

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)

2008/2009 Interim Results

Interim Results

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 September 2008 together with unaudited comparative figures for the corresponding period in 2007 as follows:

Condensed Consolidated Interim Income Statement

For the six months ended 30 September 2008

| | | Six months ended 30 September | |
|------------------------------------|------|----------------------------------|------------------------|
| | | 2008 | 2007 |
| | | (unaudited) | (unaudited) |
| | Note | HK\$'000 | HK\$'000 (restated) |
| Turnover | 4 | 5,170 | 4,688 |
| Cost of sales and service rendered | | (548) | (234) |
| Gross profit | | 4,622 | 4,454 |
| Other income | 5 | 27,316 | 8,805 |
| Oil exploitation expenses | | (25,272) | (8,922) |
| Administrative expenses | | (221,710) | (33,605) |
| Loss from operations | 5 | (215,044) | (29,268) |
| Share of profit of associates | | 69,690 | – |
| Loss before tax | | (145,354) | (29,268) |
| Income tax expense | 6 | (126) | (299) |
| Loss for the period | | (145,480) | (29,567) |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | (147,022) | (28,171) |
| Minority interests | | 1,542 | (1,396) |
| | | (145,480) | (29,567) |
| LOSS PER SHARE | | | |
| Basic | 7 | (1.15) cents | (0.25) cents |
| Diluted | 7 | N/A | N/A |

Condensed Consolidated Interim Balance Sheet

As at 30 September 2008

| | Note | As at 30 September 2008 (unaudited) HK\$'000 | As at 31 March 2008 (audited) HK\$'000 |
|--|------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 34,678 | 36,703 |
| Investment properties | | 181,648 | 177,600 |
| Investment in associates | 10 | 256,150 | 86,403 |
| | | 472,476 | 300,706 |
| Current assets | | | |
| Inventory | | 93,640 | – |
| Trade and other receivables | 11 | 30,524 | 716,350 |
| Due from an associate | | 68,118 | 66,552 |
| Financial assets at fair value through profit or loss | | 223,582 | 6,613 |
| Bank and cash balances | | 2,330,131 | 2,113,460 |
| | | 2,745,995 | 2,902,975 |
| Current liabilities | | | |
| Trade and other payables | 12 | 68,778 | 34,005 |
| Derivative financial instruments | | 67,356 | – |
| Current tax liabilities | | 82 | 4 |
| Due to directors | | 4,774 | 5,534 |
| Due to related companies | | 3,860 | 3,774 |
| | | 144,850 | 43,317 |
| Net current assets | | 2,601,145 | 2,859,658 |
| Total assets less current liabilities | | 3,073,621 | 3,160,364 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 27,830 | 27,209 |
| Net assets | | 3,045,791 | 3,133,155 |
| Capital and reserves | | | |
| Share capital | | 127,771 | 127,771 |
| Reserves | | 2,720,660 | 2,813,966 |
| Equity attributable to equity holders of the Company | | 2,848,431 | 2,941,737 |
| Minority interests | | 197,360 | 191,418 |
| Total equity | | 3,045,791 | 3,133,155 |

Notes to Interim Financial Statements

For the six months ended 30 September 2008

1. General information

The Company was incorporated in the Cayman Islands and redomiciled to Bermuda as an exempted company with limited liability under the Company Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Unit 2112, 21/F., Two Pacific Place, 88 Queensway, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 September 2008 have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Accounting Standard No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Pursuant to the sale and purchase agreement dated 8 August 2007, the Company issued 4,360,248,448 shares at par value of HK\$0.01 each as consideration to acquire 51%, 34% and 15% equity interest in United Petroleum & Natural Gas Investments Limited ("United Petroleum") from United Energy Holdings Limited ("United Energy"), United Petroleum & Natural Gas Holdings Limited ("United Petroleum Holdings") and Kowin Limited respectively (the "Acquisition"). In addition, the Company issued 166,859,809 shares at par value of HK\$0.01 each to United Energy for acquiring the loan of HK\$268,644,000 due to United Energy by United Petroleum before the completion of the Acquisition. United Energy and United Petroleum Holdings were wholly owned by Mr. Zhang Hongwei. Details of the Acquisition were set out in the Company's circular dated 17 September 2007. The Acquisition was completed on 16 October 2007.

