

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)

2016

Environmental, Social and Governance Report

Date: 10 July 2017, Hong Kong

** For identification purposes only*

1. ABOUT THIS REPORT

Being a responsible corporate citizen, United Energy Group Limited (“United Energy” or the “Company”, and together with its subsidiaries, the “Group”) is not only responsible for our investors, but for a wider spectrum of stakeholders including our customers, suppliers, creditors, debtors, employees and the social community that is affected by our operation. In fact, investors nowadays are increasingly demanding for responsible investment that would take into account of the social and environmental issues apart from the inseparable goal of return growth. In addition, there are overwhelming evidence suggesting that the globe we are living in is encountering an unprecedented climate change, such as rising carbon dioxide levels in the air, increasing global temperature, loss of mass of the earth’s polar ice sheets and the rising of sea level. This report is to strengthen our communication with our stakeholders on our management approach and performance on material environmental, social and governance issues for the period of 1 January 2016 to 31 December 2016 (the “reporting period”).

2. REPORTING STANDARD

This is the first environmental, social and governance report of United Energy (“ESG report”) which is prepared in accordance with the Environmental, Social and Governance Reporting Guide (“Reporting Guide”) issued by the Stock Exchange of Hong Kong. This report is to be read in conjunction with the Company’s 2016 Annual Report that was published on the Stock Exchange of Hong Kong on 25 April 2017, in particular the Corporate Governance Report contained therein.

3. CONTACT INFORMATION FOR REPORT FEEDBACK

Any feedback on this report is most welcome for us to make improvement. Please feel free to send your comments or suggestions related to this Report by contacting us at the address below:

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4. CORPORATE PROFILE

The Group is principally engaged in upstream oil and natural gas business, including development of strategic energy reserves, focusing on the investment and operation of oil, natural gas and other energy related business. This accomplished by the merger and acquisition of oil and natural gas assets; the exploration and production of crude oil and natural gas; and the provision of patented technologies supporting services to oilfields. The Group acquired the Pakistan Assets from British Petroleum in 2011. The Group has been a leading investor in the upstream oil and gas sector in Pakistan since 2012. After 5 years operation, Pakistan Assets become the major operation of the Group.

5. OUR ENVIRONMENT

At United Energy, we work to protect the natural environment as one of our core principles. To reduce the impact of our operation in Pakistan, we systematically manage the business environment impacts through an environmental management system ISO-14001 and integrate environmental requirements into the operation system. Below is a summary of the emission data for the reporting period.

Emission

	Greenhouse Gas Emission (tonne)	Hazardous Waste Produced (tonne)	Non-hazardous Waste Produced (tonne)
Pakistan	658,191	7.5	907

Note: Resources consumed are on yearly basis unless otherwise specified

We strives to comply with all internal and external (i.e. government or regulatory body) policies regarding emission and discharges resulting due to our operations. The Group complies with regulatory policies enacted by Sindh Environmental Protection Agency by Government of Sindh through quarterly monitoring of emission through third party agency.

Use of Resources

	Electricity (kW)	Gas (mmscfd)	Diesel (m ³)	Water Consumed (m ³)
Pakistan	20,670	25	8,529	352,627

Note: Resources consumed are on yearly basis unless otherwise specified

The Group's business nature includes drilling, seismic acquisition and the consumption of energy and water in carrying out these activities. It is inevitable that our activities will to certain extent have negative impact to the operation area. To minimize the impact, regular monitoring and testing activities are conducted to ensure harmful emissions and discharges are not released in the environment prior to treatment. To reduce the reliance on fresh water, treated domestic waste water is used as utility water for residential camps.

The Environment and Natural Resources

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 regulations and laws, the Group is required to restore the concession areas back to acceptable conditions. The Group provided accumulated provisions of decommissioning costs of HK\$290,848,000 as at 31 December 2016 and incurred relevant actual costs of HK\$28,425,000 during 2016. 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.

6. OUR EMPLOYEES

As at 31 December 2016, the Group employs a total of 920 full time employees in Hong Kong, the People's Republic of China (the "PRC") and Pakistan. Employees are the core assets of the Group and we offer competitive remuneration package to retain the best people. Remuneration of our employees is commensurate with their capabilities, duration of service and prevailing market competition. It is reviewed annually with reference to employee's performance and prevailing market practices. Below is a summary of the Group's workforce as at 31 December 2016.

Employees by Education Category:

Masters and Above	238
Bachelor	366
Junior College	155
Technical Secondary School & High School	130
Junior High School & Below	31
Total	920

Employees by Age Group:

20 to 24 years	22
25 to 34 years	329
35 to 44 years	253
45 to 54 years	215
55 years and above	101
Total	920

Employees by Geographical Region:

PRC	164
Pakistan	750
Hong Kong	6
Total	920

Compliance with Labour Standards

We offer equal opportunity employment to all qualified employees and will not discriminate against any individual on grounds of race, gender, age, marital status etc. This is to ensure that every employee has the same chance to realize their potential and it is also our responsibility to provide a workplace that is free from harassment, violence and discrimination of any kind.

During 2016, the Group complied with all relevant laws and regulations regarding employment of workforce. The Group complies with the Labour Law, the Labour Contract Law, the Social Insurance Law and relevant regulations of the PRC in respect of the work schedule of employees, the staff diversity, the labour relations and the administration for social insurance. In particular to our Pakistan operation, compliance to local law is regularly monitored by the Pakistan labour department through various audits and inspections. There were no audit observations from the last inspection and the Company was fully compliant. In addition, the Company has a full suite of policies related to all aspects of Human Resources Management. These policies are readily available on our intranet site for employees to download.

