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

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

(Stock Code: 467)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

The Board of Directors of United Energy Group Limited (the "Company") hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 together with unaudited and restated comparative figures for the six months ended 30 June 2010.

The interim report has not been audited, but has been reviewed by the Company's audit committee and the Company's auditor.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited and restated)
Turnover	*4*	**111,887**	10,379
Cost of sales and services rendered		**(76,988)**	(10,159)
Gross profit		**34,899**	220
Other income		**36,267**	36,386
Reversal of impairment losses on intangible assets		**19,747**	661,400
Oil exploitation expenses		**(33,980)**	(105,271)
Administrative expenses		**(94,888)**	(66,450)
(Loss)/profit from operations		**(37,955)**	526,285
Finance costs	*5*	**(624)**	–
(Loss)/profit before tax		**(38,579)**	526,285
Income tax expense	*6*	**(1)**	(146,100)
(Loss)/profit for the period	*7*	**(38,580)**	380,185
Attributable to:			
Owners of the Company		**(34,533)**	384,315
Non-controlling interests		**(4,047)**	(4,130)
		(38,580)	380,185
(Loss)/earnings per share	*9*		
Basic		**(0.27) cents**	3.01 cents
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited and restated)
(Loss)/profit for the period		**(38,580)**	380,185
Other comprehensive income:			
Exchange differences on translating foreign operations		**11,002**	10,345
Other comprehensive income for the period, net of tax		**11,002**	10,345
Total comprehensive (loss)/income for the period		**(27,578)**	390,530
Attributable to:			
Owners of the Company		**(30,200)**	391,120
Non-controlling interests		**2,622**	(590)
		(27,578)	390,530

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011

	Note	**30 June 2011** *HK$'000* **(unaudited)**	31 December 2010 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment	*10*	**183,125**	182,048
Intangible assets		**4,502,846**	4,518,718
Other assets		**780,000**	780,000
		5,465,971	5,480,766
Current assets			
Inventories		**2,193**	1,455
Trade and other receivables	*11*	**631,811**	145,637
Financial assets at fair value through profit or loss		**3,275**	3,387
Pledged bank deposits		**258,898**	385,097
Bank and cash balances		**563,216**	845,172
		1,459,393	1,380,748
Current liabilities			
Trade and other payables	*12*	**308,493**	223,384
Due to directors		**6,924**	6,501
Bank loan		**24,082**	23,676
Current tax liabilities		**–**	721
		339,499	254,282
Net current assets		**1,119,894**	1,126,466
Total assets less current liabilities		**6,585,865**	6,607,232
Non-current liabilities			
Deferred tax liabilities		**1,085,599**	1,084,156
NET ASSETS		**5,500,266**	5,523,076
Capital and reserves			
Share capital		**127,771**	127,771
Reserves		**4,972,217**	4,997,649
Equity attributable to owners of the Company		**5,099,988**	5,125,420
Non-controlling interests		**400,278**	397,656
TOTAL EQUITY		**5,500,266**	5,523,076

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

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

These condensed financial statements should be read in conjunction with the 2010 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010 except as stated below.

Amortisation method for oil exploitation rights

During the period ended 30 June 2011, the directors reviewed the amortisation method of the oil exploitation rights included in intangible assets and considered that there had been a significant change in the expected pattern of consumption of the future economic benefits embodied in such rights. Accordingly, the amortisation method of such rights has been changed from the straight-line method to the unit-of-production method. Such a change is accounted for as a change in accounting estimate and applied prospectively in accordance with Hong Kong Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amortisation charges had been decreased by approximately HK$75,110,000 for the period ended 30 June 2011 pursuant to the change of the amortisation method.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

Related Party Disclosures

HKAS 24 (Revised) "Related Party Disclosures" revises the definition of a related party and provides a partial exemption of disclosing related party transactions for government-related entities.

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

HKAS 24 (Revised) exempts an entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with

– a government that has control, joint control or significant influence over the entity; and

– another entity that is a related party because the same government has control, joint control or significant influence over both entities.