As the Company and United Petroleum were both ultimately controlled by Mr. Zhang Hongwei before and after the Acquisition, the Acquisition was accounted for as a business combination of entities under common control. The condensed consolidated interim financial statements of the Group for the six months ended 30 September 2008 were prepared based on the principles of merger accounting in accordance with the AG 5, as if the Acquisition had occurred from the date when the combining entities first came under the control of Mr. Zhang Hongwei. Comparative figures have been restated accordingly.

3. Significant accounting policies

The accounting policies used in the condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008. The condensed interim financial statements should be read in conjunction with the Company's 2008 annual report.

In the current interim period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA that are relevant to its operations and effective for its accounting periods beginning on 1 April 2008. HKFRSs comprise HKFRSs; Hong Kong Accounting Standards; and Interpretations. The adoption of the new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior periods.

The Group has not applied the new HKFRSs that have been issued but not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. Segment information

Primary Reporting Format – Business Segments

The Group is currently operating into two business segments, property investment and oil exploitation.

Turnover of the Group represents property rental income, property management service fee income during the period ended 30 September 2008. Segment information about the business is presented below:

Six months ended 30 September 2008

| | Property development HK\$'000 | Property investment HK\$'000 | Oil exploitation HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|--|---|--|----------------------------------|
| Turnover | – | 5,170 | – | 5,170 |
| Segment results | – | 4,353 | (26,926) | (22,573) |
| Other income | | | | 27,316 |
| Unallocated corporate expenses | | | | (219,787) |
| Loss from operations | | | | (215,044) |
| Share of profit of associates | | | | 69,690 |
| Loss before tax | | | | (145,354) |
| Income tax expenses | | | | (126) |
| Loss for the period | | | | (145,480) |

4. Segment information *(Continued)*
Primary Reporting Format – Business Segments *(Continued)*
Six months ended 30 September 2007

| | Property development <i>HK\$'000</i> | Property investment <i>HK\$'000</i> | Oil exploitation <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|-----------------------------------|--|---|--|---------------------------------|
| Turnover | – | 4,688 | – | 4,688 |
| Segment results | (7,508) | 1,052 | (18,884) | (25,340) |
| Other income | | | | 8,805 |
| Unallocated corporate expenses | | | | (12,733) |
| Loss from operations | | | | (29,268) |
| Share of profit of associates | | | | – |
| Loss before tax | | | | (29,268) |
| Income tax expenses | | | | (299) |
| Loss for the period | | | | (29,567) |

5. Loss from operations

**For the six months
ended 30 September**

| | 2008 | 2007 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |

Loss from operations has been arrived at after charging
(crediting) the followings:

Other revenue:

| | | |
|---|-----------------|---------|
| Interest income | (26,843) | (6,072) |
| Gain on disposals of financial assets at fair value through profit or loss | - | (2,681) |
| Other income | (473) | (52) |
| | (27,316) | (8,805) |

Staff costs, including directors' remuneration and
retirement benefit scheme contributions

2,485 2,082

Equity settled share based payments

46,799 -

Loss on derivative financial instruments at fair value
through profit or loss

67,356 -

Depreciation of plant and equipment

3,953 183

Auditors' remuneration

908 261

Interest expenses

- 5,308

Less: capitalised in properties under development

- (5,308)

- -

6. Income Tax Expense

**For the six months
ended 30 September**

| | 2008 | 2007 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |

PRC Income Tax

126 299

No provision for profits tax in the Bermuda, the British Virgin Islands or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the relevant periods.

PRC enterprise income tax is calculated at the applicable rates based on estimated taxable income earned by the companies with certain tax preference, based on existing legislation, interpretation and practices in respect thereof.

7. Loss per share

Basic loss per share is calculated based on the net loss attributable to equity holders of the Company during the period divided by the weighted average number of ordinary shares in issue. The calculation of the basis loss per share is based on the following:

| | For the six months ended 30 September | |
|--|--|--------------------|
| | 2008 | 2007 (Restated) |
| Loss attributable to equity holders of the Company (HK\$'000) | (147,022) | (28,171) |
| Weighted average number of ordinary shares in issue | 12,777,091,632 | 11,403,091,632 |
| Basic loss per share (HK\$ cents) | (1.15) | (0.25) |

In determining the weighted average number of ordinary shares in issue, the 4,527,108,257 ordinary shares as consideration for the acquisition of United Petroleum were deemed to be in issue since 1 April 2007.

No diluted loss per share for the six months ended 30 September 2008 is presented as the Company did not have any dilutive potential ordinary share during the two periods ended 30 September.

