# 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)**

## VERY SUBSTANTIAL ACQUISITION OF BUSINESS AND ASSETS

### ACQUISITION OF BUSINESS AND ASSETS

The Directors are pleased to announce the signing of the Acquisition Agreement for the proposed acquisition by the Buyer, a wholly-owned subsidiary of the Company created for the purpose of the acquisition, from subsidiaries of BP, of the Business, which consists of all of BP's upstream oil and gas businesses in Pakistan, except for the four offshore blocks BP intends to give up and which do not form part of the Acquisition.

The Business includes oil and gas interests in the Sindh Province of Pakistan comprising working interests: (i) ranging from 51% to 100% in five Badin Concessions and two MKK Concessions covering approximately 5,433 $km^2$ onshore, from which oil and gas is currently being produced; (ii) ranging from 75% to 100% in two DSS Concessions covering approximately 5,000 $km^2$ onshore, which are in the exploration phase; and (iii) ranging from 50% to 80% in four production sharing agreements covering approximately 23,025 $km^2$ offshore in waters of depths ranging from 400 meters to 2,800 meters approximately 200 km to 300 km off the coast of Pakistan in the Indus River Basin.

The transfers of working interests under each of those concessions agreements in which the Sellers have less than 100% working interests and each of the production sharing agreements referred to above is subject to a right of first refusal held by the holder(s) of other working interests under those concessions, to purchase the working interest on the same terms as contemplated in the Acquisition Agreement. If any of the working interest owners exercise their rights of first refusal, the assets being acquired by the Buyer will be reduced and the total consideration to be paid by the Buyer will be adjusted accordingly. As part of the Acquisition, the Buyer will make an offer of employment to all of the Sellers' employees in Pakistan, and will acquire the related equipment, contract rights and intellectual property. The Buyer will take over operation of the Business as a going concern.

The Business comprises 120 producing crude oil and natural gas wells with an average net production (to the Sellers) of 36,500 barrels of oil equivalent per day as at 16 October 2010. The production consists of 163.8 mmcf per day of natural gas (77%), 7,900 barrels per day of crude oil (22%) and 400 barrels per day of natural gas liquids (1%). The total Sellers' working interest share of proved plus probable reserves associated with the Business were approximately 79.0 mmboe (as of 31 July 2010) based on a preliminary report prepared under PRMS by DeGolyer and MacNaughton Canada Limited, an independent competent person in compliance with the requirements of Chapter 18 of the Listing Rules. The Effective Date of the Acquisition is 1 January 2011 and, if Closing occurs, the Buyer will bear the profits and losses of the Business from that date. Closing is subject to fulfilment of a number of conditions precedent, including the approval of the Government of Pakistan of the Sellers' sale of the Interests to the Buyer, the consent from the Competition Commission of Pakistan in respect of the Acquisition, and the approval by the Shareholders at the SGM in accordance with the Listing Rules.

The consideration for the Acquisition is to be wholly satisfied in cash. It consists of a Base Price of US$775,000,000 (or HK$6,006,250,000), which is adjusted upwards or downwards by the amount of the working capital of the Business as at the Effective Date, exclusive of cash and cash equivalents, the Sellers' inventory of crude oil, natural gas and natural gas liquids and the Sellers' inventory of supplies, equipment and spare parts. The consideration is further adjusted to take into account changes between the Effective Date and Closing (i.e. during the Interim Period) (i) as the Interim Period adjustment, upwards or downwards by the amount of profits or losses of the Business over the Interim Period, (ii) upwards or downwards by the amount of interest payable at 2.5% per annum for the Interim Period on the sum of the working capital adjustment and the Interim Period adjustment, and (iii) upwards by the amount of interest at 5% per annum for the Interim Period on the difference between the Base Price and the deposit described below.

The Buyer has provided the Sellers with a deposit in the amount of US$100,000,000 (approximately HK$775,000,000) which may be retained by the Sellers if the Buyer defaults on its obligations under the Acquisition Agreement, and is otherwise refundable to the Buyer if Closing does not occur.

**As Closing is subject to the fulfilment of a number of conditions precedent which are summarised in this announcement, the Acquisition may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.**

## LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition under the Listing Rules and requires the approval of the Shareholders at the SGM by way of poll. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Sellers and their ultimate beneficial owner are third parties independent of the Company and its connected persons; and (ii) no Shareholder is required to abstain from voting for the relevant resolution(s) to approve the Acquisition and the transactions contemplated thereunder.

He Fu International Limited, United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited, all being companies wholly-owned by Zhang Hongwei, the Chairman of the Company, together hold 8,701,240,115 Shares (representing 68.1% of the voting rights in the Company) as at the date of the Acquisition Agreement, have undertaken to vote in favour of the resolution to approve the Acquisition and the transactions contemplated thereunder.

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition and the transactions contemplated thereunder. A circular containing, among other things, further details of the Acquisition, the Acquisition Agreement, a notice convening the SGM, a competent person's report and a valuation report in respect of the working interests as at 1 January 2011 (being the Effective Date) both in compliance with the requirements of Chapter 18 of the Listing Rules, is expected to be despatched to the Shareholders as soon as practicable on or before 21 February 2011, as more time is required to prepare the financial information in and the competent person's report and the valuation report to be included in the circular to the Shareholders.

The Directors are pleased to announce the signing of the Acquisition Agreement for the proposed acquisition by the Buyer, a wholly-owned subsidiary of the Company created for the purpose of the acquisition, from subsidiaries of BP, of the Business, which consists of all of BP's upstream oil and gas businesses in Pakistan, except for the four offshore blocks BP intends to give up and which do not form part of the Acquisition.

