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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors (the "Board") of United Energy Group Limited (the "Company") hereby to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 as follows:–

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

	Note	**2011** *HK$'000*	**2010** *HK$'000*
Continuing operations			
Turnover	*4*	876,825	22,373
Cost of sales and services rendered		(741,407)	(27,656)
Gross profit/ (loss)		135,418	(5,283)
Other income	*5*	919,410	813,201
Oil exploitation expenses		(5,784)	(225,893)
Exploration expenses		(8,045)	-
Administrative expenses		(273,116)	(259,368)
Other operating expenses		(423,793)	(32,868)
Profit from operations		344,090	289,789
Finance costs	*7*	(71,563)	(522)
Profit before tax		272,527	289,267
Income tax credit/(expense)	*9*	242,115	(146,003)
Profit for the year from continuing operations		514,642	143,264
Discontinued operations			
Loss for the year from discontinued operations	*10*	-	(41,196)
Profit for the year	*8*	514,642	102,068

CONSOLIDATED INCOME STATEMENT (CONTINUED)
For the year ended 31 December 2011

	Note	**2011** *HK$'000*	**2010** *HK$'000*
Attributable to:			
Owners of the Company			
Profit from continuing operations		531,885	154,152
Loss from discontinued operations		-	(41,896)
Profit attributable to owners of the Company		531,885	112,256
Non-controlling interests			
Loss from continuing operations		(17,243)	(10,888)
Profit from discontinued operations		-	700
Loss attributable to non-controlling interests		(17,243)	(10,188)
		514,642	102,068
Earnings per share			
From continuing and discontinued operations			
Basic	*11(a)*	4.16 cents	0.88 cents
Diluted	*11*	4.08 cents	N/A
From continuing operations			
Basic	*11(b)*	4.16 cents	1.21 cents
Diluted	*11*	4.08 cents	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
Profit for the year	514,642	102,068
Other comprehensive income:		
Exchange differences on translating foreign operations	35,642	31,887
Exchange differences on releasing foreign currency translation reserve to income statement upon the disposal of a subsidiary	-	(11,890)
Other comprehensive income for the year, net of tax	35,642	19,997
Total comprehensive income for the year	550,284	122,065
Attributable to:		
Owners of the Company	550,800	122,507
Non-controlling interests	(516)	(442)
	550,284	122,065

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		1,877,254	182,048
Intangible assets		8,762,996	4,518,718
Advances, deposits and prepayments		17,017	780,000
Deferred tax assets		63,383	-
		10,720,650	5,480,766
Current assets			
Inventories		495,185	1,455
Trade and other receivables	*12*	1,439,607	145,637
Held-to-maturity investments		30,850	-
Financial assets at fair value through profit or loss		2,508	3,387
Pledged bank deposits		201,207	385,097
Bank and cash balances		482,323	845,172
		2,651,680	1,380,748
Current liabilities			
Trade and other payables	*13*	942,822	223,384
Due to directors		8,066	6,501
Bank loans		102,680	23,676
Current tax liabilities		11,067	721
		1,064,635	254,282
Net current assets		1,587,045	1,126,466
Total assets less current liabilities		12,307,695	6,607,232
Non-current liabilities			
Bank loans		4,914,000	-
Provisions		251,449	-
Deferred tax liabilities		1,058,759	1,084,156
		6,224,208	1,084,156
NET ASSETS		6,083,487	5,523,076
Capital and reserves			
Share capital		127,771	127,771
Reserves		5,558,576	4,997,649
Equity attributable to owners of the Company		5,686,347	5,125,420
Non-controlling interests		397,140	397,656
TOTAL EQUITY		6,083,487	5,523,076

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and redomiciled to Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Unit 2505, 25/F, Two Pacific Place, 88 Queensway, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

During the year, the Company was primarily involved in investment holding. The Group was mainly engaged in the development of strategy energy reserves, focusing on the investment and operation of oil, natural gas and other energy related businesses. This is accomplished by the merger and acquisition of oil and natural gas assets; the exploration, exploitation, development and production of crude oil and natural gas; and the provision of patented technologies supporting services to oilfields.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (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 and amounts reported for the current year and prior years.

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. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by investments which are carried at their fair values.

Amortisation Method for Oil Exploitation Rights

During the year under review, 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 amortization charges had been decreased by approximately HK$151,365,000 for the year ended 31 December 2011 pursuant to the change of amortization method.