8. Dividends

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 September 2008 (Six months ended 30 September 2007: Nil).

9. Movements in property, plant and equipment

During the period, the Group acquired property, plant and equipment of approximately HK\$1,122,052 (2007: HK\$5,795,992).

10. Investment in Associates

During the period, pursuant to an investment agreement dated 6 June 2008, the Company acquired 26.3% equity interest in Glimmer Stone Investments Limited (the "Glimmer") for a cash consideration of HK\$100,920,019. The Glimmer is an investment holding company and incorporated in the British Virgin Islands.

11. Trade and other receivables

| | 30 September 2008 HK\$'000 | 31 March 2008 HK\$'000 |
|---|---|------------------------------|
| Loan receivables | 24,978 | 666,395 |
| Receivables arising from dealing in listed securities | – | 48,638 |
| Deposits and prepayments | 5,546 | 1,267 |
| Others | – | 50 |
| Total trade and other receivables | 30,524 | 716,350 |

The loan receivables represent the outstanding accrued interest of the loan advances to an independent third party. The balance is non-interest bearing and secured by the borrower's investment in 70% equity interests of a sino-foreign equity joint venture established in the PRC which principally engaged in operating of hotel and related business and repayable on or before 31 December 2008. The balance has been repaid on 26 November 2008.

12. Trade and other payables

| | 30 September 2008 HK\$'000 | 31 March 2008 HK\$'000 |
|--------------------------------|---|------------------------------|
| Receipts in advance | 11,353 | 16,175 |
| Accrual for operating expenses | 53,879 | 15,939 |
| Salary and welfare payables | – | 95 |
| Deposits received | 170 | 1,119 |
| Other tax payables | 538 | 652 |
| Others | 2,838 | 25 |
| Total trade and other payables | 68,778 | 34,005 |

Management Discussion and Analysis

Financial Review

For the six months ended 30 September 2008, the Group has recorded a turnover of HK\$5.17 million and a loss attributable to equity holders of the Company of HK\$147.02 million as compared to a turnover of HK\$4.69 million and a loss attributable to equity holders of the Company of HK\$28.17 million recorded for the last corresponding period in 2007. The increase in loss attributable to equity holders of the Company by approximately 422% as compared with the corresponding period of last year was principally due to the substantial increase in oil exploitation expenses and administrative expenses. During the period under review, the Company's administrative expenses were increased from HK\$33.61 million to HK\$221.71 million. The increased administrative expenses included the non-cash expense of approximately HK\$46 million due to stock options granted per the share option scheme, and the non-cash loss of approximately HK\$67 million as a result of fair value adjustment of the call and put options entered into on its investment in one of its associate companies. This non-cash loss was entirely offset by the non-cash gain of approximately HK\$74 million attributable to the Group's equitable results of the same associate company. The increased administrative expenses were also due to certain professional advisory fees related to its acquisition evaluations. All these factors contributed to the increases in legal expenses, salaries and other general expenses.

The turnover mainly represented rental and management fee income derived from the properties letting business in PRC. The increase in other operating income from HK\$8.81 million to HK\$27.32 million is mainly due to the increase in interest income.

Business Review

For the six months ended 30 September 2008, the Group was mainly engaged in property investment and management and oil and gas business in the PRC with focus on oil and gas.

During the first half of 2008, the Group still generated a stable annual income of RMB4.57 million (equivalent to approximately HK\$5.17 million) from rental and property management of a commercial building located in the PRC. The oil and gas business continued in pilot testing stage under enhanced oil recovery contract with CNPC on Liaohe oilfield. Pilot tests have proceeded into steam injection stage, which is the most crucial phase of the enhanced oil recovery program. Work is proceeding as planned and a certain level of effective results has been achieved.

Simultaneous to the steam injection tests, we have also undertaken various new techniques and technologies. We endeavored to reduce costs and control investments. Without incurring extra expenditure for pilot testing budget, fireflood was implemented in Gao 3618, steam flood plus oil displacement agent was implemented in Gao 3-3-72 well, chemical cold flow production was implemented in Gao 3-42-64 well, and a new technique of steam flood plus CO₂ slug method was implemented in Gao 3. A solid groundwork has been laid for next year's full scale production.

At present, onsite targets and emphases are as follows:

- (1) Strengthen day to day management of pilot tests and dynamic adjustments to progress follow up;
- (2) Continue to improve and expand the scale of fireflood tests, 3 more wells will be added to fireflood;
- (3) Focus on safety and environmentally responsible practices; and
- (4) Expedite the Overall Development Plan.

