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UNITED ENERGY GROUP LIMITED

聯合能源集團有限公司

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

(Stock Code: 467)

ISSUE OF UNLISTED WARRANTS UNDER SERVICE AGREEMENTS

On 19 July 2010, the Company entered into the Service Agreements with Tung Tai and Joy Wealth (as Consultants) respectively to engage them as consultants for provision of business development strategies and advisory services including seeking (i) suitable energy projects for the development or diversification of the business of the Company; and (ii) suitable business partners/investors for the Company for fund raising projects.

Under each of the Service Agreements with Tung Tai and Joy Wealth, the Company agreed to issue to each of them unlisted Warrants in the amount of HK\$400,000,000. Upon full exercise of the Warrants to be issued to both Consultants in the aggregate amount of HK\$800,000,000 at the price of HK\$0.8 per Share, a total of 1,000,000,000 new Warrant Shares will be issued by the Company. The Warrants may be exercised during a period from the issue of the Warrants to the day falling 24 months after the date of issue of the Warrants (both dates inclusive). The Warrants Shares will be issued under the General Mandate.

The net proceeds receivable from the issue and exercise of the Warrants up to approximately HK\$799,000,000 will be used by the Group for future investment should opportunities arise and the remaining will be applied as general working capital of the Group.

The Directors (including the independent non-executive Directors) consider that the terms of issue of the Warrants are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

A. SERVICE AGREEMENTS

On 19 July 2010, the Company entered into the Service Agreements with Tung Tai and Joy Wealth respectively to engage them as consultants for provision of business development strategies and advisory services including seeking (i) suitable energy projects for the development or diversification of the business of the Company; and (ii) suitable business partners/investors for the Company for fund raising projects. The material terms and conditions of the Service Agreements with both Consultants are substantially identical to each other as summarized below:–

Date: 19 July 2010

Parties:

- (i) The Service Agreement (Tung Tai) was made between the Company, and Tung Tai.
- (ii) The Service Agreement (Joy Wealth) was made between the Company, Joy Wealth and Mr. Li Ning Qiao as Joy Wealth's guarantor.

The Consultants are principally engaged in the provision of business consultancy services. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Consultants and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Consultancy services to be provided:

The Consultants shall provide to the Company business development, strategies and advisory services. Both Tung Tai and Joy Wealth shall seek suitable energy projects for the development or diversification of the business of the Company and shall seek suitable business partners/investors for the Company for fund raising projects.

Term of the Service Agreements:

Both Service Agreements will come into force from the date of issue of the Warrants and shall continue for a period of twenty-four (24) months from such issue date.

Any of the Consultants shall be entitled to terminate the Service Agreement to which it is a party by giving not less than one (1) month's written notice to the Company subject to a written confirmation by the Board of the Company to confirm that the Consultant has successfully (i) sought suitable energy projects for the development or diversification of the business of the Company; or (ii) sought suitable business partners/investors and has successfully raised funds for the Company (as the case may be) to the satisfaction of the Company. Without prejudice to other provision in the Service Agreement, the Warrants granted to the Consultant shall continue to have full force and effect after such termination.

Conditions precedent and date of issue of the Warrants:

Under each of the Service Agreements, the Company agreed to issue unlisted Warrants in the amount of HK\$400,000,000 to each of Tung Tai and Joy Wealth respectively. The conditions precedent to the issue of the Warrants are summarised below:—

- (a) (if required) the Listing Committee of the Stock Exchange having approved the issue of the Warrants;
- (b) the Listing Committee of the Stock Exchange having granted listing of, and permission to deal in, the Warrant Shares; and
- (c) all third party consents, approvals and waivers required for or in connection with the completion of the transactions contemplated under the Service Agreements having been obtained (if applicable).

Under each of the Service Agreements, if any of such conditions precedent is not satisfied on or before 30 September 2010 (or such later date as may be agreed between the Company and the relevant Consultant), the Company's obligations to grant the Warrants and the relevant Consultant's obligations to provide the consultancy services under the relevant Service Agreement shall lapse and

be of no further effect and neither party shall have any claims against the others in respect thereof save for antecedent breaches.

On the date of fulfillment of all the conditions precedent, the Company shall issue Warrants in the relevant amounts to the Consultants.

