# 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 2018

The Board of Directors of United Energy Group Limited (the "Company") hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with unaudited comparative figures for the six months ended 30 June 2017 as follows:

### Condensed Consolidated Statement of Profit or Loss
*For the six months ended 30 June 2018*

| | Note | Six months ended 30 June<br>**2018**<br>**HK$'000**<br>**(unaudited)** | <br>2017<br>HK$'000<br>(unaudited)<br>(restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| **Turnover** | | **2,388,531** | 1,878,411 |
| Cost of sales and services rendered | | **(841,078)** | (763,455) |
| **Gross profit** | | **1,547,453** | 1,114,956 |
| Investment and other income | | **28,926** | 29,852 |
| Other gains and losses | | **23,169** | 24,830 |
| Exploration expenses | | **(110,530)** | (11,808) |
| Administrative expenses | | **(161,597)** | (153,589) |
| Other operating expenses | | **(162,921)** | (60,518) |
| **Profit from operations** | | **1,164,500** | 943,723 |
| Finance costs | 6 | **(11,725)** | (91,795) |
| Share of (losses)/profits of associates | | **(294)** | 1 |
| **Profit before tax** | | **1,152,481** | 851,929 |
| Income tax expenses | 7 | **(285,803)** | (194,037) |
| **Profit for the period from continuing operations** | 8 | **866,678** | 657,892 |
| **Discontinued operations** | | | |
| Profit for the period from discontinued operations | 9 | **34,621** | 100 |
| **Profit for the period** | | **901,299** | 657,992 |

* *For identification purposes only*

## Condensed Consolidated Statement of Profit or Loss (Continued)

*For the six months ended 30 June 2018*

| | Note | Six months ended 30 June 2018 HK$'000 (unaudited) | 2017 HK$'000 (unaudited) (restated) |
|---|---|---|---|
| **Attributable to:** | | | |
| Owners of the Company | | | |
| Profit from continuing operations | | **866,678** | 657,892 |
| Profit from discontinued operations | | **35,280** | 70 |
| Profit attributable to owners of the Company | | **901,958** | 657,962 |
| Non-controlling interests from discontinued operations | | **(659)** | 30 |
| | | **901,299** | 657,992 |
| **Earnings per share** | 10 | | |
| From continuing and discontinued operations | | | |
| Basic (HK$ cents) | | **3.43** | 2.51 |
| Diluted (HK$ cents) | | **N/A** | N/A |
| From continuing operations | | | |
| Basic (HK$ cents) | | **3.30** | 2.51 |
| Diluted (HK$ cents) | | **N/A** | N/A |

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the six months ended 30 June 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) (restated) |
| **Profit for the period** | **901,299** | 657,992 |
| **Other comprehensive income, net of tax:** | | |
| *Item that may be reclassified to profit or loss* | | |
| Exchange differences on translating foreign operations | **10,629** | (10,791) |
| Exchange gains reclassified to profit or loss on disposal of subsidiaries | **(21,109)** | - |
| **Total comprehensive income for the period** | **890,819** | 647,201 |
| **Attributable to:** | | |
| Owners of the Company | | |
| Profit from continuing operations | **855,392** | 646,356 |
| Profit from discontinued operations | **35,280** | 70 |
| Profit attributable to owners of the Company | **890,672** | 646,426 |
| Non-controlling interests from discontinued operations | **147** | 775 |
| | **890,819** | 647,201 |

## Condensed Consolidated Statement of Financial Position

*As at 30 June 2018*

| | Note | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **7,174,963** | 5,833,375 |
| Intangible assets | | **3,239,338** | 2,254,061 |
| Investment in associates | | **69,755** | 70,049 |
| Available-for-sale financial assets | | **-** | 4,914 |
| Equity investments at fair value through other comprehensive income ("FVTOCI") | | **4,914** | - |
| Advances, deposits and prepayments | | **25,679** | 486,130 |
| Deferred tax assets | | **97,852** | - |
| | | **10,612,501** | 8,648,529 |
| **Current assets** | | | |
| Inventories | | **311,001** | 209,242 |
| Trade and other receivables | 13 | **2,685,848** | 1,366,553 |
| Financial assets at fair value through profit or loss ("FVTPL") | | **3,128** | 3,398 |
| Current tax assets | | **269,758** | 300,337 |
| Pledged bank deposits | | **-** | 685 |
| Bank and cash balances | | **1,221,901** | 2,746,793 |
| | | **4,491,636** | 4,627,008 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **2,442,152** | 1,656,876 |
| Due to directors | | **7,264** | 5,697 |
| Borrowings | 15 | **146,268** | - |
| Provisions | 16 | **17,243** | - |
| Current tax liabilities | | **112,762** | 68,896 |
| | | **2,725,689** | 1,731,469 |
| **Net current assets** | | **1,765,947** | 2,895,539 |
| **Total assets less current liabilities** | | **12,378,448** | 11,544,068 |
| **Non-current liabilities** | | | |
| Borrowings | 15 | **383,553** | - |
| Provisions | 16 | **480,378** | 326,463 |
| Deferred tax liabilities | | **1,022,139** | 540,586 |
| | | **1,886,070** | 867,049 |
| **NET ASSETS** | | **10,492,378** | 10,677,019 |
| **Capital and reserves** | | | |
| Share capital | 17 | **262,690** | 262,690 |
| Reserves | | **10,229,688** | 10,389,779 |
| Equity attributable to owners of the Company | | **10,492,378** | 10,652,469 |
| Non-controlling interests | | **-** | 24,550 |
| **TOTAL EQUITY** | | **10,492,378** | 10,677,019 |

# Notes to Interim Financial Statements

*For the six months ended 30 June 2018*

## 1. Basis of preparation

These condensed consolidated 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 2017 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017, except as stated below.