## A. BACKGROUND TO, REASONS FOR, AND BENEFITS OF, THE ACQUISITION

The Company is primarily engaged in the upstream oil and gas business, including exploitation, development and production of crude oil and natural gas and the provision of patented technologies in oilfield supporting services. It is the Company's stated strategy to pursue appropriate opportunities for mergers and acquisitions with a view to accreting value for Shareholders.

Pakistan is the world's sixth most populous country, just behind Brazil, with an estimated 170 million people, covering over 800,000 km$^2$. It is an energy-deficient country which, according to the Medium Term Development Framework by the Planning Commission of Pakistan is likely to face an increasing energy deficit over the next ten years. Pakistan has a highly developed gas infrastructure with over 10,000 km of transmission lines and 92,000 km of distribution lines. Plans are being made for the importation of liquefied natural gas into Pakistan in the near future. The majority of Pakistan's crude oil is imported.

The Company targeted BP's Pakistan business for the quality of its staff and assets, its leading market position and access to a well balanced portfolio of production, development and exploration opportunities.

The Business includes oil and gas interests in the Sindh Province of Pakistan comprising working interests: (i) ranging from 51% to 100% in five Badin Concessions and two MKK Concessions covering approximately 5,433 $km^2$ onshore, from which oil and gas is currently being produced; (ii) ranging from 75% to 100% in two DSS Concessions covering approximately 5,000 $km^2$ onshore, which are in the exploration phase; and (iii) ranging from 50% to 80% in four production sharing agreements covering approximately 23,025 $km^2$ offshore in waters of depths ranging from 400 meters to 2,800 meters approximately 200 km to 300 km off the coast of Pakistan in the Indus River Basin.

BP is the operator and holds a large working interest (at least 50%) in all of the concessions. The other working interest owners in the concessions operated by the Business include Oil and Gas Development Company Limited and Government Holdings (Private) Limited, which are owned by the Government of Pakistan, and BowEnergy Resources (Pakistan) SRL and Zaver Petroleum Corporation Limited, which are privately owned. All of these working interest owners are, to the best of the Directors' knowledge, information and belief, third parties independent of the Company and its connected persons.

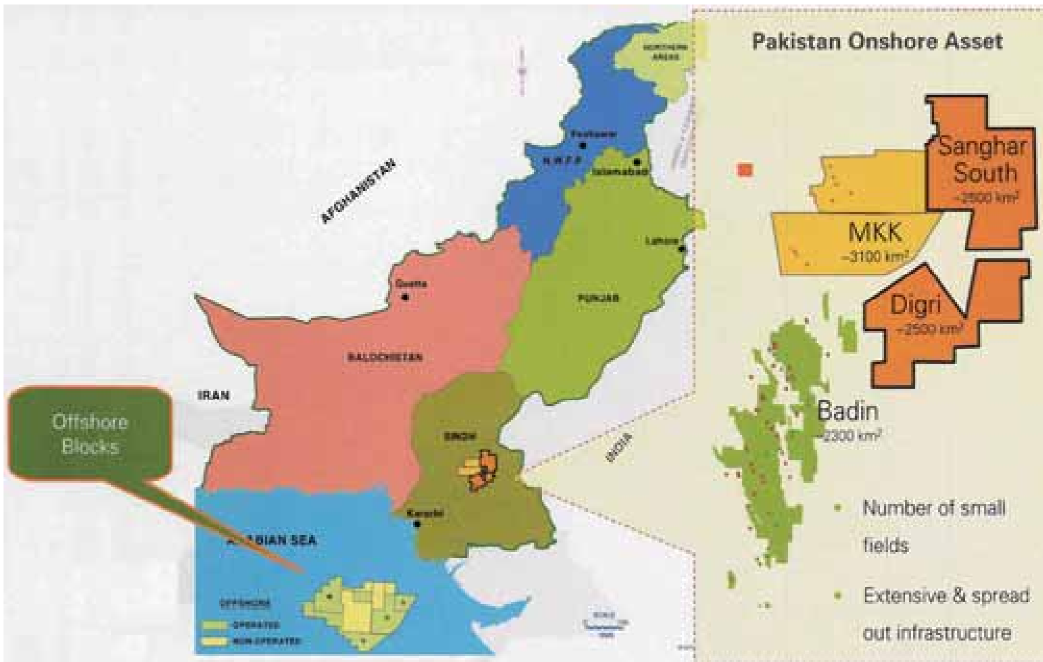
The Business comprises 120 producing crude oil and natural gas wells with an average net production (to the Sellers) of 36,500 barrels of oil equivalent per day as at 16 October 2010. The production consists of 163.8 mmcf per day of natural gas (77%), 7,900 barrels per day of crude oil (22%) and 400 barrels per day of natural gas liquids (1%). The total Sellers' working interest share of proved plus probable reserves associated with the Business were approximately 79.0 mmboe (as of 31 July 2010) based on a preliminary report prepared under PRMS by DeGolyer and MacNaughton Canada Limited, an independent competent person in compliance with the requirements of Chapter 18 of the Listing Rules.

The Acquisition, if and when completed, will enhance the Company's position as an international energy company, provide current production and cashflow and access a workforce trained by a global oil and gas company.

## B. THE BUSINESS AND THE BUSINESS ASSETS

### Background of the Business

The map below shows the location of the concessions of the Sellers:




BP and the former owners (Union Texas Petroleum Holdings, Inc and Atlantic Richfield Company) have been operating the Badin Concessions since 1977. The Badin Concessions are producing (as at 16 October 2010) from over 113 oil and natural gas wells. Apart from the Sellers, other parties with working interests in the Badin Concessions include the Oil and Gas Development Company Limited and Government Holdings (Private) Limited. The total gross acreage for the Badin Concessions is approximately 2,301 km$^2$, spread over 41 oil mining and development and production leases.