The entity that applies the exemption is required to disclose the followings:

– the name of the government and the nature of its relationship with the entity (i.e. control, joint control or significant influence); and

– the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

    i. the nature and amount of each individually significant transaction; and

    ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

HKAS 24 (Revised) has been applied retrospectively and did not result in any significant changes in the consolidated amounts disclosed in the financial statements.

The Group has not applied the new HKFRSs that have been issued but are 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.

3. RETROSPECTIVE RESTATEMENT

Before the year ended 31 December 2010, the Group adopted the merger accounting method to account for business combinations involving entities under common control of Mr. Zhang Hong Wei, the ultimate controlling party of the Group. During the year ended 31 December 2010, the directors reviewed the appropriateness and practicality of the change of accounting method for business combinations taking into account acquisition method as allowed under the HKFRS 3 (Revised) "Business Combinations" ("HKFRS 3") issued by the HKICPA. The directors consider that acquisition method is more appropriate and would provide reliable and more relevant information regarding the conditions on the Group's financial position, financial performance or cash flows in connection with certain business combinations in prior years. Accordingly, the Group changed its accounting policy to apply the acquisition method in accordance with HKFRS 3 to account for the acquisition of entire equity interest in United Petroleum & Natural Gas Investments Limited on 16 October 2007 which was previously accounted for under the merger accounting method. As a consequence, the Group's condensed financial statements for the six months ended 30 June 2010 were restated accordingly and the effects of restatement are summarised below:

Effect of change in accounting policy on the consolidated income statement:	*HK$'000* (unaudited)
Increase in reversal of impairment losses on intangible assets	661,400
Increase in oil exploitation expenses	77,000
Increase in income tax expenses	146,100
Increase in earnings per share (HK cents)	3.43

4. SEGMENT INFORMATION

The Group's reportable segments are determined as follows:

1. Oil exploitation – engages in activities relating to the production of crude oil.
2. Oilfields supporting services – engages in activities relating to the provision of patented technology supporting services to oilfields.
3. Property investment – invests in commercial properties for their rental income, property management service fees income and value appreciation potential (discontinued operations).

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

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 December 2010.

	(Discontinued operations) Property investment *HK$'000* (unaudited)	Oil exploitation *HK$'000* (unaudited)	Oilfields supporting services *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
For the six months ended 30 June 2011				
Turnover from external customers	**–**	**84,374**	**27,513**	**111,887**
Segment profit/(loss)	**–**	**28,501**	**(13,694)**	**14,807**
As at 30 June 2011				
Segment assets	**–**	**4,450,200**	**443,996**	**4,894,196**
For the six months ended 30 June 2010				
Turnover from external customers	–	–	10,379	10,379
Segment profit/(loss), as restated	3,211	413,963	(16,247)	400,927
	(audited)	(audited)	(audited)	(audited)
As at 31 December 2010				
Segment assets	–	4,225,375	431,303	4,656,678

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited and restated)
Reconciliation of reportable segment profit or loss:		
Total profit of reportable segments	**14,807**	400,927
Unallocated amounts:		
Other income (except for certain other income included in the oil exploitation segment)	**9,819**	32,429
Corporate expenses	**(63,206)**	(53,171)
Consolidated (loss)/profit for the period	**(38,580)**	380,185

5. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on bank loan	**624**	–

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited and restated)
Current tax – PRC enterprise income tax		
Provision for the period	**1**	–
Deferred tax	**–**	146,100
	1	146,100

No provision for profits tax in the Bermuda, Bahamas, British Virgin Islands or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions during the period (2010: HK$Nil).

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)/PROFIT FOR THE PERIOD

The Group's (loss)/profit for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited and restated)
Interest income	**(3,689)**	(6,754)
Dividend income	**(66)**	(59)
Amortisation of intangible assets (note a)	**41,255**	98,906
Depreciation	**20,871**	1,153
Directors' remuneration	**10,892**	1,044
Fair value loss on financial assets at fair value through profit or loss	**112**	–
Reversal of impairment losses on intangible assets (note b)	**(19,747)**	(661,400)
Reversal of allowance on inventories (note c)	**(22,139)**	(26,905)

Note a: The amortisation charges of approximately HK$17,115,000 (2010: HK$94,338,000 (as restated)) and HK$24,140,000 (2010: HK$4,568,000) have been included in the oil exploitation expenses and cost of sales and services rendered respectively.

Note b: During the period, the Group carried out reviews of the recoverable amount of its intangible assets having regard to the changes in market conditions. The reviews led to the recognition of a reversal of impairment losses on oil exploitation rights of approximately HK$19,747,000 (2010: HK$661,400,000). The recoverable amounts of the oil exploitation rights have been determined on the basis of their value in use. The discount rates used in measuring value in use for oil exploitation rights was 15.68 percent (2010: 15.64 percent).

Note c: During the period, the Company received an amount of approximately HK$22,139,000 (equivalent to US$2,838,000) (2010: HK$26,905,000 (equivalent to US$3,449,000)) in relation to the claim of oil production equipment which was accounted for as inventories and full allowance was made against such items in previous years because the supplier had failed to make delivery according to the contract. As a result, allowance made in prior years against the inventories of HK$22,139,000 (2010: HK$26,905,000) was reversed.

8. DIVIDENDS

The directors do not recommended the payment of any interim dividend to shareholders for the six months ended 30 June 2011 (2010: HK$Nil).

9. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK$34,533,000 (profit for the period ended 30 June 2010: HK$384,315,000 (as restated)) and the weighted average number of ordinary shares of 12,777,091,632 (2010: 12,777,091,632) in issue during the period.

Diluted (loss)/earnings per share

No diluted (loss)/earnings per share are presented as the Company did not have any dilutive potential ordinary sharing during the periods ended 30 June 2011 and 2010.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired property, plant and equipment of approximately HK$18,919,000.

11. TRADE AND OTHER RECEIVABLES

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Trade receivables (note a)	**116,426**	11,386
Amounts due from joint venture partners	**170,868**	71,102
Consideration receivable	**–**	37,924
Deposits and prepayments	**339,946**	21,113
Advances to staff	**4,528**	3,926
Others	**43**	186
Total trade and other receivables	**631,811**	145,637

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally ranging from 30 to 45 days.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
0 to 30 days	**94,659**	6,352
31 to 60 days	**5,647**	5,034
61 to 90 days	**4,622**	–
91 to 120 days	**3,202**	–
121 to 180 days	**7,880**	–
181 to 365 days	**416**	–
	116,426	11,386

12. TRADE AND OTHER PAYABLES

	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Accrual for operating expenses	**295,136**	170,726
Salaries and welfare payables	**332**	2,570
Deposits received	**3,678**	3,560
Temporary receipts	**–**	22,139
Other tax payables	**1,934**	1,720
Consideration payable	**–**	21,161
Others	**7,413**	1,508
Total trade and other payables	**308,493**	223,384

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2011 (At 31 December 2010: HK$Nil).

14. CAPITAL COMMITMENTS

	30 June 2011 *HK$'000* **(unaudited)**	31 December 2010 *HK$'000* (audited)
Contracted but not provided for:		
Acquisition of property, plant and equipment	**46,384**	23,593