4. TURNOVER

The Group's turnover which represents sale and production of crude oil, condensate, gas and liquified petroleum gas and provision of patented technology supporting services to oilfields are as follows:

	2011 **HK$'000**	**2010** **HK$'000**
From continuing operations		
Sale and production of crude oil, condensate, gas and liquified petroleum gas	819,585	-
Provision of patented technology supporting services to oilfields	57,240	22,373
	876,825	22,373

The turnover from sale and production of crude oil, condensate, gas and liquified petroleum gas are net of sales tax, royalty to government and discount amounting to HK$42,399,000 (2010: Nil), HK$83,668,000 (2010: Nil) and HK$62,505,000 (2010: Nil) respectively.

5. OTHER INCOME

	2011 ***HK$'000***	**2010** ***HK$'000***
Interest income	7,039	14,017
Management fees income	4,743	1,086
Net foreign exchange gains	4,424	12,654
Rental income	356	88
Reversal of allowance on inventories	819	26,905
Reversal of impairment losses on other receivables	-	3,653
Reversal of impairment losses on intangible assets	-	753,056
Gain on bargain purchase	896,606	-
Joint operating administrative overheads	807	-
Liquified petroleum gas processing fees charged to concessions, net	1,721	-
Recovery of other receivables written off	311	-
Other payables written back	2,100	-
Others	484	5,230
	919,410	816,689
Representing:		
Continuing operations	919,410	813,201
Discontinued operations (Note 10)	-	3,488
	919,410	816,689

6. SEGMENT INFORMATION

The Group's reportable segments are as follows:

1.	Exploration and production	–	engages in activities relating to the exploration and production of crude oil and natural gas in Pakistan.
2.	Oil exploitation	–	engages in activities relating to the production of crude oil in PRC.
3.	Oilfields supporting services	–	engages in activities relating to the provision of patented technology supporting services to oilfields.
4.	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.

Segment profit or loss does not include the following items:

- other income (except for certain other income included in the exploration and production and oil exploitation segments)
- corporate expenses
- loss on disposal of a subsidiary
- finance costs (except for unwinding of discount on provision for decommissioning cost included in the exploration and production segment)

Segment assets do not include the following items:

- intangible assets - participating interest in oil exploitation project
- deferred tax assets
- financial assets at fair value through profit or loss
- held-to-maturity investments
- pledged bank deposits
- bank and cash balances

Segment liabilities do not include the following items:

- due to directors
- bank loans
- current tax liabilities
- provisions (except for provision for decommissioning cost included in the exploration and production segment)

6. SEGMENT INFORMATION (CONTINUED)

Information about reportable segment profit or loss, assets and liabilities:

	Exploration and production HK$'000	Oil exploitation HK$'000	Oilfields supporting services HK'000	Total HK$'000
Year ended 31 December 2011				
Turnover from external customers	599,362	220,223	57,240	876,825
Segment profit/ (loss)	799,735	55,412	(56,498)	798,649
Interest revenue	-	2,066	13	2,079
Interest expenses	1,176	-	-	1,176
Depreciation and amortisation	428,956	69,820	44,698	543,474
Income tax credit	224,609	11,950	15,187	251,746
Other material non-cash items:				
Gain on bargain purchase	896,606	-	-	896,606
Impairment losses on intangible assets	(203,001)	-	(46,217)	(249,218)
Additions to segment non-current assets	251,563	267,436	22,749	541,748
At 31 December 2011				
Segment assets	7,222,386	4,632,669	416,240	12,271,295
Segment liabilities	578,039	1,470,959	85,561	2,134,559

6. SEGMENT INFORMATION (CONTINUED)

	(Discontinued operations) Property investment HK$'000	Oil exploitation HK$'000	Oilfields supporting services HK'000	Total HK$'000
Year ended 31 December 2010				
Turnover from external customers	-	-	22,373	22,373
Segment profit/(loss)	(1,076)	365,821	(40,744)	324,001
Interest revenue	3,317	3,509	6	6,832
Interest expenses	-	-	522	522
Depreciation and amortisation	-	172,640	44,609	217,249
Income tax expense/(credit)	3	149,764	(3,926)	145,841
Other material non-cash items:				
Impairment losses on intangible assets	-	-	4,131	4,131
Reversal of impairment losses on intangible assets	-	753,056	-	753,056
Additions to segment non-current assets	-	119,597	16,240	135,837
At 31 December 2010				
Segment assets	-	4,225,375	431,303	4,656,678
Segment liabilities	-	1,172,545	88,624	1,261,169

6. SEGMENT INFORMATION (CONTINUED)

Reconciliations of reportable segment profit or loss, assets and liabilities:

	2011 *HK$'000*	2010 *HK$'000*
Profit or loss		
Total profit of reportable segments	798,649	324,001
Unallocated amount:		
Other income (except for certain other income included in the exploration and production and oil exploitation segments)	15,532	60,560
Corporate expenses	(229,152)	(238,363)
Finance costs (except for unwinding of discount on provision for decommissioning cost included in the exploration and production segment)	(70,387)	(522)
Loss on disposal of a subsidiary	-	(43,608)
Elimination of discontinued operations	-	41,196
Consolidated profit for the year from continuing operations	514,642	143,264
Assets		
Total assets of reportable segments	12,271,295	4,656,678
Unallocated amounts:		
Other receivables and other assets	320,764	820,964
Deferred tax assets	63,383	-
Intangible assets – participating interest in oil exploitation project	-	150,216
Financial assets at fair value through profit or loss	2,508	3,387
Held-to-maturity investments	30,850	-
Pledged bank deposits	201,207	385,097
Bank and cash balances	482,323	845,172
Consolidated total assets	13,372,330	6,861,514
Liabilities		
Total liabilities of reportable segments	2,134,559	1,261,169
Unallocated amounts:		
Other liabilities	117,931	46,925
Due to directors	8,066	6,501
Bank loans	5,016,680	23,676
Current tax liabilities	11,067	167
Provisions (except for provision of decommissioning cost included in the exploration and production segment)	540	-
Consolidated total liabilities	7,288,843	1,338,438

6. SEGMENT INFORMATION (CONTINUED)

Geographical information:

	Turnover		Non-current assets	
	2011	**2010**	**2011**	**2010**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	-	-	978	780,510
PRC	277,463	22,373	4,699,807	4,550,041
Pakistan	599,362	-	5,955,489	-
Others	-	-	993	150,215
Consolidated total	876,825	22,373	10,657,267	5,480,766

In presenting the geographical information, turnover is based on the locations of the customers. The Group's non-current assets exclude deferred tax assets.

Turnover from major customers:

Turnover net of sales tax, royalty and sales discount derived from major customers who contributed 10% or more of total turnover of the Group are as follows:

	2011	**2010**
	HK$'000	**HK$'000**
Exploration and production segment		
Customer A	224,378	-
Customer B	152,472	-
Customer C	100,825	-
Oil exploitation segment		
Customer D	220,223	-
Oilfields supporting services segment		
Customer E	57,240 [note 1]	22,373

Note 1: The corresponding turnover did not contribute over 10% of total turnover of the Group.

7. FINANCE COSTS

	2011	**2010**
	HK$'000	***HK'000***
From continuing operations		
- Interest on bank loans	70,387	522
- Unwinding of discount on provision for decommissioning cost	1,176	-
	71,563	522

8. PROFIT FOR THE YEAR

Profit for the year is arrived at after charging the following:

	Continuing operations		Discontinued operations		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Depreciation and amortisation (note a)	549,847	223,355	-	-	549,847	223,355
Allowance for other receivables	3,556	-	-	-	3,556	-
Acquisition-related costs (included in administrative expenses)	121,607	-	-	-	121,607	-
Auditor's remuneration						
- Current	2,852	1,050	-	-	2,852	1,050
- Under-provision in prior year	200	-	-	-	200	-
	3,052	1,050	-	-	3,052	1,050
Allowance for inventories (included in cost of inventories sold)	19,500	-	-	-	19,500	-
			-	-		
Cost of inventories sold (note b)	543,108	-	-	-	543,108	-
Directors' emoluments	18,837	19,158	-	-	18,837	19,158
Loss on disposals of property, plant and equipment	31	9	-	-	31	9
Operating lease charges						
- Hire of office equipments and motor vehicles	3,093	110	-	-	3,093	110
- Land and buildings (note c)	10,985	3,389	-	-	10,985	3,389
	14,078	3,499	-	-	14,078	3,499
Research and development expenditures	633	5,371	-	-	633	5,371
Staff costs including directors' emoluments			-	-		
Salaries, bonuses and allowances (note c)	96,249	21,876	-	-	96,249	21,876
Retirement benefits scheme contributions	6,461	672	-	-	6,461	672
Equity-settled share-based payments	10,127	36,017	-	-	10,127	36,017
	112,837	58,565	-	-	112,837	58,565
Other equity-settled share-based payments	-	80,855	-	-	-	80,855
Direct operating expenses of investment properties that did not generate rental income	-	-	-	739	-	739
Fair value loss on financial assets at fair value through profit or loss	879	413	-	-	879	413
Impairment losses on advances to oil exploitation project	-	47,580	-	-	-	47,580
Impairment losses on intangible assets (included in other operating expenses)	393,650	4,131	-	-	393,650	4,131

Note a: Depreciation and amortisation includes the amortisation charges of intangible assets of approximately HK$5,784,000 (2010: HK$159,784,000), HK$271,396,000 (2010: HK$8,872,000) and HK$29,603,000 (2010: HK$28,737,000) are included in the oil exploitation expenses, costs of sales and services rendered and other operating expenses respectively.