The Group also maintains clear policy of no child and / or forced labour which is clearly outlined in our Code of Conduct. All employees are expected to be aware of and abide by these commitments and to report any abuses in operations within or linked to the business.

Occupational Health and Safety

Upstream oil and gas operation requires specialized technical skills and it could have widespread impact on health and safety if employees are not equipped with the required skills and knowledge. The Group has inherited an international health, safety and environmental management system. It is committed to conduct its business activities in a safe and efficient manner, and care for everyone involved or impacted by its activities. Our occupational health and safety management system is certified with OHSAS-18001. We complied with Oil & Gas Field Labour Code enacted through Mines Act 1923, Oil and Gas (Safety in Drilling and Production) Regulations 1974 and Consolidate Mines Rules 1952 of Pakistan.

Development and Training



The Group has clearly defined process that assesses employee training needs. This is done through assessments using our competency management system with the consultation of management. This is to ensure budgets are allocated effectively in line with the needs of the business. Training is provided to bridge the gaps in technical or soft skills competence ensuring well rounded professional and personal development of all employees. The table below outlined a summary of the training we have provided to our employees during the reporting period.

Training Area	Hours
Management skills	696
Legal	68
Technical	3,048
Language	597
Personal Effectiveness	84
Competence	48
Total	4,541

7. OUR COMMUNITY

The Group is committed to enhance the lives of the local communities it operates. We select projects on the basis of its three focal areas for development, which includes education, health and capacity building for better income generation.

Over the past years, we have established over a dozen primary schools in partnership with The Citizens Foundation (website: <http://www.tcf.org.pk>), the renowned NGO, which provides quality primary education to over 2,000 less privileged children of the community. In the Health sector, support has been provided to dialysis centers, cardiac units and eye-care centers by providing them with medical equipment. Vocational trainings have been provided to local youth enabling them to earn sustainably and support their families. Besides the three focal areas, the Group also engages in projects which cater to the essential needs of the community living in remote areas. These projects include providing water through solar power and distributing food rations/shelter during natural calamities such as floods.

In 2016, our social investment projects continued to set new milestones. Schools were built in remote villages of interior Sindh in partnership with the Citizen Foundation. 2016 witnessed the inauguration of a landmark health centre devoted to combat maternal and infant mortality. To boost female literacy rates in remote areas, we funded the construction of additional classrooms at a girls' college in MKK. Dilapidated government schools received financing for much needed repairs. Through these interventions, we strive to enhance the living standards of the local communities.

8. OUR OPERATION

Product Responsibility

Products of the Group are oil, natural gas and liquefied petroleum gas. We are firmly committed to ensuring production storage and delivery as per all relevant local and international safety standards. Our code of conduct emphasizes the importance of safety of all stakeholders which is a value to which we strictly adhere. All products storage tanks at our facilities are designed as per applicable American Petroleum Institute (“API”) codes and undergo engineering design review and hazard and operability review. In addition, the Group implements a comprehensive set of standards and operating procedures to ensure operational safety in all its facilities. We regularly monitor the specifications of its oil and gas to ensure that the product meets all the requirements of its sales agreements with various parties. Through monitoring and flexible operations, any deviations in product specification are identified and rectified on an immediate basis.

Robust emergency response procedures and incident management procedures are in place and regular drills are conducted to ensure safety of all stakeholders in the event of any safety incident.

The Group complies with all relevant Pakistan local regulations in the form of the Petroleum Act (1934), Petroleum Rules (1937), OGRA Ordinance (2002) and the Mineral and Industrial Gases Safety Rules (2010), Mines Act (1923), The Consolidated Mines Rules 1962.

Supply Chain Management

Procurement and supply chain management (“PSCM”) is at the foundation of the Group’s best business practices and performance. Our PSCM model is split into specialized sector-wise procurement teams along with dedicated support from Logistics, Materials Management and Performance Management teams. At the end of the procurement process cycle, our inventory management teams are responsible for ensuring conformity and quality of products procured by following industry applicable best guidelines and procedures. They are also responsible for ensuring availability of materials and spares to support the company’s maintenance programs. A rigorous procurement evaluation system, called Contractor Performance Management (“CPM”) is established that assesses the performance of our contractors in the key business areas of health, safety & environment, deliverability, quality & capability. Potential areas of improvement are identified through this system and action plans are developed to improve the contractor’s performance. CPM model also enables us to provide our contractors with fair, transparent and competitive opportunities of doing business with us.

Anti-corruption

The Group has clear-cut policies to prevent employees from corruption, theft, fraud and embezzlement. Our Employee Handbook clearly states that employees should not offer, solicit or accept anything of material value to or from a fellow employee, customer, supplier or other business associate in relation to the Group’s affairs without the knowledge and consent of the Company. The contravention of these policies will be subject to disciplinary action or termination of employment.

In addition, our Pakistan operation also annexes the Code of Conduct to all contracts that it executes and contractors are expected to comply with its terms. Breach of the Code of Conduct by a contractor or its employees is a breach of contractor’s obligations and may lead to termination of the contract.

9. CONCLUSION

The board of directors (the “Board”) of the Company is responsible for evaluating and determining the Group’s environmental, social and governance risks, the formulation of the corresponding strategies, and ensuring that appropriate effective environmental, social and governance risk management and internal control systems are established and maintained. Through regular analysis and independent assessments by the internal audit function, the Board also determines whether the aforesaid systems are sufficient and effective.

The Group understands the importance of ESG report and is committed to making continuous improvements in corporate social responsibility into our business in order to better meet the changing needs of an advancing society.