Restrictions on exercise of the Warrants:

Each Consultant is entitled to exercise the subscription rights attached to the Warrants on the conditions set out below:

- (a) each Consultant has successfully introduced suitable energy projects for the development or diversification of the business of the Company or has successfully sought suitable business partners/ investors and has raised funds for the Company; and
- (b) each Consultant shall be entitled to exercise the subscription rights attached to the Warrants up to 50% of the Warrants for Shares anytime during the exercise period; and
- (c) subject to the final decision of the Board of the Company on whether the Services provided are satisfied and subject to the clause (d) below, each Consultant shall be entitled to exercise the subscription rights attached to the Warrants for the remaining 50% of the Warrants for Shares during the exercise period; and
- (d) the plan for exercising the remaining 50% of the Warrants are as follows:
 - (i) each Consultant shall only be entitled to exercise the subscription rights attached to the Warrants up to 20% of the Warrants for Shares after each Consultant has successfully sought suitable business partners/ investors and has successfully raised funds for the Company for the first time; and
 - (ii) each Consultant shall only be entitled to exercise the subscription rights attached to the Warrants up to 30% of the Warrants for Shares after each Consultant has successfully sought another suitable business partners/ investors and has successfully raised funds for the Company for the second time.

B. TERMS AND CONDITIONS OF THE WARRANTS

Exercise period:

From the issue of the Warrants to the day falling 24 months after the date of issue of the Warrants (both dates inclusive).

Exercise Price:

The Exercise Price is HK\$0.8 per Warrant Share which represents:

- (i) a premium of approximately 45.5% to the closing price of HK\$0.550 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 48.7% to the average closing price per Share (on an ex-special and ex-final dividends basis) of approximately HK\$0.538 for the last 5 trading days up to and including the Last Trading Date; and
- (iii) a premium of approximately 265.3% to the audited consolidated net assets value attributable to equity holders of the Company per Share of approximately HK\$0.219 as at 31 December

2009(as calculated by the equity attributable to equity holders of the Company of approximately HK\$2,792.7 million as at 31 December 2009 and the number of outstanding Shares of 12,777,091,632 as at 31 December 2009, as extracted from the Company's 2009 annual report).

The Exercise Price is determined after arm's length negotiations between the Company and the respective Consultants with reference to the prevailing Share price and the services to be rendered by the Consultants under the Service Agreements.

The Warrant Shares:

Warrants in the amount of HK\$400,000,000 will be issued to Tung Tai under the Service Agreement (Tung Tai) to subscribe up to 500,000,000 Shares at the initial Exercise Price of HK\$0.8 per Share (subject to adjustment). Warrants in the same amount of HK\$400,000,000 will also be issued under the Service Agreement (Joy Wealth) to Joy Wealth, which will also be entitled to subscribe up to 500,000,000 Shares at the initial Exercise Price of HK\$0.8 per Share (subject to adjustment). The aggregate amount of Warrants to be issued by the Company to both Consultants is HK\$800,000,000.

The Warrant Shares, when fully paid, will rank pari passu in all respects with the Shares then in issue. The holders of the Warrants will not be entitled to any dividend.

The Warrant Shares to be issued upon exercise of the Warrants will be issued under the General Mandate which has not been used previously. Assuming the Warrants are fully exercised, a total of 1,000,000,000 new Warrant Shares will be issued.

Under the Warrant Instruments, each Consultant undertook to the Company:-

- (a) The conversion rights shall only be exercisable so long as the public float of at least 25 per cent of the issued share capital of the Company as enlarged by the issue of conversion shares can be maintained;
- (b) The conversion rights shall only be exercisable so long as (i) the aggregate shareholdings of the Warranholders, its associates and parties acting in concert with it immediately after such exercise will not be or exceed 20 per cent (20%) of the then issued share capital of the Company; (ii) the exercise of the conversion rights will not result in the Warranholders(s) by itself or taken together with its associates and/or parties acting in concert with it becoming the controlling shareholder (as defined in the Code on Takeovers and Mergers issued by The Securities and Futures Commission of Hong Kong ("Takeovers Code")) of the Company or will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company which the Warranholders would be obliged to make a general offer under the Takeovers Code in force from time to time; and (iii) the exercise of the conversion rights under the Warrants would not result in the Warranholders and other then substantial shareholder(s) of the Company (if any), being presumed to be parties acting in concert with each other under the Takeovers Code by virtue of their then respective shareholding in the Company; and
- (c) The conversion rights shall only be exercisable so long as immediately after such exercise, the total shareholdings in the Company held by any company whose ultimate beneficial owner is Zhang Hongwei including but not limited to He Fu, UPNGHL and UEHL will not be diluted to less than 51% of the enlarged issued share capital of the Company after such exercise.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares.

Other material terms of the Warrants:

The Warrants shall not be transferable.

C. SHAREHOLDING STRUCTURE

The following table shows the impact of the issue and exercise of the Warrants (assuming that the Warrants are fully exercised at the initial Exercise Price of HK\$0.8 per Share) on the shareholdings of the Company.