Note b: Cost of inventories sold includes staff costs, depreciation, operating lease charges and allowance for inventories of approximately HK$482,785,000 (2010: Nil) which are included in the amounts disclosed separately above.

Note c: The amounts include the accommodation benefits provided to directors amounting to approximately HK$480,000 (2010: HK$280,000).

9. INCOME TAX (CREDIT)/ EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Current tax – PRC enterprise income tax		
Provision for the year	11,903	952
(Over)/under-provision in prior years	(573)	331
	11,330	1,283
Deferred tax	(253,445)	144,723
	(242,115)	146,006
Representing:		
Continuing operations	(242,115)	146,003
Discontinued operations (Note 10)	-	3
	(242,115)	146,006

No provision for profits tax in the Bermuda, Bahamas, British Virgin Islands, Singapore, Mauritius, Pakistan or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the year ended 31 December 2011 and 2010.

PRC enterprise income tax ("EIT") 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.

Universe Oil & Gas (China) LLC ("Universe"), being a foreign investment enterprise is entitled to an exemption from EIT for two years starting from its first profit-making year, followed by a 50% tax relief for the following three years. Universe was entitled to and enjoyed the first exemption year in 2007 and a 50% tax relief for the three years ended 31 December 2011. Accordingly, the applicable income tax rate of Universe for the year ended 31 December 2011 is 12.5%.

10. DISCONTINUED OPERATIONS

Pursuant to a disposal agreement dated 13 September 2010 entered into between United Energy International Investments Limited ("UEIIL"), a subsidiary of the Company, and an independent third party (the "Purchaser"), UEIIL disposed of the entire equity interest in a 71% owned subsidiary, Shenyang Shengtaicheng Property Development Company Limited ("Shengtaicheng") at a consideration of approximately HK$37,924,000 (equivalent to RMB32,750,000).

Shengtaicheng was engaged in the property investment business during the year ended 31 December 2010. The disposal was completed on 20 September 2010 and the Group discontinued its property investment business in PRC thereafter.

The loss for the year from the discontinued operations is analysed as follows:

	2011 **HK$'000**	**2010** **HK$'000**
Profit from discontinued operations	-	2,412
Loss on disposal of discontinued operations	-	(43,608)
	-	(41,196)

The results of the discontinued operations for the period from 1 January 2010 to 20 September 2010, which have been included in consolidated profit or loss, are as follows:

	For the twelve months ended 31 December 2011 **HK$'000**	**Period from 1 January 2010 to 20 September 2010** HK$'000
Turnover	-	-
Cost of sales and services rendered	-	(739)
Gross loss	-	(739)
Other income	-	3,488
Administrative expenses	-	(334)
Profit before tax	-	2,415
Income tax expense	-	(3)
Profit for the period	-	2,412

During the period from 1 January 2010 to 20 September 2010, the disposed subsidiary paid approximately HK$33,547,000 in respect of operating activities and received approximately HK$3,317,000 in respect of investing activities.

No tax charge or credit arose on loss on disposal of the discontinued operations.

11. EARNINGS PER SHARE

Basic earnings per share

(a) From continuing and discontinued operations

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$531,885,000 (2010: HK$112,256,000) and the weighted average number of ordinary shares of 12,777,091,632 (2010: 12,777,091,632) in issue during the year.

(b) From continuing operations

The calculation of basic earnings per share from continuing operations attributable to owners of the Company is based on the profit for the year from continuing operations attributable to owners of the Company of approximately HK$531,885,000 (2010: HK$154,152,000) and the denominator used is the same as that detailed above for basic earnings per share from continuing and discontinued operations.

Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company for the year ended 31 December 2011 is based on the profit for the year attributable to owners of the Company of approximately HK$531,885,000 and weighted average number of ordinary shares of 13,021,424,989, being the weighted average number of ordinary shares of 12,777,091,632 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 244,333,357 assumed to have been issued at no consideration on the deemed exercise of the unlisted warrants outstanding during the year.

The effects of all potential ordinary shares in respect of the share options are anti-dilutive for the year ended 31 December 2011 and 2010.