Termination of proposed investment in Transmeridian

Following its effort of last financial year in identifying worthy opportunities in the world, during this period, management has engaged in a proposed investment which is highlighted below.

On 11 June 2008 and amended and restated as of 22 September 2008, the Company and Transmeridian Exploration Incorporated entered into an Investment Agreement whereby the Company will invest an aggregate consideration of approximately US\$212 million (equivalent to approximately HK\$1,654 million) in Transmeridian, which owns 100% of South Alibek Field in Kazakhstan, as well as 50% effective interest in Gasha Field in Russia. The Company's acquisition of majority interest compliments its strategic focus on the upstream oil and natural gas business – diversifying the geographic base of our resources and increasing overall reserves. The approval of the shareholders of the Company for the proposed investment in Transmeridian was obtained at the Special General Meeting of the Company on 16 October 2008.

As a result of the recent deterioration in the economic climate, on 15 November 2008, the Company and Transmeridian have mutually agreed to terminate Investment Agreement. No monetary consideration will be paid by either party in connection with the Termination Agreement. In addition, the Company is not owed, nor does it owe, any sums in relation to the Transaction Agreements.

The entry by the Company into the Termination Agreement and the related termination of the Transaction Agreements has no material adverse impact on the interests of the Company and the Shareholders. In addition, the Company and Transmeridian are exploring alternative transactions on a non-exclusive basis.

Liquidity and Financial Resources

The Group continued to be in a strong financial position for the period under review with cash and cash equivalents amounting to HK\$2,330 million as at 30 September 2008 (31 March 2008: HK\$2,113 million).

The Group had no long-term borrowings, therefore the gearing ratio is not applicable. The current ratio was 18.96 (31 March 2008: 67.02), based on current assets of approximately HK\$2,746 million (31 March 2008: HK\$2,903 million) and current liabilities of approximately HK\$145 million (31 March 2008: HK\$43 million).

Prospects

The Group will continue and enhance its existing oil resources business. The Directors believe that the PRC will remain to be the fastest growing economic region in the world within the next few decades – will continue to fuel increasing demand for oil and natural gas.

Leveraging our relationships with major Chinese Oil and Gas E&P players, the Group will continue to expand into new markets internationally, targeting areas such as Central Asia and Southeast Asia. We will also maintain our aggressive growth strategy of acquiring reserves and increasing production through both organic and inorganic initiatives.

Currently, the Company is exploring new investment opportunities in the world, hoping to further expand the Company's scale, widen its asset base and increase its profitability through acquisition and mergers, in order to pursue greater return to our shareholders.

Employees

At as 30 September 2008, the Group employed a total of 50 full time employees in Hong Kong and PRC. 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

The Group had no significant contingent liabilities during this period.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's transaction was mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. As the exchange rate between these currencies are relatively stable, the exposure to fluctuations in the exchange rate of the currencies is minimal. Accordingly, no hedge on the currencies was made during the period under review.

Arrangements to Purchase Shares or Debentures

At no time during the period was the Company, its subsidiary or holding company, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout for the period ended 30 September 2008.

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 period, 2008 except that:

1. The Code A.2.1 — the company does not have the post of chief executive officer; and
2. 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.

During the period from 1 April 2008 to 17 July 2008, no chief executive officer has been appointed and the responsibilities of chief executive officer had been performed by the executive directors and management of the Company. On 18 July 2008, the Board appointed Mr. Jonathan Soon P. Yeap as the chief executive officer of the Company.

Code provision A.4.1 of the Code provides that non-executive Directors should be appointed for a specific term, subject to re-election. As mention in the CG Report contained in the 2008 Annual Report that none of the non-executive Directors has entered into any service contracts with the Company or its subsidiaries. In view of the fact that the 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.

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. 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 throughout this period.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

Audit Committee

The Audit Committee of the Company is comprised of three independent non-executive directors, Messrs. Chau Siu Wai, San Fung and Zhu Chengwu. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the period ended 30 September 2008 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 September 2008.

Publication of Results on the Stock Exchange Website

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 published on the Stock Exchange's website in due course.

On behalf of the Board

Zhang Hongwei

Chairman

Hong Kong, 11 December 2008

As at the date of this announcement, the executive Directors are Mr. Zhang Hongwei (Chairman), Mr. Zhu Jun and Ms. Zhang Meiyong, and the independent non-executive Directors are Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu.