



UEG

聯合能源

中期報告
Interim Report
2020

聯合能源集團有限公司
UNITED ENERGY GROUP LIMITED

(於開曼群島註冊成立及於百慕達存續之有限公司)

(Incorporated in the Cayman Islands and
continued in Bermuda with limited liability)

(股份代號 Stock Code : 0467)

UNITED ENERGY GROUP LIMITED INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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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 2020 together with unaudited comparative figures for the six months ended 30 June 2019 as follows:

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Turnover	6	2,865,634	3,481,918
Cost of sales and services rendered		(1,975,762)	(1,626,979)
Gross profit		889,872	1,854,939
Investment and other income		35,949	33,241
Other gains and losses		93,506	61,907
Impairment losses for trade and other receivables		(2,007)	–
Exploration expenses		(8,789)	(4,970)
Administrative expenses		(194,068)	(206,612)
Other operating expenses		(48,443)	(96,943)
Profit from operations		766,020	1,641,562
Finance costs	7	(162,417)	(203,655)
Share of losses of associates		(20,950)	(94,938)
Profit before tax		582,653	1,342,969
Income tax expenses	8	(159,389)	(374,078)
Profit for the period	9	423,264	968,891
Attributable to:			
Owners of the Company		423,264	968,891
Non-controlling interests		–	–
		423,264	968,891
Earnings per share	10		
Basic (HK\$cents)		1.61	3.69
Diluted (HK\$cents)		1.61	3.69

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	423,264	968,891
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss</i>		
Exchange differences on translating foreign operations	2,809	4,448
Other comprehensive income for the period, net of tax	2,809	4,448
Total comprehensive income for the period	426,073	973,339
Attributable to:		
Owners of the Company	426,073	973,339
Non-controlling interests	-	-
	426,073	973,339



Condensed Consolidated Statement of Financial Position

At 30 June 2020

		30 June 2020	31 December 2019
	Note	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	12	11,168,878	11,677,868
Right-of-use assets	13	110,113	123,824
Intangible assets		5,878,717	6,099,093
Investment in associates		397,048	420,787
Advances, deposits and prepayments		159,131	210,612
Deferred tax assets		168	–
		17,714,055	18,532,184
Current assets			
Inventories		390,974	324,918
Trade and other receivables	14	3,957,557	3,368,908
Financial assets at fair value through profit or loss (“FVTPL”)		1,539	2,586
Employee retirement benefits assets		7,819	8,412
Current tax assets		55,712	147,470
Bank and cash balances		2,463,285	3,358,627
		6,876,886	7,210,921
Current liabilities			
Trade and other payables	15	4,414,626	6,024,212
Due to a director		–	2,459
Borrowings	16	842,229	352,150
Lease liabilities		28,397	32,461
Provisions	17	1,053	1,053
Financial guarantee contracts		9,246	9,330
Current tax liabilities		245,950	208,180
		5,541,501	6,629,845
Net current assets		1,335,385	581,076
Total assets less current liabilities		19,049,440	19,113,260

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2020

		30 June 2020	31 December 2019
	Note	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current liabilities			
Borrowings	16	3,999,784	4,343,636
Lease liabilities		85,865	98,585
Provisions	17	435,431	505,481
Derivative financial instruments		–	3,410
Employee retirement benefit obligations		33,055	34,112
Deferred tax liabilities		2,015,143	2,073,947
		6,569,278	7,059,171
NET ASSETS			
		12,480,162	12,054,089
Capital and reserves			
Share capital	18	262,779	262,779
Reserves		12,199,801	11,773,728
Equity attributable to owners of the Company		12,462,580	12,036,507
Non-controlling interests		17,582	17,582
TOTAL EQUITY		12,480,162	12,054,089



Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2020

(Unaudited)

	Attributable to owners of the Company											
	Share Capital	Share premium	Merger reserve	Contributed surplus	Foreign currency translation reserve	Share-based capital reserve	Performance share unit capital reserve	Statutory reserve	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	262,941	2,520,287	(2,286,000)	11,211,040	29,782	14,924	-	-	(489,830)	11,263,144	-	11,263,144
Adjustment on initial application of HKFRS 16	-	-	-	-	-	-	-	-	(1,889)	(1,889)	-	(1,889)
Restated balance at 1 January 2019	262,941	2,520,287	(2,286,000)	11,211,040	29,782	14,924	-	-	(491,719)	11,261,255	-	11,261,255
Total comprehensive income for the period	-	-	-	-	4,448	-	-	-	968,891	973,339	-	973,339
Repurchase of shares	(234)	(27,881)	-	-	-	-	-	-	-	(28,115)	-	(28,115)
Purchase of share under performance share scheme	-	-	-	-	-	-	(21,953)	-	-	(21,953)	-	(21,953)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	17,592	17,592
Changes in equity for the period	(234)	(27,881)	-	-	4,448	-	(21,953)	-	968,891	923,271	17,592	940,863
At 30 June 2019	262,707	2,492,406	(2,286,000)	11,211,040	34,230	14,924	(21,953)	-	477,172	12,184,526	17,592	12,202,118
At 1 January 2020	262,779	2,501,121	(2,286,000)	10,159,925	30,793	14,924	(79,691)	2,623	1,430,033	12,036,507	17,582	12,054,089
Total comprehensive income for the period	-	-	-	-	2,809	-	-	-	423,264	426,073	-	426,073
Changes in equity for the period	-	-	-	-	2,809	-	-	-	423,264	426,073	-	426,073
At 30 June 2020	262,779	2,501,121	(2,286,000)	10,159,925	33,602	14,924	(79,691)	2,623	1,853,297	12,462,580	17,582	12,480,162

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Note	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Net cash generated from operating activities		420,876	2,513,616
Acquisition of subsidiaries	22	–	(4,080,085)
Disposal of subsidiaries	23	(1,239)	–
Placement of restricted bank deposits		(370,510)	–
Purchases of property, plant and equipment		(736,083)	(1,245,599)
Other investing cash flow (net)		9,177	29,409
Net cash used in investing activities		(1,098,655)	(5,296,275)
Dividend received		–	70
Borrowings raised, net of direct transaction cost		724,230	2,729,688
Repayment of borrowings		(564,330)	(93,600)
Proceeds from advance from customers		313,136	–
Repurchases of shares		–	(28,115)
Purchase of shares under performance share scheme		–	(21,953)
Principal elements of lease payments		(17,148)	(6,480)
Dividends paid to owners of the Company		(1,051,115)	–
Net cash (used in)/generated from financing activities		(595,227)	2,579,610
Net decrease in cash and cash equivalents		(1,273,006)	(203,049)
Cash and cash equivalents at the beginning of the period		3,147,777	2,516,532
Effect of foreign exchange rate changes		7,154	(19,953)
Cash and cash equivalents at the end of the period		1,881,925	2,293,530
Analysis of cash and cash equivalents:			
Bank and cash balances		2,463,285	2,293,530
Less: Restricted bank deposits		(581,360)	–
Cash and cash equivalents		1,881,925	2,293,530

Notes to the Condensed Financial Statements

For the Six Months Ended 30 June 2020

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated financial statements should be read in conjunction with the 2019 annual consolidated financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019.