12. TRADE AND OTHER RECEIVABLES

	2011 ***HK$'000***	**2010** ***HK$'000***
Trade receivables (note a)	778,170	11,386
Other receivables (note b)	661,437	134,251
Total trade and other receivables	1,439,607	145,637

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit term is generally range from 30 to 45 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2011 *HK$'000*	2010 *HK$'000*
0 to 30 days	668,522	6,352
31 to 60 days	59,094	5,034
61 to 90 days	11,936	-
91 to 180 days	31,170	-
181 to 365 days	7,448	-
	778,170	11,386

(b) Other receivables

	2011 *HK$'000*	2010 *HK$'000*
Amounts due from joint venture partners	35,010	71,102
Central excise duty receivables	5,806	-
Consideration receivable (note i)	-	37,924
Prepayment to non-controlling shareholder of a subsidiary (note ii)	315,825	-
Deposits and prepayments	13,980	21,113
Advances to staff	9,143	3,926
Excess consideration receivables	251,794	-
Sales tax receivables	27,630	-
Others	2,249	186
	661,437	134,251

Notes

(i) The consideration receivable represents an amount due from the Purchaser of 71% equity interests in Shengtaicheng which were disposed of during the year ended 31 December 2010. The amount is unsecured and interest-free and had been fully settled during the year.

(ii) The amount represents the prepayment of equity distribution by the Group for the proposed dissolution of the 80% owned subsidiary, Shenyang Shengtaiyuan Logistics Company Limited. At the end of the reporting period, such dissolution has not yet been completed.

13. TRADE AND OTHER PAYABLES

	2011 *HK$'000*	2010 *HK$'000*
Trade payables (note a)	189,225	-
Other payables (note b)	753,597	223,384
Total trade and other payables	942,822	223,384

(a) Trade payables

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

	2011 *HK$'000*	2010 *HK$'000*
0 to 30 days	175,095	-
31 to 45 days	8,809	-
Over 45 days	5,321	-
	189,225	-

(b) Other payables

	2011 *HK$'000*	2010 *HK$'000*
Accrual for operating expenses	489,127	170,726
Salaries and welfare payables	3,200	2,570
Deposits received	10,043	3,560
Temporary receipts	22,139	22,139
Other tax payables	161,104	1,720
Due to a joint venture partner	66,451	-
Consideration payable	-	21,161
Others	1,533	1,508
	753,597	223,384

14. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 and 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Following the commencement of commercial production phase with ongoing sales of crude oil since February 2011 from Liaohe Project and closing of acquisition of upstream oilfield assets in Pakistan from British Petroleum ("BP") in September 2011, the Group's turnover increased to approximately HK$876,825,000 for the year ended 31 December 2011 ("Period under Reviewed"), which represented a significant increase of approximately 38 times as compared to the turnover of approximately HK$22,373,000 for the year ended 31 December 2010. The turnover for the year ended 31 December 2011 represented Sale and production of crude oil, condensate, gas and liquified petroleum gas (approximately HK$819,585,000) and services fees income derived from provision of patented technology supporting services to oilfields (approximately HK$57,240,000). For the year ended 31 December 2010, the turnover represented service fee income derived from provision of patented technology supporting services to oilfields only (approximately HK$22,373,000). For the year ended 31 December 2011, the Group's gross profit was approximately HK$135,418,000 (gross profit ratio approximately 15.44%) which represented a substantial increase compared to gross loss of 2010 of HK$5,283,000.

For the year ended 31 December 2011, other income increased by approximately 13.06% to approximately HK$919,410,000 (For year ended 31 December 2010: approximately HK$813,201,000). The increase in other income was mainly due to the recognition of gain on bargain purchase in acquisition of Pakistan business during the reporting period.

Administrative expenses increased from approximately HK$259,368,000 for the year ended 31 December 2010 to approximately HK$273,116,000 for the year ended 31 December 2011. These expenses for the year ended 31 December 2011 mainly included non-cash expenses of approximately HK$10,126,000 due to equity settled share-based payment transactions from share options granted to the employees per the share option scheme, and acquisition-related costs of approximately HK$121,607,000 incurred for the acquisition of Pakistan business.

Oil exploitation expenses decreased from approximately HK$225,893,000 for the year ended 31 December 2010 to approximately HK$5,784,000 for the year ended 31 December 2011. The decrease was mainly due to the operation of Gaosheng EOR project having proceeded to production phase since February 2011. Exploration expenses and other operating expenses of HK$8,045,000 and HK$423,793,000 respectively are incurred during the year due to newly acquired Pakistan operation. The other operating expenses for the year ended 31 December 2011 mainly included the impairment loss of participating interest in oil exploitation project of approximately HK$144,432,000 and the exploration and exploitation rights of approximately HK$203,001,000.