	As at the date of this announcement		After the issue and full exercise of the Warrants	
He Fu	5,128,169,125	40.14%	5,128,169,125	37.22%
UPNGHL	2,223,726,708	17.40%	2,223,726,708	16.14%
UEHL	1,349,344,282	10.56%	1,349,344,282	9.79%
Tung Tai	-	-	500,000,000	3.63%
Joy Wealth	-	-	500,000,000	3.63%
Other Shareholders	<u>4,075,851,517</u>	<u>31.90%</u>	<u>4,075,851,517</u>	<u>29.59%</u>
Total	<u>12,777,091,632</u>	<u>100.00%</u>	<u>13,777,091,632</u>	<u>100.00%</u>

D. REASONS AND BENEFITS OF THE TRANSACTION

The Group is currently principally engaged in upstream oil and natural gas business, including exploitation, development, production of crude oil and natural gas, also patented technologies supporting services to oilfields in the PRC.

The management of the Company believes that with the strong business connection and the considerable fund raising experience of Tung Tai and Mr. Li Ning Qiao, the Company would be able to identify suitable business projects and raise funds for further development or diversification of the business of the Group. Based on the foregoing, the Directors (including the independent non-executive Directors) considered the Company entering into the Service Agreements and the issue of the Warrants to be in the interests of the Company and the Shareholders as a whole and the terms of the Warrants (including the Exercise Price) are fair and reasonable.

Full exercise of the Warrants at the initial Exercise Price of HK\$0.8 per Warrant Share will raise HK\$800,000,000 for the Company. The net proceeds of approximately HK\$799,000,000 will be utilised by the Group for future investment should opportunities arise and the remaining will be applied as general working capital of the Group. Save for the proposed issue of the Warrants (and the Warrant Shares upon exercise thereof), the Company did not have any fund raising activities during the past 12 months.

E. DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Board”	the Board of Directors of the Company
“BVI”	the British Virgin Islands

“Company”	United Energy Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange
“Consultants”	Tung Tai and Joy Wealth
“Director(s)”	director(s) of the Company
“Exercise Price”	HK\$0.8 per Share (subject to adjustment for, among other things, share consolidation, share sub-division, capitalization of profits or reserves, capital distribution, rights issue, grant of options, warrants or other rights to subscribe for or purchase any Shares)
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution passed at the Company’s annual general meeting held on 8 June 2010 to issue and allot up to 2,555,418,326 new Shares, representing approximately 20% of the aggregate nominal amount of the share capital of the Company in issue (12,777,091,632 Shares) on the date of the meeting
“Group”	the Company and its subsidiaries
“He Fu”	He Fu International Limited, a company incorporated in the BVI with limited liability on 18 August 1997 and wholly-owned by Mr. Zhang Hongwei, who is also the Controlling Shareholder and an executive Director of the Company. As at the date of this announcement, He Fu holds 5,128,169,125 Shares (representing 40.14% shareholdings of the Company)
“Joy Wealth”	Joy Wealth International Limited, a company incorporated in the British Virgin Islands with limited liability
“Last Trading Date”	16 July 2010, being the last trading date of the Shares before the issue of this announcement
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“Service Agreement (Tung Tai)”	the service agreement dated 19 July 2010 between the Company and Tung Tai
“Service Agreement (Joy Wealth)”	the service agreement dated 19 July 2010 between the Company, Joy Wealth and Mr. Li Ning Qiao as guarantor to guarantee due and punctual performance of the obligations of Joy Wealth under the said agreement
“Share(s)”	share(s) in the Company of HK\$0.01 each
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tung Tai”	Tung Tai Asset Management Limited, a company incorporated in Hong Kong with limited liability.

“UPNGHL”	United Petroleum & Natural Gas Holdings Limited, a company incorporated in the BVI with limited liability on 16 March 2006 and wholly-owned by Mr. Zhang Hongwei, who is also the Controlling Shareholder and an executive Director of the Company. As at the date of this announcement, UPNGHL holds 2,223,726,708 Shares (representing 17.4% shareholdings of the Company)
“UEHL”	United Energy Holdings Limited, a company incorporated in the BVI with limited liability on 15 March 2006 and wholly-owned by Mr. Zhang Hongwei, who is also the Controlling Shareholder and an executive Director of the Company. As at the date of this announcement, UEHL holds 1,349,344,282 Shares (representing 10.56% shareholdings of the Company)
“Warrant Shares”	the new Shares to be issued and allotted upon exercise of the subscription rights attached to the Warrants
“Warrantholders”	in relation to any Warrant, the person or persons who is or are for the time being registered on the Register as the holder or joint holders of the Warrant
“Warrants”	the unlisted warrants comprised in the Warrants Instrument, conferring rights to subscribe up to 1,000,000,000 Shares (Five Hundred Million Only), on the basis of an initial subscription price of HK\$0.80 per Share (subject to adjustment) in aggregate amount of HK\$800,000,000 to be issued by the Company pursuant to the Service Agreement,, during a period commencing from the issue of the Warrants and expiring on the day falling twenty-four (24) months from the date of issue of the Warrants Instrument (both dates inclusive)

By Order of the Board
United Energy Group Limited
Zhang Hongwei
Chairman

Hong Kong, 19 July 2010

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