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 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Group’s 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.

4. FAIR VALUE MEASUREMENT *(Continued)*

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.

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value of the carrying amount is a reasonable approximation of fair value. Further, for the current year the fair value disclosure of lease liabilities is also not required.

(a) Disclosure of level in fair value hierarchy at 30 June 2020:

Description	Fair value measurements as at 30 June 2020		Total 2020
	Level 1 HK\$'000	Level 2 HK\$'000	HK\$'000
Recurring fair value measurements:			
Financial assets			
Financial assets at FVTPL			
Listed equity securities	1,539	–	1,539
Fair value measurements as at 31 December 2019			
Description	Level 1 HK\$'000	Level 2 HK\$'000	Total 2019 HK\$'000
Recurring fair value measurements:			
Financial assets			
Financial assets at FVTPL			
Listed equity securities	2,586	–	2,586
Recurring fair value measurements:			
Financial liabilities			
Derivative financial instruments			
Interest rate swaps	–	3,410	3,410

4. FAIR VALUE MEASUREMENT *(Continued)*

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurement as at 30 June 2020:

Level 2 fair value measurements

Description	Valuation technique	Inputs	Fair value			
			30 June 2020		31 December 2019	
			HK\$'000		HK\$'000	
Assets	Liabilities	Assets	Liabilities			
Derivative financial instruments – interest rate swaps	Discounted cash flows	Forward interest rate	-	-	-	(3,410)

There were no changes in the valuation techniques used.

5. SEGMENT INFORMATION

Operating segment information

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

As the Group is principally engaged in the activities relating to the exploration and production of crude oil and natural gas in Pakistan, Middle East and North Africa, which are subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value of the Group as a whole, the Group's chief operating decision maker considers the performance assessment of the Group should be based on the profit before tax of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8 "Operating Segments".

6. TURNOVER

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sales and production of crude oil, condensate, gas and liquefied petroleum gas	2,865,634	3,481,918

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

	Crude oil, condensate, gas and liquefied petroleum gas	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Primary geographical markets		
– Pakistan	1,653,835	2,112,863
– Singapore	240,347	733,091
– Egypt	357,529	302,508
– Iraq	613,923	333,456
Revenue from external customers	2,865,634	3,481,918

The turnover from sales and production of crude oil, condensate, gas and liquefied petroleum gas are net of sales tax, royalty to government, sales discounts, windfall levy and government take amounting to approximately HK\$322,623,000 (2019: HK\$382,520,000), HK\$258,119,000 (2019: HK\$387,164,000), HK\$581,000 (2019: HK\$5,886,000), HK\$1,636,000 (2019: HK\$34,366,000) and HK\$776,743,000 (2019: HK\$765,697,000) respectively.



7. FINANCE COSTS

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Interest on bank loans	114,792	84,738
Interest expense on lease liabilities	7,045	685
Interest on senior guaranteed unsecured notes	–	56,045
Interest on advance from customers	35,863	67,626
Provision – unwinding of discounts (<i>note 17</i>)	4,717	6,563
Total borrowing costs	162,417	215,657
Amount capitalised	–	(12,002)
	162,417	203,655

Finance costs of HK\$Nil have been capitalised to property, plant and equipment during the period (2019: approximately HK\$12,002,000 using a weighted average interest rate of 10.3%).

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Current tax – Overseas		
– Provision for the period	212,969	242,249
– Under-provision in previous years	4,612	–
	217,581	242,249
Deferred tax	(58,192)	131,829
	159,389	374,078

No provision for profits tax in Austria, Cayman Islands, Bermuda, British Virgin Islands, Jersey, Kuwait, Dubai, Netherlands, United States of America, Republic of Panama, Mauritius, 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 2020 and 2019.

8. INCOME TAX EXPENSES *(Continued)*

Egypt, Iraq and Pakistan Income Tax has been provided at a rate of 22.5%, 35% and ranging from 40% to 50% respectively (2019: Egypt, Iraq and Pakistan Income Tax rate at a rate of 22.5%, 35% and ranging from 40% to 50% respectively) on the estimated taxable income earned by the companies with certain tax preference, based on existing legislation, interpretation and practices in respect thereof.

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

9. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income	(9,178)	(16,929)
Allowance for trade receivables	1,825	–
Allowance for other receivables	182	–
Amortisation of intangible assets	220,376	199,933
Depreciation	1,258,691	970,199
Directors' remuneration	9,428	13,663
Fair value losses on financial assets at FVTPL	1,047	–

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the period attributable to owners of the Company of approximately HK\$423,264,000 (2019: HK\$968,891,000) and the weighted average number of ordinary shares of 26,223,326,053 (2019: 26,275,634,446) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company for the six months ended 30 June 2020 is based on the profit for the period attributable to owners of the Company of approximately HK\$423,264,000 (2019: HK\$968,891,000) and the weighted average number of ordinary shares of 26,231,519,240 (2019: 26,283,055,696), being the weighted average number of ordinary shares of 26,223,326,053 (2019: 26,275,634,446) in issue during the period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 8,193,187 (2019: 7,421,250) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the period.

11. DIVIDEND

The directors of the Company do not recommend any interim dividend for the six months ended 30 June 2020 (2019: HK\$Nil).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately HK\$736,001,000 (2019: HK\$1,224,414,000), excluding property, plant and equipment acquired through a business combination (note 22).

13. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group entered into a number of new lease agreements for use of motor vehicles for an average period of 5 years. The Group makes fixed payments during the contract period. On lease commencement, the Group recognised approximately HK\$2,015,000 (2019: HK\$4,661,000) of right-of-use assets and lease liabilities.

As referred to note 22, the Group completed the acquisition of subsidiaries during the six months ended 30 June 2019. The Group recognised approximately HK\$40,921,000 and HK\$13,511,000 of right-of-use assets and lease liabilities upon the completion of the acquisition respectively.