## 3. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

The Group has initially adopted HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

### HKFRS 9 Financial Instruments

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

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of HKFRS 9, the Group was elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

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

(a) Classification

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

- those to be measured subsequently at FVTOCI or FVTPL, and
- those to be measured at amortised cost.

## 3. Adoption of new and revised Hong Kong Financial Reporting Standards (Continued)

### HKFRS 9 Financial Instruments (Continued)

(a) Classification (Continued)

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

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

(b) Measurement

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

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

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

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

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

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

## 3. Adoption of new and revised Hong Kong Financial Reporting Standards (Continued)

### HKFRS 9 Financial Instruments (Continued)

(b) Measurement (Continued)

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

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

(c) Impairment

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

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

Set out below is the impact of the adoption of HKFRS 9 on the Group.

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

The reclassification of available-for-sale financial assets to equity investments at FVTOCI does not result in any impact on the Group's opening accumulated losses as at 1 January 2018.

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

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

## 3. Adoption of new and revised Hong Kong Financial Reporting Standards (Continued)

### HKFRS 9 Financial Instruments (Continued)

(c) Impairment (Continued)

(a) These unlisted equity investments represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at FVTOCI. The Group considered cost was the best estimate of fair value for the unlisted equity investments with reference to the application guidance of HKFRS 9.

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

### HKFRS 15 Revenue from Contracts with Customers

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

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's consolidated 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 (Continued)

The recurring fair value of the financial assets at fair value through profit or loss at 30 June 2018 and 31 December 2017 are measured by using Level 1 of the fair value hierarchy. There were no changes in the valuation techniques used.

## 5. Segment information

The Group's reportable segments are as follows:

Continuing operations:

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

Discontinued operations:

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

The segment information reported does not include any amount for discontinued operations which is described in more detail in note 9 to the unaudited condensed financial statements contained in this announcement. The comparative figures of segment disclosure have been restated to conform to current period's presentation.

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

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 December 2017.

| | **Exploration and production HK$'000** (unaudited) |
|---|---|
| **For the six months ended 30 June 2018** | |
| Turnover from external customers | **2,388,531** |
| Segment profit | **952,018** |
| **As at 30 June 2018** | |
| Segment assets | **13,313,220** |
| Segment liabilities | **2,900,188** |
| For the six months ended 30 June 2017 | |
| Turnover from external customers | 1,878,411 |
| Segment profit | 789,442 |
| | (audited) |
| As at 31 December 2017 | |
| Segment assets | 9,556,194 |
| Segment liabilities | 1,902,194 |

## 5. Segment information (Continued)

Reconciliations of reportable segment profit or loss:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| | | (restated) |
| **Profit or loss** | | |
| Total profit of reportable segments | **952,018** | 789,442 |
| Share of (losses)/profits of associates | **(294)** | 1 |
| Unallocated amounts: | | |
| Investment and other income | **(8,192)** | 23,532 |
| Other gains and losses | **10,697** | 20,785 |
| Corporate expenses | **(80,271)** | (88,670) |
| Finance costs (except for provision - unwinding of discount included in the exploration and production segment) | **(7,280)** | (87,198) |
| Consolidated profit for the period from continuing operations | **866,678** | 657,892 |

## 6. Finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **From continuing operations** | | |
| Interest on bank loans | **7,280** | 87,198 |
| Provision – unwinding of discounts | **4,445** | 4,597 |
| | **11,725** | 91,795 |

## 7. Income tax expenses

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **From continuing operations** | | |
| Current tax – Overseas | | |
| - Provision for the period | **99,711** | 86,826 |
| | **99,711** | 86,826 |
| Deferred tax | **186,092** | 107,211 |
| | **285,803** | 194,037 |

## 7. Income tax expenses (Continued)

No provision for profits tax in Austria, Cayman Islands, Bermuda, British Virgin Islands, Republic of Panama, Mauritius, People's Republic of China, Singapore or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the six months ended 30 June 2018 and 2017.

Pakistan Income Tax has been provided at a rate of 50% (2017: 50%).

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.

## 8. Profit for the period from continuing operations

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| | | (restated) |
| **From continuing operations** | | |
| Interest income | **(23,709)** | (24,033) |
| Dividend income | **(70)** | (69) |
| Amortisation of intangible assets | **112,280** | 121,123 |
| Depreciation | **425,925** | 405,401 |
| Directors' remuneration | **8,407** | 11,689 |
| Gain on disposals of property, plant and equipment | **(224)** | - |
| Property, plant and equipment written off | **90,441** | - |
| Fair value losses/(gains) on financial assets at FVTPL | **270** | (1,092) |

## 9. Discontinued operations

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

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

As the business operation of provision of patented technology support services to oilfields is considered as a separate major line of business which was previously classified as the oilfield support services business segment of the Group, the Disposal was accounted for as a discontinued operation for the six months ended 30 June 2018.

Details of the assets and liabilities disposed of and the calculation of the profit or loss on disposal are disclosed in note 21.

