集团产业发展有限公司 (Note c)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.55% (L)
Huilan Investment Limited (Note d)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.55% (L)
He Fu International Limited (Note e)	Beneficial owner	8,029,971,845 (L)	30.55% (L)
Million Fortune Enterprises Limited (Note a)	Attributable interest of controlled corporation	9,436,628,385 (L) 1,409,109,090 (S)	35.90% (L) 5.36% (S)
United Petroleum & Natural Gas Holdings Limited (Note f)	Beneficial owner	5,787,539,821 (L)	22.02% (L)
United Energy Holdings Limited (Note f)	Beneficial owner	3,649,088,564 (L) 1,409,109,090 (S)	13.88% (L) 5.36% (S)
Haitong International Holdings Limited (Note g)	Attributable interest of controlled corporation	2,209,109,090 (L) 1,409,109,090 (S)	8.40% (L) 5.36% (S)
Haitong International Securities Group Limited (Note g)	Attributable interest of controlled corporation	2,209,109,090 (L) 1,409,109,090 (S)	8.40% (L) 5.36% (S)
Haitong Securities Co., Ltd. (Note g)	Attributable interest of controlled corporation	2,209,109,090 (L) 1,409,109,090 (S)	8.40% (L) 5.36% (S)
Haitong International Investment Solutions Limited (Note g)	Beneficial owner	1,409,109,090 (L) 1,409,109,090 (S)	5.36% (L) 5.36% (S)

Note:

- 名泽东方投资有限公司 and Million Fortune Enterprises Limited are wholly owned by Mr. Zhang Hong Wei.
- 名泽东方投资有限公司 owns 94% shares of 东方集团有限公司.
- 东方集团产业发展有限公司 is wholly-owned by 东方集团有限公司.
- Huilan Investment Limited is 92% owned by 东方集团有限公司 and 8% owned by 东方集团产业发展有限公司.
- He Fu International Limited is wholly owned by Huilan Investment Limited.
- These companies are wholly owned by Million Fortune Enterprises Limited.
- Haitong International Investment Solutions Limited is wholly owned by Haitong International (BVI) Limited and Haitong International (BVI) Limited is wholly owned by Haitong International Securities Group Limited. Haitong International Holdings Limited has an interest in approximately 64.40% of the issued share capital of Haitong International Securities Group Limited and is wholly owned by Haitong Securities Co., Ltd. Therefore, each of Haitong International Securities Group Limited, Haitong International Holdings Limited and Haitong Securities Co., Ltd. is deemed or taken to be interested in right to take the underlying 1,409,109,090 Shares of the equity derivatives which are owned by Haitong International Investment Solutions Limited under the SFO.
- (L) denotes long position and (S) denotes short position.

Save as disclosed above, as at 30 June 2021, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Corporate Governance

The Company has applied the principles and complied with the code provisions as set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the six months ended 30 June 2021 except that:

- The Code A.2.1 — the company have the post of chief executive officer but it was still vacant;
- 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.2.1 of the Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. 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 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 Meiyang, 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.

Compliance with the Model Code of the Listing Rules

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules (the “Model Code”). Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 June 2021.

Audit Committee

The Audit Committee of the Company comprise three independent non-executive directors, namely Mr. Chau Siu Wai, Mr. San Fung and Ms. Wang Ying. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021. 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.

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 six months ended 30 June 2021.

Publication of interim report

A detailed interim report containing all the information required by paragraph 46(1) to 46(9) of Appendix 16 of the Listing Rules will be dispatched to the shareholders and available on the Company's website at www.uegl.com.hk and the Stock Exchange's website at www.hkexnews.hk in due course.

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

Hong Kong, 20 August 2021

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