14. TRADE AND OTHER RECEIVABLES

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Trade receivables (<i>note a</i>)	3,152,833	2,481,644
Allowance for trade receivables	(68,339)	(66,514)
Allowance for price adjustments	(220,391)	(204,465)
	2,864,103	2,210,665
Other receivables (<i>note b</i>)	1,094,932	1,159,539
Allowance for other receivables	(1,478)	(1,296)
	1,093,454	1,158,243
Total trade and other receivables	3,957,557	3,368,908

14. 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 30 to 45 days (2019: ranges from 30 to 45 days) except for the customers in Iraq which were settled by having physical delivery of crude oil on accumulation of balance sufficient enough for cargo lifting. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
0 to 30 days	1,507,636	1,721,484
31 to 60 days	265,401	407,631
61 to 90 days	672,740	79,709
Over 90 days	707,056	272,820
	3,152,833	2,481,644

(b) Other receivables

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

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Due from joint operators	363,136	462,319
Advances to staff	11,401	15,740
Central excise duty receivables	42,292	25,921
Deposits and prepayments (note i)	136,994	92,190
Sales tax receivables	250,232	268,238
Other tax receivables	4,400	8,560
Withholding tax receivables	6,116	7,583
Deferred sales consideration (note ii)	238,058	246,180
Interest receivables	730	259
Amount due from an associate (note iii)	26,208	26,208
Others	13,887	5,045
	1,093,454	1,158,243

14. TRADE AND OTHER RECEIVABLES (Continued)

(b) Other receivables (Continued)

Note:

- (i) As at 30 June 2020, the amount included a collateral deposit of approximately HK\$39,000,000 (equivalent to approximately US\$5,000,000) placed in a customer of the Group for issuing an irrevocable standby letter of credit on behalf of the Company of the same amount in favour of the Petroleum Contracts and Licensing Directorate ("PCLD"), a division of the Ministry of Oil of the Republic of Iraq. Such deposits bearing interest at a rate of 1.3% per annum (2019: 2.4% per annum) and have been recovered on 15 July 2020.
- (ii) In October 2016, the Group signed a farm-out agreement with an effective date of 1 January 2016 to assign a 20% paying and 15% revenue interest in the Iraq Siba area gas development and production service contract. Following completion of the transaction, the Group has a 40% paying and 30% revenue interest in Siba. Under the terms of the farm-out agreement, the farmer will settle the consideration by paying the Group's share of costs of a major related contract.
- (iii) As at 30 June 2020, the amount is due from Orient Group Beijing Investment Holding Limited, which is unsecured, interest bearing at a rate of 3 months LIBOR plus 1.7% per annum and repayable on or before 25 September 2020.

15. TRADE AND OTHER PAYABLES

	30 June 2020	31 December 2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade payables (note a)	598,992	913,060
Other payables (note b)	3,815,634	5,111,152
Total trade and other payables	4,414,626	6,024,212

(a) Trade payables

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

	30 June 2020	31 December 2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0 to 30 days	104,191	285,854
31 to 45 days	28,018	51,102
Over 45 days	466,783	576,104
	598,992	913,060

15. TRADE AND OTHER PAYABLES *(Continued)*

(b) Other payables

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Accrual for operating and capital expenses	1,229,522	1,288,875
Due to joint operators	225,854	153,898
Deposit received	66	67
Dividend payable	–	1,051,115
Advance from customers <i>(note)</i>	975,000	1,134,900
Salaries and welfare payables	80,540	117,652
Provision for infrastructure funds	329,536	329,536
Other tax payables	900,795	1,010,101
Others	74,321	25,008
	3,815,634	5,111,152

Note:

The Group entered into agreements with customers for secured crude oil prepayment facilities of up to approximately HK\$2,925,000,000 (equivalent to approximately US\$375,000,000) (31 December 2019: HK\$2,925,000,000 (equivalent to approximately US\$375,000,000)). The facilities bearing interest rates ranging from 4% plus LIBOR per annum to 7% plus LIBOR per annum. The crude oil prepayment facilities are repayable principally by the delivery of the Group's crude oil entitlement. As at 30 June 2020, the total undrawn crude oil prepayment facilities amounted to approximately HK\$780,000,000 (equivalent to approximately US\$100,000,000) (31 December 2019: HK\$1,170,000,000 (equivalent to approximately US\$150,000,000)).

As at 30 June 2020, the advanced from customers are guaranteed by the unlimited corporate guarantee provided by the Company.



16. BORROWINGS

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Bank loans, secured (<i>note</i>)	4,842,013	4,695,786
Analysed as:		
Current liabilities	842,229	352,150
Non-current liabilities	3,999,784	4,343,636
	4,842,013	4,695,786

Note:

The Group has obtained banking facilities in aggregate of approximately HK\$5,187,000,000 (equivalent to approximately US\$665,000,000) (31 December 2019: HK\$5,226,000,000 (equivalent to approximately US\$670,000,000)), of which approximately HK\$154,440,000 (equivalent to approximately US\$19,800,000) (31 December 2019: HK\$154,440,000 (equivalent to approximately US\$19,800,000)) remained unutilised at 30 June 2020. Bank loans of approximately HK\$564,330,000 (equivalent to approximately US\$72,350,000) (2019: HK\$93,600,000 (equivalent to approximately US\$12,000,000)) was repaid by the Group during the period.

17. PROVISIONS

	Dismantling costs in respect of leasehold improvements HK\$'000	Decommissioning costs HK\$'000	Total HK\$'000
At 1 January 2020 (audited)	530	506,004	506,534
Less:			
Actual costs incurred during the period	-	(82)	(82)
Reversal of provisions recognised during the period	-	(2,419)	(2,419)
Disposal of subsidiaries	-	(74,226)	(74,226)
Add:			
Unwinding of discounts	-	4,717	4,717
Provisions recognised during the period	-	1,960	1,960
	530	435,954	436,484
Current portion shown under current liabilities	-	(1,053)	(1,053)
At 30 June 2020 (unaudited)	530	434,901	435,431

17. PROVISIONS *(Continued)*

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

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

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

18. SHARE CAPITAL

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Authorised: 60,000,000,000 ordinary shares of HK\$0.01 each	600,000	600,000
Issued and fully paid: 26,277,864,053 (At 31 December 2019: 26,277,864,053) ordinary shares of HK\$0.01 each	262,779	262,779

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

	Number of shares issued '000	Nominal value of shares issued HK\$'000
At 31 December 2019 and 1 January 2020 (audited) and 30 June 2020 (unaudited)	26,277,864	262,779

19. PERFORMANCE SHARE UNIT SCHEME

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

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

During the six months ended 30 June 2020, no shares were purchased by the trustee and no shares were granted to eligible employees pursuant to the PSU Scheme. At 30 June 2020, 54,538,000 shares (31 December 2019: 54,538,000 shares) are held by the trustee.