## 9. Discontinued operations (Continued)

Profit for the six months ended 30 June from discontinued operations:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| **Turnover** | **-** | 10,079 |
| Cost of sales and services rendered | **-** | (7,322) |
| **Gross profit** | **-** | 2,757 |
| Investment and other income | **52** | 217 |
| Other gains and losses | **-** | 500 |
| Administrative expenses | **(805)** | (3,374) |
| Other operating expenses | **(1,444)** | - |
| **(Loss)/profit before tax** | **(2,197)** | 100 |
| Income tax expenses | **-** | - |
| | **(2,197)** | 100 |
| Gain on disposal of operation (note 21) | **36,818** | - |
| **Profit for the period from discontinued operations** | **34,621** | 100 |

Profit for the period from discontinued operations include the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Interest income | **(52)** | (200) |
| Depreciation | **1,645** | 6,912 |
| Loss/(gain) on disposal of property, plant and equipment | **1** | (500) |

Cash flows from discontinued operations:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Net cash inflows/(outflows) from operating activities | **10,580** | (5,213) |
| Net cash inflows from investing activities | **178** | 11,664 |
| Net cash (outflows)/inflows from financing activities | **(246)** | 9 |
| Effect of foreign exchange rate changes | **(772)** | (174) |
| Net cash inflows | **9,740** | 6,286 |

## 10. Earnings per share

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

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the period attributable to owners of the Company of approximately HK$901,958,000 (2017: HK$657,962,000) and the weighted average number of ordinary shares of 26,269,065,172 (2017: 26,225,691,598) in issue during the period.

(b) Basic earnings per share from continuing operations

The calculation of basic earnings per share from continuing operations attributable to owners of the Company is based on the profit for the period from continuing operation attributable to owners of the Company of approximately HK$866,678,000 (2017: HK$657,892,000 (as restated)) and the weighted average number of ordinary shares of 26,269,065,172 (2017: 26,225,691,598) in issue during the period.

(c) Basic earnings per share from discontinued operations

Basic earnings per share from the discontinued operations is HK$0.13 (2017: HK$0.01) based on the profit for the period from discontinued operations attributable to the owners of the Company of approximately HK$35,280,000 (2017: HK$70,000) and the denominator used is the same as the above for basic earnings per share.

(d) Diluted earnings per share

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary share for the six months ended 30 June 2018 and 2017.

## 11. Dividend

The directors of the Company do not recommend any interim dividend for the six months ended 30 June 2018 (2017: HK$Nil).

## 12. Property, plant and equipment

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of approximately HK$873,288,000, excluding property, plant and equipment acquired through a business combination (note 20).

## 13. Trade and other receivables

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Trade receivables (note a) | **2,227,732** | 1,292,623 |
| Allowance for price adjustments | **(214,578)** | (214,371) |
| | **2,013,154** | 1,078,252 |
| Other receivables (note b) | **672,694** | 290,925 |
| Allowance for other receivables | **-** | (2,624) |
| | **672,694** | 288,301 |
| Total trade and other receivables | **2,685,848** | 1,366,553 |

## 13. Trade and other receivables (Continued)

### (a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit term generally ranges from 10 to 45 days (2017: ranges from 30 to 45 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| 0 to 30 days | **823,084** | 875,350 |
| 31 to 60 days | **324,841** | 328,362 |
| 61 to 90 days | **346,746** | 88,623 |
| Over 90 days | **733,061** | 288 |
| | **2,227,732** | 1,292,623 |

### (b) Other receivables

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

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Due from joint operators | **341,089** | 173,930 |
| Advances to staff | **7,501** | 8,223 |
| Central excise duty receivables | **21,796** | 12,150 |
| Deposits and prepayments | **80,545** | 18,050 |
| Sales tax receivables | **177,306** | 59,398 |
| Interest receivables | **-** | 8,138 |
| Others | **44,457** | 8,412 |
| | **672,694** | 288,301 |

## 14. Trade and other payables

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Trade payables (note a) | **406,729** | 287,579 |
| Other payables (note b) | **2,035,423** | 1,369,297 |
| Total trade and other payables | **2,442,152** | 1,656,876 |

## 14. Trade and other payables (Continued)

### (a) Trade payables

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

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| 0 to 30 days | **200,788** | 250,407 |
| 31 to 45 days | **100,972** | 11,345 |
| Over 45 days | **104,969** | 25,827 |
| | **406,729** | 287,579 |

### (b) Other payables

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Accrual for operating and capital expenses | **804,671** | 810,556 |
| Bills payables | **-** | 685 |
| Deposits received | **468,719** | 83,420 |
| Due to joint operators | **104,201** | - |
| Salaries and welfare payables | **70,500** | 103,420 |
| Other tax payables | **530,870** | 317,653 |
| Others | **56,462** | 53,563 |
| | **2,035,423** | 1,369,297 |

## 15. Borrowings

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Secured bank loans | **529,821** | - |

## 15. Borrowings (Continued)

The movement in borrowings is analysed as follows:

| | **30 June 2018 HK$'000 (unaudited)** | 30 June 2017 HK$'000 (unaudited) |
|---|---|---|
| At the beginning of the period | **-** | 3,269,268 |
| Net proceeds from borrowing raised | **528,600** | - |
| Imputed interest expenses arising from issuance of bank loan | **1,221** | - |
| Repayment of borrowings | **-** | (149,268) |
| At the end of the period | **529,821** | 3,120,000 |

## 16. Provisions

| | Dismantling costs in respect of leasehold improvements HK$'000 | Decommissioning costs HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2018 (audited) | 420 | 326,043 | 326,463 |
| Less: | | | |
| Actual costs incurred during the period | - | (2,665) | (2,665) |
| Add: | | | |
| Acquisition of subsidiaries | - | 169,378 | 169,378 |
| Unwinding of discount | - | 4,445 | 4,445 |
| | 420 | 497,201 | 497,621 |
| Current portion shown under current liabilities | - | (17,243) | (17,243) |
| At 30 June 2018 (unaudited) | **420** | **479,958** | **480,378** |

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 based on future expenditure by discounting the expected expenditures to their net present value at market rate. 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.