15. EVENTS AFTER REPORTING PERIOD

On 15 July 2011, the Company passed an ordinary resolution regarding the acquisition of an upstream oil and gas businesses in Pakistan (the "Acquisition") at a cash consideration of approximately HK$6,006,250,000 (equivalent to US$775,000,000) which will be satisfied through raising a bank loan and cash. Following the passing of the ordinary resolution, the only outstanding condition precedent to the completion of the Acquisition is obtaining the approval from the Government of Pakistan for the transfer of working interests. The Company expects such approval will be obtained shortly. On 14 July 2011, the Group entered into a loan agreement with the Hong Kong Branch of China Development Bank Corporation for a loan facility amount up to approximately HK$5,000,000,000 (equivalent to US$640,000,000) with a term of 10 years and an interest rate of LIBOR plus 420 basis points. The management of the Company considered the loan facility is sufficient to secure the completion of the Acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Following the commencement of commercial production phase and ongoing sales of crude oil since February 2011 from the Liaohe Oilfields Projects, the Group's turnover rose to approximately HK$111,887,000 for the six months ended 30 June 2011 ("Period under Review"), which represented an increase of approximately 10 times compared to the turnover of same period of last year. For the six months ended 30 June 2011, the turnover represented sales from production of crude oil (approximately HK$84,374,000) and services fee income derived from the oilfield supporting services business (approximately HK$27,513,000). For the six months ended 30 June 2010, the turnover represented services fee income derived from the oilfield supporting services business alone (approximately HK$10,379,000). For the six months ended 30 June 2011, the Group's gross profit was approximately HK$34,899,000 (gross profit ratio approximately 31.2%) which represented a substantial increase of approximately 158 times compared to gross profit of same period of last year HK$220,000 (gross profit ratio approximately 2.1%).

For the six months ended 30 June 2011, other income decreased modestly by 0.3% to approximately HK$36,267,000 from HK$36,368,000 for the six months ended 30 June 2010. For the Period under Review, administrative expenses increased 42.8% to HK$94,888,000 from HK$66,450,000 for the six months ended 30 June 2010. The increase in administrative expenses was mainly due to paid and accrual of professional services fees of approximately HK$51,495,000 for the acquisition of British Petroleum ("BP") oilfields assets in Pakistan in the Period under Review.

As the Group changed its accounting policy during Year 2010 and applied the acquisition method to account for the acquisition of entire interest in Liaohe Oilfields Project, some comparative figures for the six months ended 30 June 2010 have been restated including an increase in the reversal of impairment losses on intangible assets of HK$661,400,000, an increase in amortization of intangible assets included in oil exploitation expenses of HK$77,000,000, an increase in related deferred tax expenses of HK$146,100,000 resulting in an increase in earnings per share of HK3.43 cents per share.

In summary, the loss attributable to owners of the Company was approximately HK$34,533,000 for the six months ended 30 June 2011 and the profit attributable to owners of the Company was approximately HK$384,315,000 (restated) for the six months ended 30 June 2010. The results were reflected in the basic loss per share which was 0.27 HK cents for the six months ended 30 June 2011 compared to the basic earnings per share of 3.01 HK cents (restated) for the six months ended 30 June 2010. If excluding the effect of the change in accounting policy and retrospective restatement on the profit attributable to owners of the Company for the six months ended 30 June 2010, the loss attributable to owners of the Company for the six months ended 30 June 2011 only decreased by approximately HK$19,452,000 (decreased by approximately 36%) compared to the loss attributable to owners of the Company before retrospective restatement for the six months ended 30 June 2010 of HK$53,985,000.

Business Review

During the Period under Review, the Group was mainly engaged in the development of an exploration and production, focusing on the investment and operation of oil, natural gas and other energy related businesses. The Group seeks to continue to grow through mergers and acquisitions of oil and natural gas assets; the exploitation, development and production of existing oil and natural gas assets; and the provision of patented technologies supporting services to oilfields. The acquisition of BP's upstream business in Pakistan represents an important milestone for the Group in achieving strategic expansion into the international oil and gas market.

Oil Production Business

EOR Plan of the Liaohe Oilfields Project in Bohai Bay, Liaoning, China

The fireflood technology of the Group enhances the life and remaining value of mature oilfields. In mid-July 2010, the EOR Plan of the Liaohe Oilfields Project was approved by the National Development and Reform Commission and entered into the Development Period. In February 2011, it was entered into the Production Period with the commencement of commercial production and sales. It enabled the Liaohe Oilfield Project to become the first sino-foreign cooperation project in China that has successfully commercialized fireflood technology to enhance the oil recovery rate. The Group will strengthen promotion of the fireflood technology in order to apply to more mature oil fields.

For the six months ended 30 June 2011, the Group's turnover derived from Liaohe Oilfields Project was HK$84,374,000. The related cost of production and sales and gross profit were HK$54,743,000 and HK$29,631,000 respectively and the gross profit ratio was 35.1%. The Group's portion of the net oil production from Liaohe Oilfields Project for the period from its commencement of Development Period in July 2010 to the period ended 30 June 2011 and recorded in the books of accounts of the Group was 22,700 MT (approximately 155,000 barrels of oil ("bbl")), in which, the Group's portion of the net oil production for the period from its commencement of Development Period in July 2010 to end of 2010 and for the period from January 2011 to end of first half year of 2011 were 8,900 MT (approximately 60,800 bbl) and 13,800 MT (approximately 93,900 bbl) respectively, representing increase of 55%. The daily average EOR production was approximately 76 MT (approximately 520 bbl) for the Period under Review. In addition, for the Period under Review, the Group's portion of the royalty, OPEX, CAPEX and EBITDA of the Liaohe Oilfields Project were US$21.3 per bbl, US$29.7 per bbl, US$1,400,000 and US$2,100,000 respectively.

The exploration works during the period included preparation for pre-drilling of 24 new wells, completion of horizontal drilling of 1 well and lateral drilling of 5 wells; expansion of two fireflood gas injection platforms, installation of 12 sets of air compressor to increase the gas injection capacity of 590,000 cubic meter per day; completion of 2 fireflood utility wells, 1 oil station and 7 single-well emission process transformation. Current level of production wells in normal operation is around 280 wells which representing approximately 50% of total utility wells in the Liaohe Oilfields Project.

For the second half year of 2011, the Group will well-organize the production plan in Liaohe Oilfields Project and tightly monitor the production and control costs. It will also strengthen the management in development of oilfields in order to ensure newly drilling wells and other development projects with control of development costs and provide foundation for future production.

Material Acquisition

Acquisition of BP's oilfields assets in Pakistan

During the Period under Review, the Group continued its strategy of international expansion and acquisition of BP's oilfield assets in Pakistan is the first step for the Group's international expansion. After the Group signing an acquisition agreement with BP to acquire its upstream oil and gas assets in Pakistan for the consideration of US$775,000,000 (equivalent to approximately HK$6,006,250,000) and paid US$100,000,000 (equivalent to approximately HK$780,000,000) as deposit in December 2010, the Group became the first non-state owned corporation listed in Hong Kong to acquire quality upstream assets from BP which is one of the international oil and gas majors. On 24 June 2011, the Group issued a circular regarding the acquisition together with a notice of special general meeting for approving the acquisition agreement. During the special general meeting held on 15 July 2011, the shareholders unanimously voted to approve the acquisition of BP's Pakistan oilfields assets. The only outstanding condition precedent to the closing of the acquisition was the approval of the Government of Pakistan for the transfer of working interests. The Company expects the approval to be obtained shortly and the closing to take place in accordance with the acquisition agreement. Furthermore, the Group will utilize its cash reserve and the long-term loan facility with credit limit of US$640,000,000 (equivalent to approximately HK$5 billion) offered by the Hong Kong Branch of the China Development Bank Corporation ("CDB") for secure sufficient funding for completion of the acquisition and to ensure no additional funding requirement before the closing.

The market share of the BP's Pakistan oilfields assets is the one of the largest among foreign corporations in Pakistan (excluding the local Pakistan oil companies). After completion of the acquisition, the Group will become one of the largest oil corporations in Pakistan and one of the major and independent oil and gas players listed in Hong Kong.

For the future development of oil fields in Pakistan, the Group will re-analyze geological survey data, explore new oilfields, increase efforts in oil production of other alternative mechanical oil and gas exploration systems and other advanced technology research and application, consider to define reservoirs in offshore blocks and plan to establish well testing.

Other Oilfields Production Supporting Services Business with Utilizing Fireflood Technology

The fireflood technology is a revolution among oil extraction technologies. As a pioneer in applying fireflood technology in China, the Group will continue to seek cooperation opportunities with operators of abolished or retiring mature oilfields. By utilizing this advanced technology which features low production cost and high efficiency, the residual value of mature oilfields with high potential will be significantly enhanced, thereby producing economic benefits similar to finding a new oilfield. For the six months ended 30 June 2011, The Group's turnover derived from services fee income derived from the oilfield supporting services business was approximately HK$27,513,000 which represented a great increase of 165.1% compared to such turnover for the six months ended 30 June 2010 of HK$10,379,000. The related cost of production and sales and gross profit for the six months ended 30 June 2011 were HK$22,245,000 and HK$5,268,000 respectively (gross profit ratio was 19.1%) which represented increase of 119% and 2,294.5% respectively compared to the cost of production (HK$10,159,000) and the gross profit (HK$220,000, gross profit ratio 2.1%) for the six months ended 30 June 2010.

Liquidity and Financial Resources

The Group maintained its strong financial position for the period under review, with cash and cash equivalents amounting to approximately HK$563,216,000 as at 30 June 2011 (as at 31 December 2010: approximately HK$845,172,000). The decrease was mainly due to return of the capital contribution in the sum of RMB252,000,000 (approximately equivalent to HK$303,400,000) to the non-controlling shareholder, Beijing Shengtai Mingze Food Products Company Limited, according to the arbitral award from Harbin Arbitration Commission made on 6 December 2010. The capital contribution represents the share capital and the capital reserve of Shenyang Shengtaiyuan Logistics Company Limited, an indirectly 80% owned joint venture company by the Group.

As at 26 January 2010, the Group issued a performance bond of approximately HK$468,000,000 (equivalent to approximately US$60,000,000) for guarantee of a wholly-owned subsidiary of the Group United Petroleum's performance of its obligation in the development period of the EOR Contract in Liaohe Oilfields Project dated 15 September 2006. In December 2010 and April 2011, as United Petroleum has completed part of its obligation, CNPC confirmed and agreed to release part of the performance in the amount of HK$209,102,000 (equivalent to approximately US$26,808,000). As at 30 June 2011, the Group's cash at banks with carrying value of approximately HK$258,898,000 (equivalent to approximately US$33,192,000) were pledged for the performance bond.

On 18 December 2010, the Company entered into a cooperation agreement with CDB for a period of five years from the date of such cooperation agreement with the target size of US$5 billion in respect of the Group's oil and gas and natural mineral resources projects. During such period, the Company agrees to take CDB as its preferred financing partner and CDB agrees to provide the Group's projects with financing supporting services including consultancy and planning. Any financing to be provided under such cooperation agreement may be by way of bilateral or syndicated loans arranged by CDB. CDB also agrees to give preferential consideration to financing applications in respect of the Group's projects. No commitment to lend had been made by CDB under such cooperation agreement and the actual financing terms and amount are subject to further approvals and loan documentations. In May 2011, CDB confirmed its commitment to provide the Group a loan for an amount up to US$640,000,000 (approximately HK$5 billion) with a term of 10 years and an interest rate of LIBOR plus 420 basis points in connection with the acquisition of upstream oil and gas businesses in Pakistan. In July 2011, the Group signed the related loan agreement with CDB. Such loan provided sufficient fund for the Group to further expand in international upstream oil and gas oilfields business.

The Group had no long-term borrowings, therefore the gearing ratio is not applicable. As at 30 June 2011, the current ratio was approximately 4.30 (as at 31 December 2010: approximately 5.43), based on current assets of approximately HK$1,459,393,000 (31 December 2010: approximately HK$1,380,748,000) and current liabilities of approximately HK$339,499,000 (as at 31 December 2010: approximately HK$254,282,000).

Prospects

While the global economy is slowly recovering, it is also suffering from a lot of uncertainties. The Group plans to grasp the opportunities afforded by the growing worldwide demand in energy and build up itself as a global competitive oil and gas reserve operator.

The Group will make use of a five-year US$5 billion cooperation agreement signed with CDB last year for oil and gas projects to expand internationally, build critical mass, acquire new technology and enhance our human resources capabilities.