20. CAPITAL COMMITMENTS

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

	30 June 2020 HK\$’000 (unaudited)	31 December 2019 HK\$’000 (audited)
Contracted but not provided for:		
Acquisition of property, plant and equipment	633	874
Commitments for capital expenditure	557,592	432,246
	558,225	433,120

20. CAPITAL COMMITMENTS *(Continued)*

- (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\$109,600,000 (equivalent to approximately RMB100,000,000) (31 December 2019: HK\$111,740,000 (equivalent to approximately RMB100,000,000)). At 30 June 2020, the Group has contributed approximately HK\$13,422,000 (equivalent to approximately RMB12,246,000) (31 December 2019: HK\$13,684,000 (equivalent to approximately RMB12,246,000)) to UEBL. In accordance with the memorandum of association of UEBL, the remaining balance of approximately HK\$96,178,000 (equivalent to approximately RMB87,754,000) (31 December 2019: HK\$98,056,000 (equivalent to approximately RMB87,754,000)) shall be contributed to UEBL within twenty years from the date of its establishment.
- (c) On 25 May 2017, the Company, UEBL, Orient Group Company Limited and Orient Group Co. Ltd. established a company, 東方藝術品有限公司 (“東方藝術品”) in the PRC with registered capital of approximately HK\$109,600,000 (equivalent to approximately RMB100,000,000) (31 December 2019: HK\$111,740,000 (equivalent to approximately RMB100,000,000)). In accordance with the memorandum of association of 東方藝術品, UEBL is committed to contribute approximately HK\$21,920,000 (equivalent to approximately RMB20,000,000) (31 December 2019: HK\$22,348,000 (equivalent to approximately RMB20,000,000)) as 20% registered share capital of 東方藝術品. At 30 June 2020, UEBL has not yet contributed any capital to 東方藝術品. In accordance with the memorandum of association of 東方藝術品, capital contribution shall be made to 東方藝術品 on or before 30 June 2045.

21. CONTINGENT LIABILITIES

- (a) As at 30 June 2020 and 31 December 2019, 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 2020 and 31 December 2019, 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\$4,843,000 (31 December 2019: HK\$3,673,000).

21. CONTINGENT LIABILITIES *(Continued)*

- (c) Certain subsidiaries of the Group had dispute with the Pakistan government on the applicability of windfall levy on its production of oil and condensate. On 27 December 2017, the government's approval for the execution of windfall levy was granted and the windfall levy became applicable on the subsidiaries. Based on legal advice from external lawyers, the management believes that the applicability of the windfall levy is prospective, i.e. from the date of the government's approval. If the applicability of windfall levy is retrospective, further provision for the windfall levy of approximately HK\$191,969,000 (31 December 2019: HK\$191,969,000) would be required to be made in the financial statements for the period ended 30 June 2020.
- (d) As at 30 June 2020, certain subsidiaries of the Group received various tax orders in an attempt to re-assess tax liability for prior years by the Pakistan and Mauritius tax department (31 December 2019: Pakistan tax department). The subsidiaries of the Group are currently appealing against these orders and the cumulative potential tax exposure for the pending tax cases was approximately HK\$582,101,000 (31 December 2019: HK\$438,054,000).
- (e) At the end of the reporting period, bank guarantees to the extent of approximately HK\$10,852,000 (equivalent to US\$1,391,000) (31 December 2019: HK\$10,852,000 (equivalent to US\$1,391,000)) in favour of the President of the Islamic Republic of Pakistan was obtained by UEP Beta GmbH, an indirect wholly owned subsidiary of the Company, to guarantee its performance and financial obligations as stipulated in the concession agreements.

22. ACQUISITION OF SUBSIDIARIES

Acquisition of subsidiaries for the six months ended 30 June 2019

On 21 March 2019, the Group acquired the entire issued share capital of Kuwait Energy Public Limited Company ("KEC") and its subsidiaries for a total consideration of approximately HK\$4,403,101,000 (equivalent to approximately US\$564,500,000) by way of a scheme of arrangement under Jersey ("KEC Acquisition"). KEC is an upstream oil and gas company and principally engaged in exploration, appraisal, development and production activities in Middle East and North Africa. Details of the KEC Acquisition were set out in the Company's announcements and circular dated 24 September 2018, 10 October 2018, 30 November 2018, 27 December 2018, 21 March 2019 and 22 March 2019.

The KEC Acquisition is an extension and enlargement of the Group's oil exploration and production business.

22. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition of subsidiaries for the six months ended 30 June 2019 (Continued)

The provisional fair value of the identifiable assets and liabilities of KEC, acquired as at the date of acquisition are as follows:

	<i>HK\$'000</i>
Net assets acquired:	
Property, plant and equipment	4,392,076
Right-of-use assets	40,921
Intangible assets	3,109,166
Advance, deposits and prepayments	145,920
Inventories	23,901
Trade and other receivables	1,189,587
Assets classified as held for sale	88,355
Bank and cash balances	230,203
Provisions	(88,758)
Employee retirement benefit obligation	(34,872)
Trade and other payables	(1,839,687)
Borrowings	(1,941,118)
Bank overdraft	(24,187)
Lease liabilities	(13,511)
Current tax liabilities	(118,559)
Deferred tax liabilities	(738,744)
Non-controlling interest	(17,592)
	<hr/> 4,403,101
Satisfied by:	
Cash	4,286,101
Deposit paid for acquisition of subsidiaries	117,000
	<hr/> 4,403,101
Net cash outflow arising on acquisition:	
Cash consideration paid	4,286,101
Cash and cash equivalents acquired	(230,203)
Bank overdraft assumed	24,187
	<hr/> 4,080,085

The gross contractual amounts of the trade and other receivables were approximately HK\$1,189,587,000, none of which is expected to be uncollectible.

22. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of subsidiaries for the six months ended 30 June 2019 *(Continued)*

KEC contributed turnover of approximately HK\$635,964,000 and profit after tax of approximately HK\$53,938,000 in the period between the date of acquisition and the end of the reporting period. If the acquisition had been completed on 1 January 2019, total Group turnover for the period would have been approximately HK\$3,707,136,000, and profit for the period from continuing operations would have been approximately HK\$835,737,000. 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 2019, nor is intended to be a projection of future results.