The MKK Concessions were acquired by BP from Orient Petroleum International Inc. in 2009. There are seven producing oil and natural gas wells in the MKK Concessions (as at 16 October 2010). The ongoing 3D seismic work completed thus far (620 km$^2$ completed to date) has demonstrated exploration upside potential and as a result further exploration drilling is set to commence in 2011 or 2012. Other parties with working interests include Government Holdings (Private) Limited, BowEnergy Resources (Pakistan) SRL and Zaver Petroleum Corporation Limited. The total gross acreage for the MKK Concessions is approximately 3,132 km$^2$, and eight development and production leases have been issued under the concessions.

The DSS Concessions were acquired by BP in early 2010 and are of a similar geology to the areas covered by the Badin Concessions. An extensive 3D seismic campaign is planned for 2011 with drilling set to commence thereafter. The total gross acreage for the DSS Concessions is approximately 5,000 km$^2$ and no development and production leases have been issued under the concessions to date.

BP holds working interests in four offshore blocks (S, U, V and W) pursuant to production sharing agreements with the Government of Pakistan, Oil and Gas Development Company Limited and Government Holdings (Private) Limited covering 23,025 km$^2$ of gross acreage in waters of depths ranging from 400 meters to 2,800 meters approximately 200 to 300 km off the coast of Pakistan in the Indus River Basin, one of the world's largest Tertiary depositional systems. BP has conducted a technical evaluation of the offshore blocks, and acquired 11,000 km of 2D seismic data and 2,500 km$^2$ of full-fold 3D seismic data.

## The Interests

In Pakistan, the Ministry of Petroleum and Natural Resources has the authority to enact petroleum exploration and production rules and policies. A concession generally gives the concession interest owners (or working interest holders) certain rights with respect to the exploration and exploitation of areas which are subject to the relevant concession agreements. When a concession is granted, a petroleum concession agreement (for onshore areas) or a production sharing agreement (for offshore areas) is entered into between the party concerned and the Pakistan government. Under such agreements, the working interest holders are also granted the right to explore in the area covered by the concession, and as consideration for the granting of the concession, agree to do a minimum amount of exploration work (frequently described as the work program). When a commercial discovery is made, a development and production lease is issued for the area of the discovery which allows for the development and exploitation of the area of the discovery.

At the end of the exploration period under a concession, the areas not covered by oil mining or development and production leases are relinquished back to the government, leaving the working interest owners with rights only to the areas covered by the leases.

The following table lists the Seller's working interests by concession:

| Petroleum Concession Agreements *(Notes 1,2,3 and 6)* | Gross acreage (km$^2$) | Interest of Sellers (%) | Interest of other working interest owners (%) | Sellers' working interest share of proved plus probable reserves (mmboe) *(Note 4)* |
|---|---|---|---|---|
| **The Badin Concessions** | | **Status: Producing** | | |
| Badin-I Petroleum Concession Agreement dated 20 April 1977 | 2,014 | 100.0 | 0 | 55.2 |
| Badin-II Petroleum Concession Agreement dated 21 January 1992 | 186 | 51.0 | 49.0 | 14.7 |
| Badin-II Revised Petroleum Concession Agreement dated 17 December 1994 | 34 | 76.0 | 24.0 | 2.1 |
| Badin-III Petroleum Concession Agreement dated 24 June 1998 | 41 | 60.0 | 40.0 | 0.8 |
| Mehran Petroleum Concession Agreement dated 16 November 2000 | 26 | 75.0 | 25.0 | 0.02 |

| Petroleum Concession Agreements *(Notes 1,2,3 and 6)* | Gross acreage ($km^2$) | Interest of Sellers (%) | Interest of other working interest owners (%) | Sellers' working interest share of proved plus probable reserves (mmboe) *(Note 4)* |
|---|---|---|---|---|
| **The MKK Concessions** | | **Status: Producing and exploration** | | |
| Khipro Petroleum Concession Agreement dated 29 December 1999 | 1,855 | 51.3 | 48.7 | 6.2 *(Note 7)* |
| Mirpurkhas Petroleum Concession Agreement dated 29 December 1999 | 1,277 | 51.3 | 48.7 | 6.2 *(Note 7)* |
| **SUB-TOTAL** | **5,433** | **–** | | **79.0** |
| **The DSS Concessions** | | **Status: Exploration** | | |
| Digri Petroleum Concession Agreement dated 16 February 2010 | 2,500 | 75 *(Note 5)* | 25.0 | – |
| Sanghar South Petroleum Concession Agreement dated 16 February 2010 | 2,500 | 100 | 0 | – |
| **The offshore blocks** | | **Status: Exploration** | | |
| Offshore Indus Block U Production Sharing Agreement dated 21 July 2006 | 6,280 | 72.5 | 27.5 | – |
| Offshore Indus Block V Production Sharing Agreement dated 21 July 2006 | 7,358 | 72.5 | 27.5 | – |
| Offshore Indus Block W Production Sharing Agreement dated 21 July 2006 | 7,257 | 80.0 | 20.0 | – |
| Offshore Indus Block S Production Sharing Agreement dated 22 March 2007 | 2,130 | 50.0 | 50.0 | – |
| **TOTAL** | **33,458** | | | **79.0** |