In summary, profit attributable to owners of the Company was approximately HK$531,885,000 for the year ended 31 December 2011, representing a 3.7 times increase over the profit attributable to shareholders of the Company of approximately HK$112,256,000 for the year ended 31 December 2010. This result is reflected in the basic earnings per share which was 4.16 HK cents for the year ended 31 December 2011 as compared with the basic earnings per share of 0.88 HK cents for the year ended 31 December 2010.

The Group continues to see considerable opportunity for organic and inorganic expansion. Due to the projected expansion, and, as such, the Board has not recommended the payment of dividend for the Period.

The Group's Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2011. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, as well as internal control and financial reporting matters, and found them to be satisfactory.

Business Review

United Energy Group is one of the largest upstream oil and gas companies listed on the Stock Exchange of Hong Kong, with an increasing global reach which now extends to South Asia. During the period under review, the Group completed the acquisition of all of BP's upstream assets in Pakistan, which is located in Sindh Province at the southeastern part of the country around 240 kilometers from the major port city of Karachi. The addition of the Pakistan asset to the existing portfolio, has increased to the Group's daily production to over 26,000 barrel oil equivalent ("boe") currently, ranking as the fourth largest upstream company after the three state owned enterprises on the Exchange in terms of net daily production.

Upstream Oil and Gas Exploration and Production:

Pakistan Assets:

For the year ended 31 December 2011, Pakistan assets became the major revenue contributor to the Group, generating turnover of HK$599 million since the completion of the acquisition on 16 September 2011. Average production over the said period was 20,945 boe per day, of which 90% was contributed by the production of the well-developed Badin block, whereas the rest was derived from MKK, a growing area with only 20% of total area has been developed. The composite realized sales price of oil, gas and LPG production was about US$39.44 per boe, royalty payment was US$4.83 per boe (HK$37.69 per boe). Whilst, lifting cost was about US$6.74 per boe (HK$52.55 per boe) and EBITDA margin was about US$24.86 per boe (HK$193.88 per boe).

After completion of the acquisition of the assets from BP in Mid-September last year, the Group reviewed the development plan inherited from BP, and sent our technical experts to Pakistan to conduct a thorough on-site study to explore methods that could propel the reserves level and production. The assets have suffered from a period of relatively low investment from 2010 to 2011, during which Capex reduced over 58% from its peak. As a result, the production enhancement or new wells could not withstand the decline bought by natural depletion.

Moreover, operation of our Pakistan assets was severely hit by the torrential incessant rain started 30 August 2011, about two weeks before the completion of the acquisition. The torrential incessant rains lasted for 8 days but aftermaths of the rain were stretched till end of December. The Government of Pakistan declared five districts as calamity-hit as most of the area were flooded, of which three are part of the Badin concessions while one district falls within MKK concessions. Rig operations were the worst hit, most of re-work will have to be done again. Despite, other operational activities included drilling program, facilities upgrade, workover, as well as 3D seismic program were resulted in a slippage in progress from 30 days to at least three months.

In order to boost up the production rate as well as total reserves level, we plan to plowback US$170-190 million from earnings to deploy an intensive exploration program as well as broaden the scale of production in 2012.

Thereafter, the asset has recorded a significant improvement in production, increasing from 20,990 boe as at 16 September 2011 to 24,795 boe as at 23 March 2011 on a single day basis. Furthermore, we have consolidated the human resources of Pakistan assets with the Group's existing professional team to share best practice and expertise.

Notably, the Government of Pakistan has been tackling the challenge of insufficient supply of natural gas since 2010. To cope with the situation, the Government of Pakistan implemented a policy on January 2012 to encourage new discoveries by paying a higher sales price for natural gas at US$6 per mcf provided the oil price is at US$110 per barrel (“bbl”). Sales price of our contracts was set in a range of US$2.5 per mcf to US$4 per mcf. For UEG, this additional incentive is certainly an encouragement for continuing investment and growth in our Pakistan assets.

The respective policy of the Government of Pakistan had been indicated to us during the visit of the delegation led by Chairman Mr. Zhang Hong Wei to Pakistan in June 2011. During the stay, the delegation received warm welcome from Prime Minister Mr. Yusuf Raza Gilani and also conducted valuable discussions with the Pakistan’s President Mr. Asif Ali Zardari and other senior officials of the government regarding the business environment and investment opportunities for Chinese private enterprises. Most importantly, the President of Pakistan indicated his support to the Group’s investment as well as future investments in Pakistan.

EOR Project in Liaohe, China:
The operation of EOR Project in Liaohe is the first successful large scale commercial application of fireflood technology in China. The EOR project was approved by National Development and Reform Commission (“NDRC”) of China to advance to Development Phase in July 2010. Since then, we accelerated the application of fireflood technology on existing wells. The average daily production allocated to the Group leaped from 350 bbls in previous year to 761 bbls. Currently, the share to the Group is recorded over 1,100 bbls per day.