Acquisition related costs of approximately HK\$525,000 have been charged to administrative expenses in the condensed financial statements for the period ended 30 June 2019.

The fair values of the acquired identifiable assets and liabilities are provisional pending receipt of the final valuations for those assets and liabilities.

23. DISPOSAL OF SUBSIDIARIES

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

Net liabilities at the date of disposal were as follows:

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

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

24. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name of the related party	Relationship
東方集團實業股份有限公司 (Orient Group Industrial Holdings Company Limited ("Orient Group Industrial"))#	Mr. Zhang Hong Wei is the ultimate controlling party and authorised representative of Orient Group Industrial
東方集團產業發展有限公司 (Orient Group Industry Development Co. Ltd. ("Orient Group Industry Development"))	Mr. Zhang Hong Wei is the ultimate controlling party and authorised representative of Orient Group Industry Development
東方集團股份有限公司 (Orient Group Co. Ltd. ("Orient Group"))	Mr. Zhang Hong Wei has significant influence over the Orient Group
東方集團有限公司 (前稱:東方集團投資控股有限公司) (Orient Group Company Limited ("OGCL"))# (Formerly known as Orient Group Investment Holding Limited)#	Mr. Zhang Hong Wei has significant influence over OGCL
北京大成飯店有限公司 (Beijing Dacheng Hotels Limited ("BDHL"))#	BDHL is a subsidiary of Orient Group

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

(b) At the end of the reporting period, OGCL and Orient Group Industry Development (31 December 2019: OGCL and Orient Group Industrial) has provided corporate guarantees to the bank for banking facilities granted to the associate of the Group, UEP Wind Power (Private) Limited ("UEPW"). OGCL also entered into an entrusted guarantee agreement with UEPW for the corporate guarantee services provided by OGCL. Under the entrusted guarantee agreement, 2% service fee was charged at outstanding bank loan. During the period, OGCL had waived such service charge of approximately HK\$5,374,000 to UEPW (2019: service charge of approximately HK\$6,112,000).

24. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) The executive directors of the Company, Mr. Zhang Hong Wei and Ms. Zhang Meiyong have provided personal guarantees to the bank loans made to the Group totaling approximately HK\$4,213,481,000 (31 December 2019: HK\$4,237,949,000).
- (d) At 30 June 2020, the Group has provided an unlimited corporate guarantee in favour of its associate against the bank loans of approximately HK\$535,174,000 (31 December 2019: HK\$537,805,000) made to the associate of the Group.
- (e) For the period ended 30 June 2020, leases payments of approximately HK\$10,558,000 (2019: HK\$Nil) for leasing an office premises of the Group were paid to BDHL.
- (f) The details of the remuneration paid to the key management personnel are set out in note 9 to the condensed financial statements.

25. EVENT AFTER THE REPORTING PERIOD

The outbreak of COVID-19 pandemic continues to cause disruptions to the Group's businesses and economic activities which has impact on the operations and financial position. The Group has been closely monitoring the impact of the developments of the COVID-19 pandemic on the Group's businesses and has put in place various contingency measures to resume work and ensure safety of the Group's employees.

As far as the Group's businesses are concerned, the COVID-19 pandemic has caused decrease in demand of oil and oil price. Based on the information currently available, management estimates that this would result in a negative impact to the revenue and operating results for the financial year ending 31 December 2020.

The management will continue to monitor and assess the ongoing development and respond accordingly.

26. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated financial statements for the six months ended 30 June 2020 has been approved for issue by the board of directors on 31 August 2020.

Supplementary Information on Oil and Gas Exploration, Development and Production Activities

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited.

A. Major Exploration, Development and Production Activities

The following table summarised the major exploration, development and production activities during the reporting period:

	Pakistan Assets	MENA Assets
Exploration activities:	<ul style="list-style-type: none"> 4 Exploration wells 	<ul style="list-style-type: none"> 2 Exploration wells
Development activities:	<ul style="list-style-type: none"> 4 Development wells 5 Rig workovers 	<ul style="list-style-type: none"> 5 Development wells 3 Rig workovers
Production activities:	<ul style="list-style-type: none"> Average daily working interest production of 59,707 boed 	<ul style="list-style-type: none"> Average daily working interest production of 35,213 boed

B. Group's Share of Costs Incurred on Exploration, Development and Production Activities

The following table summarised the Group's share of costs incurred on exploration, development and production activities for the current period:

	Pakistan Assets (HK\$'000)	MENA Assets (HK\$'000)	Total (HK\$'000)
Exploration costs	168,405	–	168,405
Development costs	38,561	513,471	552,032
Production costs (Note)	235,947	329,615	565,562

Note: Production costs recognised in cost of sales excluding depreciation & amortisation and sales expenses.

Management Discussion and Analysis

Business Review

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

The outbreak of COVID-19 pandemic had an unprecedented and devastating impact on the global economy and oil market fundamentals in 2020. Both demand curtailment and oil price plunge in first half had resulted in serious consequences in oil industry. Correspondingly, the average Brent Oil Price in the reporting period, is US\$40.23/barrel (“bbl”), which is 39% lower than US\$66.07/bbl for corresponding period of 2019, according to data from U.S. Energy Information Administration. Despite of various cost saving measures taken by the Group, the low international oil price was the main factor to the net profit decrease, the Group reported a profit attributable to the owners of the Company for the reporting period of approximately HK\$423,264,000, representing a decrease of 56.3% compared to corresponding period of HK\$968,891,000.

Cost of sales and services rendered by the Group for the reporting period was approximately HK\$1,975,762,000, and the Group invested approximately HK\$721,218,000 of capital expenditure in oil exploration, development and production activities. The Group drilled 15 wells during the reporting period, including 8 wells in Pakistan Assets and 7 wells in Middle East and North Africa Assets.

Exploration, Development and Production

In the first half of 2020, the Group devoted continuous efforts in its oil and gas exploration. Adhering to the philosophy of value-driven and anchoring on exploration and discoveries of small and rich oil and gas fields, 6 commercial discoveries were achieved of which 3 were in Pakistan and 3 in Egypt.