*Notes:*

1. *The concession agreements have no expiration date. They remain in place until the expiration of the last to expire of the exploration license or the development and production leases. A total of 49 oil mining and oil and gas development and production leases have been issued under these concessions, comprising 41 issued under the Badin Concessions and eight under the MKK Concessions. The last oil mining and oil and gas development and production leases to expire in respect of the Badin Concessions and the MKK Concessions is on 25 July 2021 and 13 June 2018, respectively, unless extended.*

2. *Where the Sellers and a third party each hold an interest under a concession, the capital investment, profits and liabilities arising from the area covered by the concession are borne by the Sellers and the third party working interest owners in direct proportion to their respective interests.*

3. *Each concession agreement specifies an initial exploration period which is followed by one or more "extension exploration periods", with separate work commitments for the initial exploration periods and each of the extension exploration periods. The Sellers have applied for an extension of the exploration period for the MKK Concessions until 31 March 2013 and the Offshore Indus Block V and W production sharing agreement.*

4. *Reserves indicate the Sellers' working interest share of proved plus probable reserves of 31 July 2010 based on the preliminary assessment by DeGolyer and MacNaughton Canada Limited for the Company.*

5. *Although the current working interest of the Sellers is shown as 100%, the Sellers have an obligation to transfer a 25% interest to a Pakistani owned company and be reimbursed historical costs associated with such interest, thereby reducing the interest to be acquired by the Buyer to 75%. The consideration to be paid by the Buyer under the Acquisition assumes that it will only acquire a 75% interest. It is expected that the transfer of a 25% interest to the Pakistani owned company will take place prior to Closing.*

6. *The preliminary assessment assumes that there will be continuation of the production leases by extension and renewals over time as long as commercial production is maintained. As at the date of this Announcement there is no evidence that extensions are not being approved by the Ministry of Petroleum and Natural Resources of Pakistan.*

7. *This figure represents the aggregate total in respect of the MKK Concessions.*

Under the petroleum concession agreements and production sharing agreements, each working interest owner pays its pro rata share of the development and operating costs in respect of the development and production activities in the area covered by the relevant petroleum concession agreement or production sharing agreement, and is entitled to receive its pro rata share of the oil and gas produced from that area, net of its pro rata share of any royalties payable to, or production sharing with, the Government of Pakistan.

The exploration periods for the five Badin Concessions have expired. The MKK Concession Agreement provide for an initial exploration period of three years followed by up to three optional one-year renewal periods. The DSS Concession Agreements provide for an exploration period with an initial term of five years and up to 2 optional one-year renewal terms. The offshore production sharing agreements provide for an exploration period with an initial term of five years and up to 2 two-year renewal terms. To be eligible for renewal terms, the working interest owners must have completed for the current term the required work program which may include completion of seismic work, exploration wells or a specified number of work units (measured as the amount of investment to be made by the working interest holders for an specified purposes) or a combination of the above, and have requested each renewal in writing to the Government of Pakistan. If the working interest owners do not complete the work commitments within the prescribed term, they have the option of relinquishing their exploration rights under the concession agreement or production sharing agreement or paying US$10,000 per remaining work unit committed in the relevant agreements.

Although the MKK Concessions and DSS Concessions and offshore production sharing agreements provide fixed terms for the initial exploration period and for the renewal terms, extensions are frequently requested, and have in the past been granted if the working interest owner is able to justify the extensions as being reasonable under the circumstances. (In some, but not all cases, the working interest owner may propose a modified work program in its extension request to more closely align the required work program to the work program that is best suited to area covered by the concession based on the exploration results that have already been acknowledged.)

The following table shows the expiration date of the exploration period for each concession or production sharing agreement and minimum work commitments for each concession or production sharing agreement.

| Concession | Final Exploration Period Expiration Date (assuming renewal terms utilized) | Year 2011(Note 1) Minimum Work Commitment | Year 2012 and After Minimum Work Commitment |
|---|---|---|---|
| Badin Concessions(Note 2) | Not applicable | Not applicable | Not applicable |
| MKK Concessions(Note 3) | 31 March 2014(Note 4) | $8,266,000 | $10,304,000 |
| DSS Concessions | 15 February 2019 | $11,430,000 | $12,870,000 |
| Offshore blocks | 21 March 2017 | $2,208,000 | $3,798,000 |
| Total | | $21,904,000 | $26,973,000 |

*Notes:*

1. *Although the remaining work commitments are expressed in terms of expenditures, the concessions require certain tasks to be undertaken which are not satisfied simply by the expenditure of an amount of money. The amounts in the table are the Buyer's good faith estimates as to what the satisfaction of the work commitments will cost.*

2. *The exploration periods for the five Badin Concessions have expired, as the Badin Concessions are fully into production phases. The Sellers nevertheless continue to have exploration rights under the specific areas which are the subject of the oil mining and oil and gas development and production leases that have been issued under the Badin Concessions.*

3. *These concessions are both in production and exploration phases.*

4. *Assumes that the current extension request is granted. Otherwise the exploration period expires on 31 March 2011. The ability to get such extension depends on the discretion of the relevant authority.*

The minimum working commitments is not payable at Closing to the Sellers and will not form part of the consideration payable under the Acquisition Agreement. It reflects the minimum investment to be made by the Business in the relevant concessions. The Company expects that the working commitments of the Business will be funded by the operating cash flow of the Business.

**Fiscal Terms of the Concessions**

In addition to granting the right to explore the specified area covered by a concession and specifying minimum work commitments, the petroleum concession agreement or (as the case may be) the production sharing agreement establishes the fiscal and tax regimes applicable to commercial discoveries at the time the concession is granted.

Since exploration was started in 1977, there have been several sets of rules and policies applicable to the various concessions. Prices for crude oil and natural gas vary under different rules and policies and are therefore dependent on the vintage of the concession agreements and the field from which the crude oil and natural gas is purchased.