## 17. Share capital

| | Number of shares | Amount |
|---|---|---|
| | '000 | HK$'000 |
| Authorised: | | |
| Ordinary shares of HK$0.01 each | | |
| At 31 December 2017, 1 January 2018 | | |
| and 30 June 2018 | **60,000,000** | **600,000** |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each | | |
| At 31 December 2017 and 1 January 2018(audited) | | |
| and 30 June 2018 (unaudited) | **26,269,065** | **262,690** |

## 18. Capital commitments

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

| | **30 June 2018 HK$'000 (unaudited)** | 31 December 2017 HK$'000 (audited) |
|---|---|---|
| Contracted but not provided for: | | |
| Acquisition of property, plant and equipment | **-** | 582 |
| Commitments for capital expenditure | **562,275** | 285,622 |
| Acquisition of a subsidiary | **-** | 59,575 |
| | **562,275** | 345,779 |

(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$118,500,000 (equivalent to approximately RMB100,000,000) (31 December 2017: HK$120,070,000 (equivalent to approximately RMB100,000,000)). At 30 June 2018, the Group has contributed approximately HK$14,512,000 (equivalent to approximately RMB12,246,000) (31 December 2017: HK$14,704,000 (equivalent to approximately RMB12,246,000)) to UEBL. In accordance with the memorandum of association of UEBL, the remaining balance of approximately HK$103,988,000 (equivalent to approximately RMB87,754,000) (31 December 2017: HK$105,366,000 (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 Investment Holding Limited and Orient Group Co. Ltd. established a company, 东方艺术品有限公司 ("东方艺术品") in the PRC with registered capital of approximately HK$118,500,000 (equivalent to approximately RMB100,000,000) (31 December 2017: HK$120,070,000 (equivalent to approximately RMB100,000,000)). In accordance with the memorandum of association of 东方艺术品, UEBL is committed to contribute approximately HK$23,700,000 (equivalent to approximately RMB20,000,000) (31 December 2017: HK$24,014,000 (equivalent to approximately RMB20,000,000)) as 20% registered share capital of 东方艺术品. At 30 June 2018, UEBL has not yet contributed any capital to 东方艺术品. In accordance with the memorandum of association of 东方艺术品, capital contribution shall be made to 东方艺术品 on or before 30 June 2045.

**19. Contingent liabilities**

(a) As at 30 June 2018 and 31 December 2017, the Company issued various unlimited corporate guarantees in favour of the President of the Islamic Republic of Pakistan for providing United Energy Pakistan Limited ("UEPL"), an indirect wholly owned subsidiary of the Company, with all necessary financial and other means to enable UEPL to fully perform its obligations as stipulated in the concession agreements.

(b) As at 30 June 2018, the Group had issued corporate guarantees granted to the collector of customs of Pakistan in case of any dispute arising on claim of exemptions of levies including custom duties and sales tax on import of machinery, equipment, materials, specialised vehicles, spares, chemicals and consumables under the petroleum concession agreement amounting to approximately HK$4,908,000 (31 December 2017: HK$4,107,000).

(c) Certain subsidiaries of the Group had dispute with the Pakistan government on the applicability of windfall levy on its production of oil and condensate. On 27 December 2017, the government's approval for the execution of windfall levy was granted and the windfall levy became applicable on the subsidiaries. Based on a legal advice from an external lawyer, the management believes that the applicability of the windfall levy is prospective, i.e. from the date of the government's approval. If the applicability of windfall levy is retrospective, further provision for the windfall levy of approximately HK$219,431,000 (31 December 2017: HK$194,261,000) would be required to be made in the condensed consolidated financial statements for the period ended 30 June 2018.

(d) As at 30 June 2018, BowEnergy Resources (Pakistan) SRL, an indirectly wholly-owned subsidiary of the Company, received various tax orders in an attempt to re-assess tax liability for prior years by the Pakistan tax department. The subsidiary is currently appealing against these orders and the cumulative exposure for the pending tax cases is approximately HK$20,864,000 (equivalent to approximately Pakistani Rupees 324,000,000).

**20. Acquisition of subsidiaries**

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

(ii) Pursuant to the share purchase agreement dated 28 February 2018, the Group acquired the entire issued share capital of OMV Maurice Energy Limited ("OMEL") and OMV (PAKISTAN) Exploration Gesellschaft m.b.H. ("OPAK") at a cash consideration of approximately HK$735,950,000 (equivalent to approximately EUR80,616,000) and HK$703,547,000 (equivalent to approximately EUR77,066,000) ("OMEL and OPAK Acquisition") respectively. OMEL and OPAK are engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan. Details of the OMEL and OPAK Acquisition were set out in the Company's announcement dated 28 February 2018 and 28 June 2018.

The AROL Acquisition and OMEL and OPAK Acquisition are extension and enlargement of the Group's upstream business in Pakistan.

## 20. Acquisition of subsidiaries (Continued)

The fair value of the identifiable assets and liabilities of AROL, OMEL and OPAK acquired as at the date of acquisition are as follows:

| | AROL | OMEL and OPAK | Total |
|---|---|---|---|
| Net assets acquired: | HK$'000 | HK$'000 | HK$'000 |
| Property, plant and equipment | 326,550 | 672,711 | 999,261 |
| Intangible assets | 157,013 | 940,545 | 1,097,558 |
| Advances, deposits and prepayments | - | 19,399 | 19,399 |
| Deferred tax assets | 10,465 | 92,678 | 103,143 |
| Inventories | - | 41,248 | 41,248 |
| Trade and other receivables | 96,854 | 381,533 | 478,387 |
| Current tax assets | - | 9,451 | 9,451 |
| Bank and cash balances | 16,946 | 109,093 | 126,039 |
| Provisions | (8,468) | (160,910) | (169,378) |
| Trade and other payables | (37,018) | (306,682) | (343,700) |
| Current tax liabilities | (45,637) | (36,759) | (82,396) |
| Deferred tax liabilities | - | (322,810) | (322,810) |
| | 516,705 | 1,439,497 | 1,956,202 |
| Satisfied by: | | | |
| Cash | 59,575 | 1,439,497 | 1,499,072 |
| Loan and interest receivables | 457,130 | - | 457,130 |
| | 516,705 | 1,439,497 | 1,956,202 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | 59,575 | 1,439,497 | 1,499,072 |
| Cash and cash equivalents acquired | (16,946) | (109,093) | (126,039) |
| | 42,629 | 1,330,404 | 1,373,033 |