For the six-month ended 30 June 2020, the Group's average daily gross production was approximately 153,106 barrels of oil equivalent per day ("boed") (Pakistan Assets - 85,024 boed plus MENA Assets - 68,082 boed), a 4.2% increase compared to approximately 146,884 boed of last period, and gross accumulated production was approximately 27.87 million barrels of oil equivalent ("mboe"), a 21.1% increase compared to approximately 23.02 mboe of last period, at the same time, the Group's average working interest production was 94,920 boed (Pakistan Assets - 59,707 boed plus MENA Assets - 35,213 boed), a 0.4% decrease compared to approximately 95,267 boed of last period, and working interest accumulated production was approximately 17.28 mboe, a 14.1% increase compared to approximately 15.14 mboe of last period. The gross and working interest accumulated production increase respectively was mainly due to the increase of MENA Assets production days, i.e. 182 days from 1 January to 30 June 2020, and 102 days from 21 March to 30 June 2019, which MENA Assets was acquired on 21 March 2019.

Pakistan

As of 30 June 2020, the Group holds interests in 5 areas dividing into 14 development concessions for oil and gas production in Pakistan.

For the six-month ended 30 June 2020, the Pakistan Assets achieved an average daily gross production of approximately 85,024 boed, decreased by 16.4% compared to the corresponding period, an average daily working interest production of approximately 59,707 boed, decreased by 13.0% compared to the corresponding period. The Pakistan Assets has an oil and liquids ratio of 13.7% which was lower than the corresponding period. The accumulated gross production and working interest production of the reporting period was approximately 15.47 mboe and 10.87 mboe respectively.

Iraq

The Group holds a 60% participating interest in the Exploration Development and Production Service Contract ("EDPSC") of Block 9 in Iraq and is the Operator of this block. For the six-month ended 30 June 2020, the average daily gross production was approximately 24,279 boed, and the average daily working interest production was approximately 14,568 boed. The accumulated gross production and working interest production for the reporting period was approximately 4.42 mboe and 2.65 mboe respectively. Block 9 has an oil and liquids ratio of 100%.

The Group holds a 30% participating interest in the Gas Development and Production Service Contract for the Siba contract area in Iraq and is the Operator of this block. For the six-month ended 30 June 2020, the average daily gross production was approximately 21,530 boed, and the average daily working interest production was approximately 6,459 boed. The accumulated gross and working interest production for the reporting period was approximately 3.92 mmmboe and 1.18 mmmboe respectively. Siba has an oil and liquids ratio of 68.1%.

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. We expect to sign the formal DPC in 2020.

Egypt

The Group holds interests in four blocks in Egypt. It has a 100% participating interest in Burg El Arab and act as the Operator of this block. The participating interest in Area A, Abu Sennan and East Ras Qattara is 70%, 25% and 49.5% respectively. For the six-month ended 30 June 2020, the average daily gross production was approximately 22,273 boed, and the average daily working interest production was approximately 14,187 boed. The accumulated gross production and working interest production in the reporting period was approximately 4.05 mmmboe and 2.58 mmmboe respectively. The Egypt Assets has an oil and liquids ratio of 97.9%.

Sales and Marketing

Sales of Crude Oil

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

For the six-month ended 30 June 2020, the Group’s average realised oil price (before government royalty, windfall levy and government take at working interest production) was US\$34.57/bbl, representing a year-on-year decrease of 46.8%.

Sales of Natural Gas

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

For the six-month ended 30 June 2020, the Group's average realised gas price (before government royalty, windfall levy and government take at working interest production) was US\$25.45/boe, representing a year-on-year decrease of 8.7%.

FINANCIAL RESULTS

Financial Review

For the six months ended 30 June 2020 (the "reporting period"), the Group reported a profit attributable to the owners of the Company of approximately HK\$423,264,000, representing a decrease of 56.3% from the six months ended 30 June 2019 (the "corresponding period") of approximately HK\$968,891,000. The decrease in net profit was mainly due to the COVID-19 pandemic and the plunge of international oil price during first half of 2020.

During the reporting period, the Group's average daily working interest production was approximately 94,920 boed (Pakistan Assets of 59,707 boed plus MENA Assets of 35,213 boed) compared to approximately 95,267 boed (Pakistan Assets of 68,634 boed plus MENA Assets of 26,633 boed) of the corresponding period, nearly maintained at the same level despite of demand curtailment due to outbreak of COVID-19 during the reporting period. The average realised oil and gas price (before government royalty, windfall levy and government take at working interest production) was approximately US\$29.32/boe, compared to approximately US\$39.43/boe of the corresponding period, representing a decrease of 25.6%.

Turnover

The Group's turnover for the reporting period was approximately HK\$2,865,634,000, representing a decrease of 17.7% as compared with the turnover of approximately HK\$3,481,918,000 of the corresponding period. The decrease in turnover was mainly contributed by the effect of decrease in realised sales prices during the reporting period, but offset by the contribution from KEC which was acquired in March 2019.

Exploration and Production Category		Six months	Six months	Change
		ended 30 June 2020	ended 30 June 2019	
Oil and gas sales*	USD'000	500,273	598,608	-16.4%
Crude oil and liquids	USD'000	249,127	305,406	-18.4%
Natural gas	USD'000	249,703	288,914	-13.6%
LPG	USD'000	1,443	4,288	-66.3%
Sales volume	mmboe	17.1	15.2	+1.9
Crude oil and liquids	mmboe	7.2	4.7	+2.5
Natural gas	mmboe	9.8	10.4	-0.6
LPG	mmboe	0.1	0.1	-
Realised prices*	US\$/boe	29.32	39.43	-25.6%
Crude oil and liquids	US\$/bbl	34.57	64.97	-46.8%
Natural gas	US\$/boe	25.45	27.87	-8.7%
LPG	US\$/boe	33.32	37.35	-10.8%

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

Cost of sales and services rendered

Operating expenses

The Group's operating expenses (which is defined as the cost of sales excluding depreciation and amortisation, government tax and distribution expenses) increase 13.3% to approximately HK\$536,430,000 during the first half of 2020, compared with approximately HK\$473,287,000 in the corresponding period. The operating expenses per boe (at working interest production) was approximately US\$4.0 in the reporting period, which is same as approximately US\$4.0 in the corresponding period. For Pakistan Assets, operating expenses per boe was approximately US\$2.5 (30 June 2019: approximately US\$3.3 per boe); while for MENA Assets, operating expense per boe was approximately US\$6.6 (30 June 2019: approximately US\$7.4 per boe).

Depreciation, depletion and amortisation

Included in the cost of sales and services rendered, the depreciation, depletion and amortisation was approximately HK\$1,426,800,000, representing an increase of 25.3% as compared with the amount of approximately HK\$1,138,328,000 in the corresponding period.