Royalty is payable for both crude oil and natural gas produced onshore at 12.5% of the wellhead value. The royalty payable with respect to offshore production starts at zero and ramps up to 12.5% after 72 months.

Other fiscal terms include tax rate of 50% for the Badin Concessions and the MKK Concessions, 40% for the DSS Concessions and offshore blocks, additional profits taxes (workers profit participation fund of 5% of accounting profit and workers welfare fund of 2% of taxable income) and nominal production bonuses. A windfall levy is also imposed on certain oil sales from the DSS Concessions and the offshore blocks.

The offshore fiscal regime allows 85% of gross revenue available for cost recovery and 100% can be recovered including royalty payments. Oil and gas remaining after cost recovery is shared between the working interest owners and the Government on a sliding scale basis.

**Infrastructure**

Within the Badin Concessions are supporting infrastructure facilities and equipment which are included as part of the Acquisition. The facilities have gas processing capacity for more than 382 mmscf/d of natural gas and 30 mbbl/d of crude oil. The gas is pumped from 5 points of delivery (Mazari, Tangri, Golarchi, Turk and Bukhari) into Sui Southern Gas Pipelines Limited's 18-inch trunk line.

Within the MKK Concessions are the supporting infrastructure facilities and equipments which are also included in the Acquisition. The facilities have gas processing capacity for more than 145 mmscf/d of natural gas and 5 mbbl/d of crude oil. The gas is transported from Naimat and Kausar to points of delivery that are connected to Sui Southern Gas Pipelines Limited's 16-inch trunk line.

**Key Material Contracts**

All crude oil and natural gas production of the Business is sold under a series of crude oil and natural gas sales agreements which contain nomination and delivery terms that are customary in the crude oil and natural gas industry. These contracts are to be novated to the Buyer at Closing.

The price for oil depends on the concession under which the oil is produced and the date on which the relevant development and production lease was issued. Approximately 55% of oil production is sold at prevailing international prices and the remaining 45% is sold at an average discount of 15% from prevailing international prices achieving a realised sales price of US$67.63 in the first six months of 2010.

The price for gas also depends on the concession under which the gas is produced and the date on which the relevant oil mining or oil and gas development and production lease was issued, but is generally fixed at a discount to Btu equivalent liquid petroleum prices. The average price received for gas sold in the first six months of 2010 was $2.75/mmbtu.

**Employees**

The Business, as BP's upstream oil and gas operations in Pakistan, has been operated as a self-contained operating unit, and the employees of that unit located in Pakistan provide all of the management and technical expertise necessary to operate the Business. The Buyer will offer to employ all of management and the employees of the Business in Pakistan (totalling approximately 560 employees, including the individuals who currently are employed as the Sellers' manager (or the chief executive officer of the Business), the technical site based employees and employees and management in the major business functional areas including "Finance", "Regulatory Affairs", "Legal", "IT Business Information", "Land Management Services", "Health, Safety and the Environment", "Human Resources" and "Planning Performance and Control"). The retention of these employees will provide the Buyer with the management and technical resources to successfully operate the Business. The workforce is comprised almost entirely of Pakistani nationals, who have undergone comprehensive job training by BP. The average length of service of these employees is 11 years with around 30% of the workforce is made up of technical or business support staff and the remaining 70% being field staff.

**Other Related Assets**

The consideration payable under the Acquisition Agreement is inclusive of the inventory (being petroleum produced and stored as at the Effective Date) and the Seller's inventory of supplies, equipment and spare parts, the book value of these two items as at the end of June 2010 being US$44 million (or HK$341 million), in addition to certain properties related to operating the business including land, leaseholds, facilities and an air strip. Also part of the Business Assets is a stand-alone liquid petroleum gas processing plant located within the Naimat Basal Gas Processing Facility in the Khipro Concession. The processing plant has an output capacity of 60,000 tonnes per day.

**Liabilities**

In addition, the Buyer will be assuming all of the liabilities of the Sellers relating to the Business. These liabilities consist primarily of trade payables, liabilities in respect of employee benefit schemes and obligations under the petroleum concession agreements and production sharing agreements. The aggregate amount of such liabilities as at the Effective Date will be taken into account in the working capital adjustments and will be deducted from the Base Price. The petroleum concession agreements and production sharing agreements give the Government of Pakistan the right to require that the obligations of a working interest owner which is a member of a corporate group to be guaranteed by either the working interest owner's ultimate parent company or another financially capable group member. The obligations of the Sellers are currently guaranteed by the Sellers' parent entities, namely BP America Production Company, BP Exploration Operating Company Limited and BP America Inc. At Closing, these guarantees will be replaced by a guarantee from the Company under which the Company will guarantee the performance by the Buyer of its obligations under the petroleum concession agreements and production sharing agreements.

**Financial Overview**

According to the unaudited financial statements of the Business prepared in accordance with the International Financial Reporting Standards, for the two years ended 31 December 2009 and the nine months ended 30 September, 2010, the net profit (both before and after taxation and extraordinary items attributable to the Business for the financial years ended 31 December 2008, 31 December 2009 and the nine months ended 30 September 2010 are as follows:-

| Financial Period | Net profit (loss) before taxation and extraordinary items (US$ million) | Net profit (loss) after taxation and extraordinary items (US$ million) |
|---|---|---|
| Year ended 31 December 2008 | 217.0 | 135.9 |
| Year ended 31 December 2009 | 117.0 | 105.6 |
| Nine months ended 30 September 2010 | 142.0 | 55.7 |

The unaudited net assets of the Business amounted to US$564.2 million (approximately HK$4,372.6 million) as at 30 September 2010.