AROL, OMEL and OPAK contributed turnover of approximately HK$11,905,000, HK$Nil and HK$Nil respectively and loss after tax of approximately HK$16,200,000, HK$Nil and HK$Nil respectively in the period between the date of acquisition and the end of the reporting period. If the acquisition had been completed on 1 January 2018, total Group turnover for the period would have been approximately HK$2,641,949,000, and profit for the period from continuing operations would have been approximately HK$907,265,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is intended to be a projection of future results.

Acquisition related costs of approximately HK$86,224,000 have been charged to administrative expenses and other operating expenses in the condensed consolidated financial statements for the period ended 30 June 2018.

## 21. Disposal of a subsidiary

As referred to note 9 to the condensed consolidated financial statements, on 15 March 2018, the Group discontinues its oilfield support services business at the time of the disposal of its subsidiary Universe Energy.

Net assets at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 13,265 |
| Advance, deposits and prepayments | 715 |
| Inventories | 1,737 |
| Trade and other receivables | 18,461 |
| Current tax assets | 86 |
| Pledged bank deposits | 707 |
| Bank and cash balances | 26,385 |
| Trade and other payables | (7,529) |
| Net assets disposed of | 53,827 |
| Release of foreign currency translation reserve | (21,109) |
| Non-controlling interest derecognised | (24,697) |
| Gain on disposal of a subsidiary (note 9) | 36,818 |
| Total consideration – satisfied by cash | 44,839 |
| | |
| Net cash inflow arising on disposal: | |
| Cash consideration received | 44,839 |
| Cash and cash equivalents disposed of | (26,385) |
| | 18,454 |

## 22. Related party transactions

(a) Name and relationship with related parties:

| Name of the related party | Relationship |
|---|---|
| 东方集团股份有限公司<br>(Orient Group Co. Ltd. ("Orient Group"))# | Mr. Zhang Hong Wei has significant influence over the Orient Group |

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

(b) On 23 September 2016, the Company and Orient Group entered into a banking facility commitment letter with the amount up to approximately HK$9,828,000,000 (equivalent to US$1,260,000,000) ("Loan Facility"). The Loan Facility would be available upon the fulfilment of conditions as set out in the facility commitment letter. Details of the Loan Facility are set out in the Company's announcement dated 19 September 2016. The Loan Facility lapsed on 23 January 2017 as the conditions set out in the facility commitment letter are not fulfilled within the specified period. Upon the lapse of the Loan Facility, the Company did not utilize the Loan Facility.

(c) The details of the remuneration paid to the key management personnel are set out in note 8 to the condensed consolidated financial statements.

## 23. Events after the reporting period

(a) On 6 July 2018, the Company resolved to award 20,348,257 new ordinary shares as the scheme shares to Pakistan employees under the employees' performance share schemes adopted by the Company on 28 December 2012. The allotment of the 20,348,257 scheme shares was completed on 23 July 2018. The Company has no funds raised in this issue. The total number of issued shares of the Company was increased from 26,269,065,172 shares as at 30 June 2018 to 26,289,413,429 shares as at 23 July 2018. Details of this issue are set out in the Company's announcement dated 6 July 2018.

(b) On 27 June 2018, the Group entered into a share purchase agreement to acquire 48% of the equity interest of Orient Group Beijing Investment Holding Limited for a cash consideration of approximately HK$374,400,000 (equivalent to approximately US$48,000,000). Orient Group Beijing Investment Holding Limited was engaged in the business of developing and operating a wind power project of approximately 100 megawatt located in Pakistan and development of renewable energy projects in the PRC. Details of this transaction were set out in the Company's announcement dated 27 June 2018. The acquisition has not yet completed as at the date of interim results announcement.

## 24. New and revised HKFRSs in issue but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards that has been issued but is not yet effective.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

The Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately HK$22,456,000 as at 30 June 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

## 25. Comparative Figures

Certain comparative figures have been reclassified and/ or re-presented to conform with the current period's presentation.

## 26. Approval of the interim financial statements

The condensed consolidated interim financial statements for the six months ended 30 June 2018 has been approved for issue by the board of directors on 30 August 2018.

## Management discussion and analysis

### Financial Review

The Group reported a substantial growth in earnings for the six months ended 30 June 2018 (the "reporting period"). The profit attributable to the owners of the Company for the reporting period was approximately HK$901,958,000 (30 June 2017: approximately HK$657,962,000 (as restated)), representing a substantial increase of 37.1% from the six months ended 30 June 2017 (the "corresponding period"). The increase in net profit was mainly due to higher turnover resulting from improved sales volume and sales prices. During the reporting period, the Group successfully completed the acquisitions of Asia Resources Oil Limited (the "AROL") on 17 April 2018 and OMV Maurice Energy Limited ("OMEL") and OMV (Pakistan) Exploration Gesellschaft m.b.H. ("OPAK") (together the "OMV transaction") on 28 June 2018. In terms of production, the average daily net production of our existing Pakistan Assets (i.e. MKK and Badin concessions only) reported a slight increase of 3.4% over corresponding period to 61,914 barrels of oil equivalent ("boe") per day ("boed"). The average daily net production contribution from AROL for the period between 18 April and 30 June 2018 was approximately 809 boed. During the reporting period, the Group disposed of its oilfield support services operation and therefore the financial statements of the corresponding period were restated to reflect this impact of the discontinued operations.