Gross profit

The Group's gross profit for the reporting period was approximately HK\$889,872,000 (gross profit ratio 31.1%) which represented a sharp decrease of 52.0% as compared with gross profit of approximately HK\$1,854,939,000 (gross profit ratio 53.3%) for the corresponding period. The decrease in gross profit was attributed to the effect of COVID-19 pandemic and the plunge of international oil price which result in decrease in overall realised sales prices during the reporting period.

Exploration expenses

The Group's exploration expenses for the reporting period was approximately HK\$8,789,000 (30 June 2019: approximately HK\$4,970,000) which was mainly for the performance of geological and geophysical studies and surface use rights.

Administrative expenses

The Group's administrative expenses for the reporting period was approximately HK\$194,068,000 (30 June 2019: approximately HK\$206,612,000) representing 6.8% (30 June 2019: 5.9%) of the turnover. The decrease in administrative expenses was attributed to the effect of strict cost control during the reporting period.

Finance costs

The Group's finance costs for the reporting period was approximately HK\$162,417,000, which represented a decrease of 20.2% as compared with the finance costs of approximately HK\$203,655,000 for the corresponding period. The decrease in finance costs was mainly due to the lower average interest rate during the reporting period. The weighted average interest rate of borrowings for the reporting period was 5.13% (30 June 2019: 8.63%).

Income tax expense

The Group's income tax expense for the reporting period was approximately HK\$159,389,000. This included the current income tax expense of approximately HK\$217,581,000 and partially net of deferred tax income of approximately HK\$58,192,000, compared with current income tax expense of approximately HK\$242,249,000 and deferred tax expenses of approximately HK\$131,829,000 in the corresponding period respectively. The Group's effective tax rate for the reporting period was approximately 27.4%, representing a decrease 0.5 percentage points as compared with 27.9% for the corresponding period.

EBITDA

EBITDA represents the profit before finance costs, income tax expense, depreciation and amortisation, gain on disposal of subsidiaries, share of losses of associates and impairment losses for trade and other receivables. It shall be noted that EBITDA is not a measurement of operating performance or liquidity defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies. The EBITDA for the reporting period was approximately HK\$2,209,877,000, decreased by 21.4% from the corresponding period of approximately HK\$2,811,696,000. The decrease in EBITDA was mainly attributable to the decrease in average realised sales price during the reporting period.

Cash generated from operating activities

The Group's cash inflow from operating activities for the reporting period was approximately HK\$420,876,000, representing a decrease of 83.3% as compared with the corresponding period of approximately HK\$2,513,616,000. This was primarily attributed to the decrease in oil and gas sales cash inflows due to decreased realised sales prices for the current period.

Cash used in investing activities

In the first half 2020, the Group's cash used in investment activities decreased by 79.3% to approximately HK\$1,098,655,000 from the corresponding period, mainly due to net consideration payment of approximately HK\$4,080,085,000 was made for the KEC acquisition in the corresponding period, as well as the development expenditure of approximately HK\$736,083,000 with an overall decrease of 40.9% as compared to the corresponding period.

Cash generated from financing activities

In the first half 2020, the net cash used in financing activities was approximately HK\$595,227,000, mainly due to the payment of special dividend of approximately HK\$1,051,115,000, drawdown of bank loans of approximately HK\$724,230,000 and repayment of bank loans of approximately HK\$564,330,000.

Dividend

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

Business and market outlook

According to International Monetary Fund ("IMF")'s World Economic Outlook Update June 2020, global economic growth is projected at -4.9% in 2020. The COVID-19 pandemic has pushed economies into Great Lockdown, with recovery being highly uncertain and the impacts on sectors and countries being uneven. The COVID-19 pandemic had an unprecedented and devastating impact on the oil market fundamentals in 2020. According to Organization of the Petroleum Exporting Countries ("OPEC")' Monthly Oil Market Report July 2020, global oil demand will decline around 8.9 million barrels per day in 2020 and recover in 2021. On commodity front, oil price experienced unprecedented decline in first half of 2020, and may stay at relatively low levels in the short term. The Group has already taken effective measures to optimize its operation and financial position and will keep on monitoring other risk factors that may exist.

Facing various challenges and uncertainties in energy industry as well as in macro economy, our production still remains on track of our full year target at 140,000 to 160,000 boed in terms of average daily gross production, and at 86,000 to 95,000 boed in terms of average daily working interest production. Capital expenditure and operating cost are strictly managed, to support critical exploration, development and construction plans, and also ensure a sustainable growth of the Group.

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. Given the Group’s production is predominantly in gas, our sale of natural gas is almost guaranteed to be taken up by the state-owned gas distribution customer. We continue to leverage our experience and understanding of the geology and geophysics in Lower Indus Basin, Middle Indus Basin and Western Fold Belt of Pakistan to unlock the potentials of these assets. Besides, the Group will continue to look for similar opportunities in the market or other alternatives, such as participating in government bidding process, and strengthening cooperation with state-owned oil companies to expand our footprint in Pakistan.

For Pakistan Assets, we plan to achieve an average daily working interest production of 52,000 to 55,000 boed in 2020.

MENA Assets:

The Group will leverage its strong financial capability to further develop the potential of MENA Assets and replicate its past success story in MENA regions. The average daily working interest production of Block 9 in Iraq is expected to reach 100,000 boed in the near future. The gas production of Siba in Iraq is expected to reach a sustainable Plateau Production Target in the near future. Egyptian assets are mature producing assets, it will stay stable in terms of both production and reserve, in the year of 2020.

In 2020, Iraq Assets are expected to achieve an average daily working interest production of 21,000 to 25,000 boed, whereas Egypt Assets will achieve an average daily working interest production of 13,000 to 15,000 boed.

Conclusion

The year of 2020 is an unprecedentedly challenging year for United Energy and all other oil and gas companies. We will continuously take effective measures to optimise our operational and financial activities, and work with all stakeholders to get it through. For the newly acquired assets, we will deploy an integrated exploration, development and production program to exploit the potential. As always, we are committed to our strategy to achieve higher goals and will deliver better return to our shareholders.

Liquidity and Financial Resources

During the reporting period, the Group continues to maintain a strong financial position, with bank and cash balances amounting to approximately HK\$2,463,285,000 as at 30 June 2020 (31 December 2019: approximately HK\$3,358,627,000).