## C. THE ACQUISITION AGREEMENT

On 14 December 2010, the Company entered into the Acquisition Agreement with the Sellers pursuant to which the Company has conditionally agreed to purchase and the Sellers have conditionally agreed to sell the Business (including the Business Assets).

**Parties**

*Purchaser*

The Buyer

The Buyer is a wholly owned subsidiary of the Company established to own the Business. The Group is currently principally engaged in upstream oil and natural gas business, including exploitation, development, production of crude oil and natural gas, and the provision of patented technologies services to oilfields.

*Sellers*

BP Pakistan Exploration and Production, Inc.
BP Pakistan (Badin) Inc.
BP Exploration (Alpha) Limited

The Sellers are subsidiaries of BP, a global oil and gas company listed on the London Stock Exchange and New York Stock Exchange, and are principally engaged in oil and gas exploration and production.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Sellers and their ultimate beneficial owner of the Sellers are third parties independent of the Company and its connected persons.

**Assets to be acquired**

Pursuant to the Acquisition Agreement, the Buyer will acquire the entire upstream oil and gas business carried on by the Sellers in Pakistan as at date of Closing, subject to any pre-emption rights described below. Assuming no exercise of any of the pre-emption rights described below, the Business Assets being acquired include:–

- working interests ranging from 100% to 50% in 49 oil mining and oil and gas development and production leases issued under seven onshore petroleum concession agreements and oil and gas exploration rights under four onshore oil petroleum concession agreements and four offshore production sharing agreements;

- the Sellers' working interests in all real and personal property and equipment used in the Business;

- all contract rights of the Sellers relating to the business, including oil and gas sales and transportation agreements, drilling contracts and other agreements with third parties providing services to the business; and

- Sellers' right to all material data in respect of the Business.

Not included in the Business Assets is certain proprietary software that is used by BP in the analysis of seismic and other geological/geophysical data and certain third party accounting and other data processing software that BP does not use exclusively in respect of the Business. The Buyer believes that replacement software of comparable or better quality is readily available from third party service providers and that it can readily obtain the software capabilities that it needs after Closing at a cost that will not adversely affect the Business. BP has agreed to provide the Business operational services, including software and business systems at a nominal cost until the Buyer is suitably prepared to assume these operations post-Closing, which will minimise disruption of the Business. In addition, BP has agreed to allow the Buyer access to its seismic and geological/geophysical staff, including access to evaluation software for a period of one year following Closing.

As part of the Acquisition, the Buyer will make job offers to the Sellers' entire workforce including recognition of past service with the Sellers. The Sellers have agreed to facilitate the Buyer's employment and retention process by confirming that it will not employ any of the workforce for a period of one year following Closing.

**Deposit**

The deposit in the amount of US$100,000,000 (approximately HK$775,000,000) was paid by the Buyer following the signing of the Acquisition Agreement. If Closing does not occur and the Acquisition Agreement is terminated as a direct result of a breach or non-performance by the Buyer of its obligations under the Acquisition Agreement (including the failure to obtain Shareholder approval at the SGM), the entire deposit will be forfeited. If Closing does not occur for reasons other than as a direct result of a breach or non-performance of the Buyer, the deposit will be refunded to the Buyer. If Closing does occur, the deposit will be applied against the consideration payable by the Buyer at Closing.

**Effective Date and Consideration as at the Effective Date**

Assuming that Closing occurs, the Effective Date will be 1 January 2011, which is the date after which the profits and losses of the Business will be borne by the Buyer. The consideration of the Acquisition as at the Effective Date comprises the Base Price (assuming no exercise of pre-emption rights) of US$775,000,000 (or HK$6,006,250,000), which will be adjusted as follows:–

- as a working capital adjustment, the Base Price will be adjusted upwards or downwards by net accounts receivable and accounts payable and other working capital items of the Business as at the Effective Date, exclusive of cash and cash equivalents, the Sellers' inventory of crude oil, natural gas and natural gas liquids and the Sellers' inventory of supplies, equipment and spare parts;

- as an Interim Period adjustment, the Base Price will be adjusted upwards by any net losses of the Business (which will have been funded by the Sellers) and downwards by any net profits of the Business (which will have been received by the Sellers) during the Interim Period;

- if the sum of the working capital adjustment and the Interim Period adjustment is a negative number, the Base Price will adjusted downwards by an amount equal the interest payable at 2.5% per annum for the Interim Period on the sum of the working capital adjustment and the Interim Period adjustment during the Interim Period, and if the sum of the working capital adjustment and the Interim Period adjustment is a positive number, the Base Price will be adjusted upwards by an amount equal to the interest payable at 2.5% per annum for the Interim Period on the sum of the working capital adjustment and the Interim Period adjustment; and

- the Base Price will be adjusted upwards by an amount equal to the amount of interest payable at 5% per annum for the Interim Period on the difference between the Base Price and the deposit.

The total adjustments to the Base Price will be estimated immediately prior to Closing and the total consideration payable at Closing will be based on that estimate. The final consideration will be determined within 180 days following Closing, and adjustments to the consideration paid at Closing will be made on the basis of the final determination. The Company will make a further announcement when the final consideration is determined after all adjustments to the Base Price upon Closing when and where appropriate in compliance with the Listing Rules.

Based on information available to the Buyer at the time the Acquisition Agreement was signed, and the historical profitability of the Business, assuming that none of the pre-emption rights are exercised and that Closing takes place, the Buyer expects that the adjustments to the Base Price will result in a reduction of the total consideration to be paid by the Buyer at Closing to an amount which is below the Base Price as a result of profit earned by the Business during the Interim Period.