The Group will continue to acquire new enhanced oil recovery projects in China. The approach of the Group is to implement the "reliable operation + rapid expansion" strategy, which is supported by its unique technology and core competitiveness. The Group will continue the momentum of expansion in overseas investment projects, and seek to acquire high quality assets and accrete value for the shareholders of the Company.

Employees

At as 30 June 2011, the Group employed a total of 190 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 benefits and contributory provident fund.

During the period under review, the Company appointed Mr. Andrew Leo Kirby ("Mr. Kirby") as executive Director and Mr. Ho King Fung, Eric ("Mr. Ho") as non-executive Director.

Mr. Kirby has been appointed as an executive Director and the Head of Strategy, M&A, Asset Sales and Investor Relations of the Company with effect from 1 June 2011. Prior to joining the Group, Mr. Kirby was working in the resources group of Macquarie Capital (Hong Kong) Limited and acted as financial advisor to the Company in relation to its landmark announcement of a very substantial acquisition of BP's upstream business in Pakistan. With the broad energy industry and investment banking experience, Mr. Kirby will perform the role of Head of Strategy, M&A, Asset Sales and Investor Relations of the Company primarily responsible for identifying and executing mergers and acquisitions in line with the stated strategy of the Company. In addition, Mr. Kirby will lead investor relations and support the arrangement of any debt or issuance of equity.

Mr. Ho has been appointed as a non-executive Director of the Company with effect from 15 April 2011 with the broad legal and investment banking experience. The Company believes that after Mr. Kirby and Mr. Ho joining the Board of the Company, they should contribute to the delivery of international expansion of the Group and the enhancement of Shareholders value.

Contingent Liabilities

The Group had no significant contingent liabilities during this period.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's monetary assets and transactions are mainly denominated in Hong Kong dollars, United States dollars and Renminbi. The exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the period under review. During the period under review, the Group did not use financial instruments for hedging purposes.

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 June 2011.

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 ended 30 June 2011 except that:

1. The Code A.2.1 – the company have the post of chief executive officer but it was still vacant; 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.

Although the Company has separated the duties between the chairman and chief executive officer, the post of the chief executive officer is still vacant. In this connection, the executive function of the Company is performed by the executive directors and management of the Company. Thus, significant decision of the Company is made by the Board. The Board considers that such structure will not affect the balance of power and authority between the chairman and the executive directors.

Code provision A.4.1 of the Code provides that non-executive Directors should be appointed for a specific term, subject to re-election. None of the 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 June 2011 and has also discussed the internal control, the accounting principles and practices adopted by the Group.

EXTRACT OF INDEPENDENT AUDITORS' REVIEW REPORT

The following is an extract of the independent auditors' report on review of the Group's interim condensed consolidated financial statements for the six months ended 30 June 2011:

"Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, comparative condensed consolidated statement of comprehensive income, comparative condensed consolidated statement of cash flows, comparative condensed consolidated statement of changes in equity and relevant comparative notes to the condensed financial statements for the six months ended 30 June 2010 disclosed in the interim financial statements have not been reviewed in accordance with standards applicable to review engagements issued by the HKICPA."

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 June 2011.

PUBLICATION OF INTERIM REPORT

A detailed interim report containing all the information required by paragraph 46(1) to 46(9) of Appendix 16 of the Listing Rules will be dispatched to the shareholders and available on the Company's website at www.uegl.com.hk and the Stock Exchange's website at www.hkexnews.hk in due course.

On behalf of the Board
Zhang Hong Wei
Chairman

Hong Kong, 26 August 2011

As at the date of this announcement, the Board of Directors comprises 4 executive directors, namely Messrs. Zhang Hong Wei, Zhu Jun, Andrew Leo Kirby and Ms. Zhang Meiying, 1 non-executive director, namely Mr. Ho King Fung, Eric, 3 independent non-executive directors, namely Messrs. Chau Siu Wai, San Fung and Zhu Chengwu.