***Turnover***

The Group's turnover for the reporting period was approximately HK$2,388,531,000, representing an increase of 27.2% as compared with the turnover of approximately HK$1,878,411,000 (as restated) of the corresponding period. The increase in turnover was mainly attributable to a higher Composite Average Sales Price Before Government Take (being the total sales turnover generated from oil, condensate, natural gas and LPG, net of sales discount but before government royalties, and divided by the total volume sold) at US$31.1 per boe, an increase of 21.5% compared to the corresponding period. In addition, the mild increase in production from exiting MKK and Badin blocks, coupled with the contribution from AROL have contributed to the turnover increase.

***Cost of sales and services rendered***

The Group's cost of sales and services rendered increased from approximately HK$763,455,000 (as restated) for the corresponding period to approximately HK$841,078,000 for this reporting period. The increase in cost of sales and services rendered was in line with higher production level and increase of lifting costs. The cost of sales and services rendered included depreciation and amortisation of approximately HK$515,180,000 (30 June 2017: approximately HK$505,547,000). The lifting cost, which is defined as the cost of sales excluding depreciation & amortisation, government tax and distribution expenses, of Pakistan Assets was US$3.5 per boe (30 June 2017: US$3.0 per boe). The increase in lifting cost per boe was mainly driven by higher repairs and maintenance expenses and production bonus.

***Gross profit***

The Group's gross profit for the reporting period was approximately HK$1,547,453,000 (gross profit ratio 64.8%) which represented an increase of 38.8% as compared with restated gross profit of approximately HK$1,114,956,000 (gross profit ratio 59.4% (as restated)) for the corresponding period. The increase in gross profit was in line with the increase in selling prices and volume during the reporting period.

***Exploration expenses***

The Group's exploration expenses for the reporting period was approximately HK$110,530,000 (30 June 2017: approximately HK$11,808,000) which was incurred mainly for the performance of geological and geophysical studies and surface use rights in Pakistan Assets. The increase in exploration expenses was mainly due to the property, plant and equipment written off of approximately HK$90,441,000 arising from dry wells.

***Administrative expenses***

The Group's administrative expenses for the reporting period was approximately HK$161,597,000 (30 June 2017: approximately HK$153,589,000 (as restated)), representing 6.8% (30 June 2017: 8.2% (as restated)) of turnover. The increase in administrative expenses was due to the increase of staff costs as well as the consolidation of AROL's financial results for the period after the completion of acquisition.

***Finance costs***

The Group's finance costs for the reporting period was approximately HK$11,725,000, representing 87.2% decrease as compared with the finance costs of approximately HK$91,795,000 for the corresponding period. The decrease in finance costs was mainly due to lower total borrowings as the Group settled the entire outstanding loan from China Development Bank in the second half of 2017. The average interest rate of borrowings for the relevant period was 8.09% (30 June 2017: 5.46%).

***Income tax expense***

The Group's income tax expense for the reporting period was approximately HK$285,803,000 (30 June 2017: approximately HK$194,037,000), increased by 47.3% mainly due to increase in deferred tax expenses.

***EBITDA***

EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, intangible assets and property, plant and equipment written off, share of profits/losses of associates, gain/loss on disposals of property, plant and equipment and profit for the period from discontinued operations. It shall be noted that EBITDA is not a measure of operating performance or liquidity defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies. The EBITDA for the reporting period was approximately HK$1,792,922,000, increased by 21.9% from the corresponding period of approximately HK$1,470,246,000 (as restated). The increase in EBITDA was mainly attributable to the increase in sales prices of oil and gas commodities as aligned with higher international oil prices and the mild increase in production volume.

***Dividend***

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

**Business Review**

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

According to OPEC's 2018 Annual Statistical Bulletin, world crude oil production in 2017 declined by 0.9% to 74.69 million barrels per day ("mmbbld") compared to 2016, representing the first decline in production since 2009. The decline was mainly driven by reduced production from OPEC's 14 member countries. On the other hand, world oil demand has increased by 1.7% to 97.20 mmbbl mainly driven by demand from China and India. During the first half of 2018, OPEC and non-OPEC members achieved an average of 140% conformity level, a strong signal that has driven up international oil prices. Brent oil edged up higher in the reporting period 2018 by 36.7% compared to the corresponding period, according to data from the U.S. Energy Information Administration. Due to the increase in both prices and production volume, the Group reported a profit attributable to the owners of the Company for the reporting period of approximately HK$901,958,000, representing a robust increase of 37.1% compared to the corresponding period of

HK$657,962,000. In addition, the increase in net profit was contributed by lower finance costs as a result of significantly lower borrowings compared to the corresponding period. The Composite Average Sales Price Before Government Take was US$31.1 per boe, representing an increase of 21.5% from the corresponding period. In line with higher sale prices, the Group's EBITDA was approximately HK$1,792,922,000 for the reporting period, grew by approximately 21.9% from the corresponding period.

Cost of sales and services rendered by the Group for the reporting period was approximately HK$841,078,000, and the Group invested approximately HK$891,104,000 of capital expenditure in oil exploration, development and production activities for Pakistan Assets (inclusive of AROL). The Group drilled 12 new wells in Pakistan Assets during the reporting period.

***Pakistan Assets:***
For the six month ended 30 June 2018, the Pakistan Assets achieved an average daily net production of approximately 62,245 boed (inclusive of the contribution from AROL for the period between 18 April and 30 June 2018), increased by 3.9% compared to the corresponding period. The Pakistan Assets has an oil and liquids ratio of 15.9% which was higher than the corresponding period as contributed by several discoveries from the mature Badin fields which have rich liquid content. As the OMV transaction was completed on 28 June 2018, the financial impact of OMV transaction on the statement of profit or loss for the reporting period was immaterial.