The consideration of the Acquisition was determined with reference to (i) the Base Price was arrived at after arm's length negotiations between the Buyer and the Sellers and with reference to the preliminary valuation of the working interests as at 1 January 2011, the Effective Date, under PRMS by DeGolyer and MacNaughton Canada Limited, an independent competent evaluator in compliance with the requirements of Chapter 18 of the Listing Rules, at approximately US$870 million (approximately HK$6,742 million). Further details of the final valuation and valuation report will be disclosed in the circular to be despatched to be Shareholders; and (ii) the adjustments set out above in this section. The principal value of the Business is in the working interests. The value of the ancillary Business Assets are relatively immaterial.

The consideration as at the Effective Date is to be wholly-satisfied by the Company in cash. The Company has been in negotiations with two financial institutions since mid-October 2010 regarding loan arrangements totalling up to US$790 million to fund the Acquisition. These are preliminary financing commitments subject to, amongst other things, completion of their due diligence, approval by their credit committees and conclusion of satisfactory loan documentation. The Company plans to utilise about US$675 million (being the difference between the US$775 million Base Price and the US$100 million paid as the deposit) at Closing. The remaining facilities may be applied to meet working capital needs after Closing. The Directors may also consider raising equity, as part of their ongoing management of the financial position of the Group, including, in particular the gearing ratio and debt serving costs of the Group as well as the capital base of the Group, and requirements of the growing business The Company has been in discussions with placing agents with a view to a placement to institutional, corporate and individual independent third investors, but no agreement for such placing has been entered into by the Company. The Directors believe that it would be in the interests of the Company and the Shareholders as a whole to review the market conditions for the Shares after publication of this announcement. The Company does not intend to make any placement of Shares which will result in a change of control of the Company. In the event of such placement eventuates, the Company will make a further announcement when and where appropriate under the Listing Rules. As such placement may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

**Pre-Emption Rights**

The transfer of working interests under each of those concession agreements in which the Sellers have less than 100% working interests and each of the production sharing agreements referred to in the section headed "B. The Business and the Business Assets – The Interests" is subject to a right of first refusal held by the holder(s) of other working interests under those concessions, to purchase the working interest on the same terms as contemplated in the Acquisition Agreement. If a right of first refusal is exercised with respect to a working interest, that working interest and the related equipment and other property will be excluded from the Acquisition and the total Base Price will be reduced by the value allocated by the Buyer to that working interest. The Company remains obligated to purchase any working interests for which there are no rights of first refusal or for which the right of first refusal is not exercised.

The Buyer has based the value allocated to the working interests in concession which are currently in production primarily on the value of the oil and gas reserves which the Buyer believes are producible from the concession as evidenced in the preliminary valuation report of the independent competent evaluator described above. In the case of concessions or production sharing agreements from which there is no current production, the allocated values represent the Buyer's good faith estimate of the exploration prospects identified and for the right to continue those exploration activities.

If all rights of first refusal are exercised, the Base Price will be reduced by around 57%. The holders of the pre-emption rights would be required to pay the Sellers the Base Price allocated to the working interest in which they hold the right of first refusal.

None of the companies with a right of first refusal are related to either BP or the Company.

**Conditions Precedent**

The Sellers' obligation to proceed with Closing is conditional upon there being no physical damage to the working interests where the Buyer's estimation or agreed value of such damage exceeds 22.5% of the Base Price.

The Buyer's obligation to proceed with Closing is conditional upon the approval of the transactions contemplated by the Acquisition Agreement by the Shareholders of the Company at the SGM.

Each party's obligation to proceed with Closing is conditional upon (amongst other things):–

(i) the approval of the relevant authorities of the Government of Pakistan to the transfer of the working interests to the Buyer and the receipt of any other relevant governmental consents, including the consent of the Competition Commission of Pakistan; and

(ii) there being no material breaches of the Acquisition Agreement or breaches of warranties given by the other party.

**Closing**

Unless the parties agree to a different time, Closing will take place on the last Business Day of the calendar month during which all conditions precedent to Closing have been fulfilled or waived, unless the last condition to be fulfilled or waived is fulfilled or waived in the last five Business Days of a month, Closing will take place on the tenth Business Day following the fulfilment or waiver of such condition.

If the conditions to Closing have not been satisfied or waived within one year of the signing of the Acquisition Agreement, the Acquisition Agreement shall automatically terminate.

**Parent Guarantees**

The obligations of BP Pakistan Exploration and Production, Inc. and BP Pakistan (Badin) Inc. in respect of the warranties given by each company will be guaranteed by BP America Production Company.

The obligations of the Buyer under the Acquisition Agreement will be guaranteed by the Company.

**Obligations of the Buyer with Respect to Employees**

Under the Acquisition Agreement, the Buyer is obligated to offer employment to all Pakistan employees of Sellers on the same terms and conditions, including compensation and benefits, as the employees were entitled as employees of the Sellers. However, the Buyer is not required to offer benefits such as compensation payable in the form of securities issued by BP which it is not reasonably capable of providing, provided that such benefits are replaced by benefits of equivalent value. The Buyer agrees that it will not terminate any employee for a period of one year following Closing except in the case of gross incompetence.

**As Closing is subject to the fulfillment of a number of conditions precedent which are detailed in this announcement, the Acquisition may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the Shares.**

## D. LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition under the Listing Rules and requires the approval of the Shareholders at the SGM by way of poll. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting for the relevant resolution(s) to approve the Acquisition and the transactions contemplated thereunder.

He Fu International Limited, United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited, all being companies wholly-owned by Zhang Hongwei, the Chairman of the Company, together hold 8,701,240,115 Shares (representing 68.1% of the voting rights in the Company) as at the date of the Acquisition Agreement, have undertaken to vote in favour of the resolution to approve the Acquisition and the transactions contemplated thereunder.