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

	Principal amount outstanding at 30 June 2020	
	<i>US\$</i>	<i>Equivalent to HK\$</i>
Revolving loan	385,000,000	3,003,000,000
Term loan	165,200,000	1,288,560,000
Reserves-based borrowing	82,650,000	644,670,000
Prepayment facilities	125,000,000	975,000,000
	757,850,000	5,911,230,000

As at 30 June 2020, the gearing ratio was approximately 24.1% (31 December 2019: 23.2%), based on borrowings, advance from customers, and lease liabilities under current liabilities and non-current liabilities of approximately HK\$1,845,626,000 (31 December 2019: approximately HK\$1,519,511,000) and approximately HK\$4,085,649,000 (31 December 2019: approximately HK\$4,442,221,000) respectively and total assets of approximately HK\$24,590,941,000 (31 December 2019: approximately HK\$25,743,105,000). As at 30 June 2020, the current ratio was approximately 1.24 times (31 December 2019: approximately 1.09 times), based on current assets of approximately HK\$6,876,886,000 (31 December 2019: approximately HK\$7,210,921,000) and current liabilities of approximately HK\$5,541,501,000 (31 December 2019: approximately HK\$6,629,845,000).

As at 30 June 2020, the Group's total borrowings amounted to approximately HK\$4,842,013,000 (31 December 2019: approximately HK\$4,695,786,000), all of them are denominated in United States dollars. The weighted average interest rate of the borrowings as at 30 June 2020 was 5.11% (31 December 2019: 6.42%).

As at 30 June 2020, the Group's property, plant and equipment, trade receivable and bank balances, with total carrying value of approximately HK\$4,970,714,000 (31 December 2019: approximately HK\$6,556,010,000) and share charges in respect of the equity interests of certain subsidiaries were pledged to secure the Group's general banking facilities.

Material Acquisitions and Disposal

Save as disclosed in note 22 and note 23 of the Notes to Condensed Consolidated Financial Statements in this report, the Group and the Company do not have material acquisition and disposal during the reporting period.

Segment Information

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

Capital Structure

During the reporting period, there was no change of the issued share capital of the Company. The total number of issued shares of the Company was 26,277,864,053 shares as at 1 January 2020 and 30 June 2020.

Employees

As at 30 June 2020, the Group employed a total of 2,141 full time employees in Hong Kong, the PRC, Pakistan, Dubai and other MENA locations. Employees' remuneration package is reviewed periodically and determined with reference to the performance of the individual and the prevailing market practices. Remuneration package included basis salaries, year-end bonus, medical and contributory provident fund.

Contingent Liabilities

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

Events After the Reporting Period

Particulars of the Group's events after the reporting period are set out in the note 25 of the Notes to the Condensed Consolidated Financial Statements in this report.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout for the six months ended 30 June 2020.

Share Option Scheme

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

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

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

During the six months ended 30 June 2020, no share options were granted, exercised, lapsed or cancelled under both the Old Scheme and the New Scheme. As at 30 June 2020, 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 26,277,864,053 shares as at 30 June 2020 was 2.48%.

As at 30 June 2020, details of outstanding share options granted but not exercised under the Old Scheme are as follows:

Grant Date	Adjusted Exercise		Exercisable Period	Adjusted Number of Share Options (Note)					As at 30.6.2020
	Price (Note) HK\$	Vesting Period		As at 1.1.2020	Granted	Exercised	Lapsed	Cancelled	
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 2020, 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 1)	Attributable interest of controlled corporation	17,466,600,230	–	66.47%
Zhang Meiyang (Note 2)	Attributable interest of controlled corporation	1,287,700,000	–	4.90%

Note:

1. Out of the 17,466,600,230 shares (66.47%), 8,029,971,845 shares (30.56%) were beneficially held by He Fu International Limited, 5,787,539,821 shares (22.02%) were beneficially held by United Petroleum & Natural Gas Holdings Limited, and 3,649,088,564 shares (13.89%) were beneficially held by United Energy Holdings Limited. United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited are companies wholly-owned by Million Fortune Enterprises Limited, which is in turn wholly-owned by Mr. Zhang Hong Wei. He Fu International Limited is wholly-owned by Huilan Investment Limited, which is owned by 东方集团有限公司 (95%) and 东方集团产业发展有限公司 (5%). 东方集团产业发展有限公司 is wholly-owned by 东方集团有限公司, which is 94% owned by 名泽东方投资有限公司, which is in turn wholly-owned by Mr. Zhang Hong Wei. Therefore, Mr. Zhang Hong Wei is deemed to be interested in those 17,466,600,230 shares (66.47%).
2. 1,287,700,000 shares (4.9%) were beneficially held by Brand Master Group Limited which is wholly-owned by Ms. Zhang Meiyang.

Save as disclosed above, as at 30 June 2020, 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 2020, 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
Zhang Hong Wei (Note a)	Attributable interest of controlled corporation	17,466,600,230 (L)	66.47% (L)
名泽东方投资有限公司 (Note a)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.56% (L)
东方集团有限公司 (Note b)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.56% (L)
东方集团产业发展有限公司 (Note c)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.56% (L)
Huilan Investment Limited (Note d)	Attributable interest of controlled corporation	8,029,971,845 (L)	30.56% (L)
He Fu International Limited (Note e)	Beneficial owner	8,029,971,845 (L)	30.56% (L)
Million Fortune Enterprises Limited (Note a)	Attributable interest of controlled corporation	9,436,628,385 (L)	35.91% (L)
United Petroleum & Natural Gas Holdings Limited (Note f)	Beneficial owner	5,787,539,821 (L)	22.02% (L)
United Energy Holdings Limited (Note f)	Beneficial owner	3,649,088,564 (L)	13.89% (L)

Note:

- (a) 名泽东方投资有限公司 and Million Fortune Enterprises Limited are wholly owned by Mr. Zhang Hong Wei.
- (b) 名泽东方投资有限公司 owns 94% shares of 东方集团有限公司.
- (c) 东方集团产业发展有限公司 is wholly-owned by 东方集团有限公司.
- (d) Huilan Investment Limited is 95% owned by 东方集团有限公司 and 5% owned by 东方集团产业发展有限公司.
- (e) He Fu International Limited is wholly owned by Huilan Investment Limited.
- (f) These companies are wholly owned by Million Fortune Enterprises Limited.
- (g) (L) denotes long position and (S) denotes short position.

Save as disclosed above, as at 30 June 2020, 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 2020 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 effect 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 2020.

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 unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020. The Audit Committee has also discussed with management and reviewed the accounting principles and practices adopted by the Group, as well as risk management, internal control and financial reporting matters, and found them to be satisfactory.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 June 2020.

On behalf of the Board
United Energy Group Limited

Zhang Hong Wei
Chairman

Hong Kong, 31 August 2020

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