In terms of new developments, good progress was reported. During the period under review, 9 ignition wells commenced operation, drilling work for 18 vertical wells were completed, 12 air compressors were installed and some ancillary infrastructure had been put in place. Moreover, 10 fireflood well sets are expected to deploy within the year, whereas 30% of old wells have been converted into fireflood wells by the end of the reporting period.

For the year ended 31 December 2011, sales from EOR Project amounted to HK$220 million and EBITDA margin was about US$ 34.8 per bbl (HK$271.46 per bbl).

Oilfield Supporting Service Business:
As a pioneer in using fireflood technology in China, the Group is determined to lead the development of the fireflood technology to another level, by utilizing this advanced technology to derive an addition value of matured oilfield through collaboration with oilfield operators or mergers and acquisitions. For the year ended 31 December 2011, income from oilfield services amounted to HK$57.24 million, an increase of 156% from HK$22.37 million recorded in previous financial year, whilst EBITDA amounted to HK$19.8 million.

The Group is currently providing oilfield supporting services to CNPC in three oilfields, namely Du 66; Leng 37; and Bai 92. During the period under review, the Group entered into a supplementary agreement with CNPC to convert additional 12 fireflood well sets in Du 66, of which 2 fireflood well sets were completed with about 10 well sets to be commenced in 2012. Regarding the progress of Leng 37, it was ignited in December 2011, representing a revolution in applying fireflood technology on light oil fields. For the block Bai 92, it has commenced production.

In addition to the contracts mentioned above, the Group will continue seeking cooperation opportunities with operators of matured 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.

Market Overview and Prospect

Although global economy remains gloomy, oil prices remain strong due to continued geopolitical instability. As such, the Group's oil and gas production will continue to benefit from high oil and gas selling prices. Moreover, we also perceive the global economic turbulence as a favorable backdrop for conducting mergers and acquisitions activities as sources of funding become uncertain.

Embarking on our vision to build a world class upstream enterprise, our mergers and acquisitions department has identified a list of accretive, best in class projects to broaden the scale and reach of our upstream operations. With the current acquisition financing arrangement with China Development Bank, we believe that we have a significant edge in pursuing quality assets, in line with our "reliable operation + rapid expansion" strategy. We seek to maintain a balanced portfolio in terms of OECD versus non-OECD assets, oil versus gas and seek to capture synergies with existing assets and technologies.

Apart from dedicating our efforts to constructing a solid portfolio, we will continue to maximize value from the inherent potential of our existing assets.

Pakistan Assets:

With reference to the research findings of Pakistan Petroleum Limited, insufficient supply of natural gas, we believe that Pakistan's oil and gas industry will continue to enjoy favorable dynamics. The Group is targeting to increase average daily production to 24,000 boe per day to 26,000 boe per day, and strives to maintain the lifting cost at US$6.5 to 6.9 per boe. As at 23 March 2012, the average daily production rate of our Pakistan asset touched 24,000 boe per day.

Moreover, we will allocate more resources to conduct 3D seismic work, planning to cover the area included 1,472 km^2 in Badin, 1,340 km^2 in MKK and 1,700 km^2 in DSS. We will also launch a comprehensive workover plan in order to achieve a higher production rate.

EOR Project in Liaohe, China:

For the China market, government's initiatives to encourage improved production in oil and gas industry resulted in the implementation of policy to raise the threshold of windfall tax levy on gains from crude oil from US$40 to US$55 early in 2012 to be applied retrospectively from 1 November 2011. Under such policy, we believed our operations in China will benefit substantially.

Concluding remarks:

Striding into the future, United Energy Group endures its commitment to build a world-class upstream enterprise by enriching our portfolio through mergers and acquisitions on one hand and maximizing the value of existing assets on the other. We believe our strategy has potential to create substantial value for the Group. With the Group's vision to be one of the leading global energy enterprise based in Asia, our management team will continue to devote significant effort on the establishment of a solid foundation by acquiring high quality assets as well as leveraging synergy across the Group in order to deliver favorable returns to shareholders.

Material Acquisition and Disposal

During the year under review, the Group continued its strategy of international expansion and acquisition of oilfield assets in Pakistan from BP 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. On 16 September 2011, the closing of the acquisition took place. 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 closing of the acquisition, the Group became one of the largest oil corporations in Pakistan and one of the major and independent oil and gas players listed in Hong Kong.

Segment Information

Particulars of the Group's segment information are set out in note 6 to this announcement.