The Group has been an active investor in the upstream oil and gas sector in Pakistan since we took over the Pakistan Assets in 2011. Our anchored investment in exploration has resulted in an accelerated production growth rate that is far outpacing our peers in Pakistan. During the reporting period, the Group completed 9 exploration and appraisal wells and 3 development wells. The Group has made 4 new discoveries in Badin and MKK blocks, representing a success rate of approximately 44.4%. The total exported sales of oil and condensate was approximately 1,479,000 barrels for the reporting period, increased by approximately 175% from the corresponding period as a result of the discoveries made in Badin block.

During the reporting period, the Group has deployed several exploration wells and drilled into the high pressure shale gas formation. We have successfully resolved the high pressure shale gas drilling problem and obtained cores with high recovery. We will further verify and calibrate the log interpretation by subsequent core data analysis. Due to deep buried of the target formation, we will continue to explore solutions to tackle the technical challenges in order to achieve commercial production. In light of the prevailing oil prices, we have fine-tuned our exploration plan to focus on shallow low risk conventional structural traps and deferring the basin floor fan and sequence stratigraphic wells. We will deploy more wells targeting oil and high-yield gas wells.

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

The group has been adopting a two-legged approach in our expansion strategy. On one hand, we are eying for expansion opportunities within Pakistan to strengthen our presence; On the other hand, we are also eying for expansion opportunities in other regions. On 4 June 2018, we signed a preliminary development and production contract ("DPC") with Basra Oil Company of the Iraqi Ministry of Oil ("BOC") to conduct development and production operations on the Sindbad block located in Basra Province, Iraq. The DPC has a term of 20 years and require us to carry out general exploration and development activities on behalf of BOC, including the acquisition of 3D seismic, conducting geophysical and geological studies and demining works. The DPC stipulates that we are entitled to remuneration of 4.55% of all net revenues, after taking into account petroleum cost recovery for costs incurred in the exploration, development and production as well as 25% of royalty payment due to the BOC. We expect to sign the formal DPC in the second half of 2018.

***Oilfield Support Services:***

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

**Business and market outlook**

According to World Bank's Global Economic Prospects issued in June 2018, the global economy is projected to grow by 3.1% in 2018, paring the expected growth rate in 2017 but representing a substantial increase from the actual growth rate of 2.4% in 2016. However, the growth rate is expected to edge down slightly to 2.9% by 2020 as capital spending in the advanced economies including China decelerates and financing conditions tighten. The downside risk is heightened by amongst others, escalating trade protectionism and rising geopolitical tensions. The Group will be closely monitoring these risk factors as any escalation in these factors will likely hinder global economic growth and therefore combat commodity prices.

The Group's production remains on track of our full year target of 62,000 to 64,500 boed. With the inclusion of AROL and OMV Pakistan Assets, our full year target will be likely to achieve the higher end of the range. Our target net 1P reserve replacement ratio for year 2018 remains over 100%. Given higher capital expenditure on high pressure shale gas exploration and the completion of AROL and OMV Transaction, our full year budgeted capital expenditure will likely exceed the previous US$190 million estimate. However, we will manage these overruns to the possible extent through the adjustments of our exploration program by deferring certain high risks exploration drilling.

The bank and cash balances of the Group stood at approximately HK$1,222 million as at 30 June 2018, running down from the 2017 year-ended balance of approximately HK$2,747 million mainly due to the payment of the 2017 year end final dividend and consideration for the acquisition of both AROL transaction and OMV Transaction. To replenish the Group's cash reserve, we have entered into a facility agreement with Standard Chartered Bank's Dubai branch to arrange up to US$100 million and to be repaid in installments over the next 5 years. The Group has drawn US$70 million from the facility during the reporting period and expects to draw down the remaining US$30 million in the third quarter of 2018.

***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 stabilizes around this level afterwards. On the supply side, the expected 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. Pakistan received its first LNG in March 2015 from Qatar together with the arrival of the first floating storage regasification unit ("FSRU"). The second FSRU commenced operation at the end of 2017. Given 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. With the addition of AROL and OMV Pakistan Assets, we can leverage our experience and understanding of the geology and geophysics in the Lower Indus Basin of Pakistan to unlock the potentials of these assets. Besides, Group will continue to look for similar opportunities in the market or other access alternatives, such as participating in government bidding process to expand our footprint in Pakistan.

## Conclusion

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

## Liquidity and Financial Resources

During the reporting period, the Group settled the final considerations for the acquisition of AROL and the acquisitions of OMEL and OPAK and distributed a final dividend of year 2017 to shareholders as a reward for their continuing support. Subsequent to these non-recurring cash outflows, the Group maintained its strong financial position for the reporting period, with cash and cash equivalents amounting to approximately HK$1,221,901,000 as at 30 June 2018 (as at 31 December 2017: approximately HK$2,746,793,000).

On 29 March 2018, a reserve based facility letter was entered between Oasis Natural Energy, Inc. ("Oasis") and BowEnergy Resources (Pakistan) SRL ("BowEnergy"), the indirectly wholly owned subsidiaries of the Company, with BowEnergy as borrower (the "Borrower") and Standard Chartered Bank, Dubai International Financial Centre ("SCB-DIFC") and Standard Chartered Bank ("SCB") with SCB-DIFC as lender (the "Lender"), pursuant to which the Lender agreed to make available to the Borrower a reserve based facility of up to US$100,000,000 with interest rate of LIBOR + 3.75% (the "Facility") for general working capital purpose. On 30 April 2018, BowEnergy firstly draw US$70,000,000 (equivalent to approximately HK$546,000,000) from the Facility (the "First Drawdown"). As at 30 June 2018, the outstanding principal amount of the First Drawdown was US$70,000,000 (equivalent to approximately HK$546,000,000) (as at 31 December 2017: HK$Nil).