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition and the transactions contemplated thereunder. A circular containing, among other things, further details of the Acquisition, the Acquisition Agreement, a notice convening the SGM, a competent person's report and a valuation report in respect of the working interests as at 1 January 2011 (being the Effective Date) both in compliance with the requirements of Chapter 18 of the Listing Rules, is expected to be despatched to the Shareholders as soon as practicable on or before 21 February 2011, as more time is required to prepare the financial information in and the competent person's report and the valuation report to be included in the circular to the Shareholders.

## E. DEFINITIONS

The following terms are used in this announcement with the meanings set opposite them:–

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| "Acquisition" | the acquisition of the Business pursuant to the Acquisition Agreement |
| "Acquisition Agreement" | the sale and purchase agreement by and among the Sellers and the Buyer in respect of the Business |
| "Badin Concessions" | the petroleum concessions granted by the Pakistan Government in the Badin area, Sindh Province, Pakistan, which comprise with respect to the Sellers, the Badin-I Petroleum Concession Agreement, Badin-II Petroleum Concession Agreement, Badin-II Revised Petroleum Concession Agreement, Badin-III Petroleum Concessions Agreement and the Mehran Petroleum Concession Agreement described more particularly in the section headed "B. The Business and Business Assets – The Interests" |
| "Base Price" | the US$775,000,000 (approximately HK$6,006,250,000) being the initial price for the Acquisition subject to adjustments described in this announcement |
| "BP" | BP p.l.c., or where the context requires the group of companies affiliated with BP p.l.c. (including the Sellers) |
| "Business" | the upstream petroleum and liquid petroleum gas business carried on by the Sellers in Pakistan as at Closing, including the Business Assets |
| "Business Assets" | all the property, undertakings, rights and assets of the Sellers relating exclusively to the Business as at Closing to be acquired by the Company pursuant to the Acquisition Agreement |
| "Business Day" | a day other than a Saturday or Sunday or public holiday in England and Wales and Hong Kong on which banks are open in London and Hong Kong for general commercial business |

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| "Buyer" | Gold Trade Group Limited, a wholly owned subsidiary of the Company |
| "Closing" | completion of the sale and purchase of the Business and the Business Assets in accordance with the Acquisition Agreement |
| "Company" | United Energy Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability whose shares are listed on the Stock Exchange |
| "connected person" | has the meaning ascribed to it under the Listing Rules |
| "Director(s)" | director(s) of the Company |
| "DSS Concessions" | the petroleum concessions granted by the Pakistan Government in the Digri and Sanghar South areas, Sindh Province, Pakistan, which comprise with respect to the Sellers Digri Petroleum Concession Agreement and Sanghar Petroleum Concession Agreement described more particularly in the section headed "B. The Business and Business Assets – The Interests" |
| "Effective Date" | 1 January 2011 |
| "Interim Period" | the period from the Effective Date up to Closing |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "MKK Concessions" | the petroleum concessions granted by the Pakistan Government in the Mirpur Khas and Khipro areas, Sindh Province, Pakistan, which comprise with respect to the Sellers, Khipro Petroleum Concession Agreement and Mirpur Khas Petroleum Concession Agreement described more particularly under the section headed "B. The Business and Business Assets – The Interests" |
| "Sellers" | BP Pakistan Exploration and Production, Inc., BP Pakistan (Badin) Inc. and BP Exploration (Alpha) Limited, subsidiaries of BP |
| "SGM" | the special general meeting of the Company to be convened to approve the Acquisition and transactions contemplated thereunder |

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| "Shares" | ordinary shares of HK$0.01 each in the issued share capital of the Company |
| "Shareholders" | the holders of the Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "working interest" | the right to develop and produce hydrocarbons at the interest owner's expense. It is distinguished from a royalty interest which is the right to receive a percentage of the oil and gas produced without paying the cost of development |

## F. GLOSSARY OF TECHNICAL TERMS

The following technical terms are used in this announcement with the meanings set opposite them:–

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| "condensate" | liquid petroleum excluding crude oil and LPG produced at surface by processing or separation of natural gas from a gaseous/ gas condensate reservoir |
| "crude oil" | liquid petroleum, other than condensate and LPG, produced by separation at the surface from a liquid reservoir in its natural state before the same has been refined but after extraction of water and foreign substances |
| "km" | kilometers |
| "$km^2$" | square kilometers |
| "LPG" | a mixture of propane and butane separated from natural gas by compression, extraction or other processes |
| "mbbl/d" | thousand barrels of oil per day |
| "mmbtu" | million British thermal units |
| "mmcf" | million cubic feet |
| "mmboe" | million barrels of oil equivalent |
| "mmscf/d" | million standard cubic feet per day |
| "natural gas" | all hydrocarbons which at standard atmospheric conditions of pressure and temperature are in a gaseous phase including non-hydrocarbon gas which is in association with and produced together with such gaseous hydrocarbons |

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| "PRMS" | the Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council and Society of Petroleum Evaluation Engineers in March 2007 as amended from time to time |
| "seismic data" | detailed information obtained from earth vibration produced naturally or artificially (as in geophysical prospecting) |

*This announcement contains translations between US$ and HK$ at the rate of US$1.00 = HK$7.75. The translation is indicative and should not be taken as a representation that the relevant currency could actually be converted in HK$ at that rate.*

By order of the Board
**United Energy Group Limited**
**Zhang Hongwei**
*Director*

Hong Kong, 14 December 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 Meiying, and independent non-executive directors are Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu.*