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$482,323,000 as at 31 December 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 interests shareholder, Beijing Shengtai Mingze Food Products Company Limited, in June 2011, according to the arbitral award from Harbin Arbitration Commission made on 6 December 2010. The capital contribution represents the share capital and 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 has banking facilities of approximately HK$468,000,000 (equivalent to approximately US$60,000,000) in respect of issuance of performance bond for guarantee of performance of United Petroleum, a wholly subsidiary of the Company, of its obligation in the development period of the EOR Contract in Liaohe Oilfields project dated 15 September 2006. In December 2010, April 2011 and November 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$266,793,000 (equivalent to approximately US$34,204,200). As at 31 December 2011, the Group's cash at banks with carrying value of approximately HK$201,207,000 (equivalent to approximately US$25,795,800) were pledged for the banking facilities.

On 18 December 2010, the Company entered into a cooperation agreement with Hong Kong Branch of the China Development Bank Corporation ("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 facility 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 assets in Pakistan from BP. In July 2011, the Group signed the related facility agreements with CDB. In September 2011, the loan facility of US$630,000,000 (approximately HK$4.9 billion) was drawn for the settlement of the balance payment for the closing of the acquisition of Pakistan assets. In December 2011, the remaining loan facility of US$10,000,000 (approximately HK$78,000,000) was drawn for general operation in Pakistan.

As at 31 December 2011, the gearing ratio was approximately 37.5% (as at 31 December 2010: Nil), based on bank loan under current liabilities and non-current liabilities of approximately HK$102,680,000 and HK$4,914,000,000 respectively and total assets of approximately HK$13,372,330,000. As at 31 December 2011, the current ratio was approximately 2.49 times (as at 31 December 2010: approximately 5.43 times), based on current assets of approximately HK$2,651,680,000 (as at 31 December 2010: approximately HK$1,380,748,000) and current liabilities of approximately HK$1,064,635,000 (as at 31 December 2010: approximately HK$254,282,000).

Capital Structure
There had been no material change in the capital structure of the Group since 31 December 2010.

Orders
In line with its business nature, the Group did not have any order records as at 31 December 2011.

Employees
As at 31 December 2011, the Group employed a total of 871 full time employees, located in Hong Kong, the PRC and Pakistan. Employees' remuneration packages have been reviewed periodically and determined with reference to the performance of the individual and prevailing market practices. Remuneration packages include base salaries, yearend bonuses, medical benefits and a 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 as at 31 December 2011.

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. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable, the Group did not use financial instruments for hedging purposes during the year under review.

Major Customers and Suppliers

In 2011, the Group's largest and five largest customers represented 89.1% of total turnover and the Group's largest and five largest suppliers represented 11.1% of total cost of sales and services rendered.

PURCHASE, SALE OR REDEMPTION OF SHARES

As at 31 December 2011, the Company has not redeemed any of its shares nor any or its subsidiaries has purchased or sold any of the Company's shares during this period.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2011 and discussed with management the accounting principles and practices adopted by the Group as well as internal control and financial reporting matters.

OTHER COMMITTEE

Besides the Audit Committee, the Board has also established Remuneration Committee. Each Committee has its defined scope of duties and written terms of reference.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the code of conduct with respect to the dealings in securities of the Company by the Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, each of whom has confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2011.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provision set out in Appendix 14 of the Listing Rules for the year ended 31 December 2011 except as disclosed below:

Code provision A.2.1 The Company have the post of chief executive officer but it was still vacant and the executive function of the Company is performed by the executive directors and management. Thus significant decision of the Company is made by the Board.

Code provision A.4.1 There is no specific term on the appointment of non-executive and independent non-executive directors but they will subject to retirement by rotation at least every three years in accordance with the Company's Bye-laws.

SCOPE OF WORK OF AUDITOR

The figures in respect of the preliminary announcement of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2011 as set out in the preliminary announcement have been agreed by the Group's auditor, RSM Nelson Wheeler ("RSM"), to the amounts set out in the Group's draft audited consolidated financial statements for the year. The work performed by RSM in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The 2011 annual report will be despatched to the shareholders and available on the Company's website at www.uegl.com.hk and HKExnews website at www.hkexnews.hk in due course.

By Order of the Board
United Energy Group Limited
Zhang Hong Wei
Chairman

Hong Kong, 29 March 2012

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Hong Wei (Chairman), Mr. Zhu Jun, Ms. Zhang Meiying and Mr. Andrew Leo Kirby, the non-executive director is Mr. Ho King Fung, Eric, and the independent non-executive directors are Mr. Chau Siu Wai, Mr. San Fung and Mr. Zhu Chengwu.