As at 30 June 2018, the gearing ratio was approximately 3.51% (as at 31 December 2017: Nil), based on borrowings under current liabilities and non-current liabilities of approximately HK$146,268,000 (as at 31 December 2017: HK$Nil) and approximately HK$383,553,000 (as at 31 December 2017: approximately HK$Nil) respectively and total assets of approximately HK$15,104,137,000 (as at 31 December 2017: approximately HK$13,275,537,000). As at 30 June 2018, the current ratio was approximately 1.65 times (as at 31 December 2017: approximately 2.67 times), based on current assets of approximately HK$4,491,636,000 (as at 31 December 2017: approximately HK$4,627,008,000) and current liabilities of approximately HK$2,725,689,000 (as at 31 December 2017: approximately HK$1,731,469,000).

As at 30 June 2018, the Group's total borrowings amounted to approximately HK$529,821,000 (as at 31 December 2017: HK$Nil), representing the First Drawdown under the Facility. The carrying value of the First Drawdown are denominated in United States dollars. The First Drawdown is arranged at floating interest rates and the average interest rate of the secured bank loans as at 30 June 2018 was 8.09% (secured bank loans as at 30 June 2017: 5.59%).

## Material Acquisitions and Disposal

Particulars of the Group's material acquisitions and disposal are set out in note 20 and note 21 respectively of the Notes to Interim Financial Statements in this announcement.

## Segment Information

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

### Capital Structure

During the reporting period, there was no change of issued share capital of the Company. The total number of issued shares of the Company was 26,269,065,172 shares as at 1 January 2018 and 30 June 2018.

### Employees

At as 30 June 2018, the Group employed a total of 1,334 full time employees in Hong Kong, the PRC and Pakistan. Employees' remuneration package was 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 19 of the Notes to Interim Financial Statements in this announcement.

### Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's monetary assets and transactions are mainly denominated in Hong Kong dollars, United States dollars, Renminbi and Pakistani Rupee. As i) the exchange rate of United States dollars against Hong Kong dollars was relatively stable, ii) the exchange rate risk of Renminbi and Pakistani Rupee for the Group is relatively insignificant and iii) the Pakistan sales and purchase transactions are mainly settled in United States dollars, the Group did not use financial instruments for hedging purposes during the reporting period but the Group will keep closely monitoring on the effect on the fluctuation of the exchange rate of Renminbi and Pakistan Rupee and apply appropriate action to prevent any impact to the Group.

## Sufficiency of Public Float

The Company has maintained a sufficient public float throughout for the six months ended 30 June 2018.

## 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.

During the six months ended 30 June 2018, no share options were granted, exercised, lapsed or cancelled under both the Old Scheme and the New Scheme. As at 30 June 2018, 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 26,269,065,172 shares as at 30 June 2018 was 2.48%.

As at 30 June 2018, 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 1.1.2018 | Granted | Exercised | Lapsed | Cancelled | As at 30.6.2018 |
| 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 2018, 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) or 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)* | Attributable interest of controlled corporation | 18,754,300,230 | — | 71.39% |

*Note:*

*Out of the 18,754,300,230 shares, 10,657,758,250 shares were beneficially held by He Fu International Limited, 4,447,453,416 shares were beneficially held by United Petroleum & Natural Gas Holdings Limited, and 3,649,088,564 shares were beneficially held by United Energy Holdings Limited. He Fu International Limited, United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited are companies wholly-owned by Mr. Zhang Hong Wei. Therefore, Mr. Zhang Hong Wei is deemed to be interested in those 18,754,300,230 shares.*

Save as disclosed above, as at 30 June 2018, none of the Directors nor the chief executive of the Company had or was deemed to have any 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.

### *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 2018, 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 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:

| **Name** | **Capacity and nature of interest** | **Number of Shares** | **Approximate % shareholding** |
|---|---|---|---|
| He Fu International Limited (Note 1) | Beneficial owner | 10,657,758,250 (L) | 40.57% (L) |
| United Petroleum & Natural Gas Holdings Limited (Note 1) | Beneficial owner | 4,447,453,416 (L) | 16.93% (L) |
| United Energy Holdings Limited (Note 1) | Beneficial owner | 3,649,088,564 (L) | 13.89% (L) |

*Note:*

1. *These companies are wholly owned by Mr. Zhang Hong Wei.*
2. *(L) denotes long position and (S) denotes short position*

Save as disclosed above, as at 30 June 2018, 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 2018 except that:

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

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

With effective from 30 March 2012, a nomination committee, comprising Mr. San Fung, independent non-executive Director of the Company, as its Chairman with Mr. Chau Siu Wai, independent non-executive Director of the Company, and Ms. Zhang Meiying, executive Director of the Company, as its members, has been set up with written terms of reference in accordance with the requirements of the Listing Rules. The Nomination Committee is responsible for nomination of Directors, structure of the Board, number of Directors, the composition of the Board and review 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 2018.

## Audit Committee

The Audit Committee of the Company is comprised of three independent non-executive directors, namely Mr. Chau Siu Wai, Mr. San Fung and Ms. Wang Ying. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 and has also discussed the internal control, the accounting principles and practices adopted by the Group.

## 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 2018.

## 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.

On behalf of the Board
United Energy Group Limited
**Zhang Hong Wei**
*Chairman*

Hong Kong, 30 August 2018

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