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 2012

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000	Change %
Turnover	3,213,793	876,825	+266.5%
Gross profit	1,290,833	135,418	+853.2%
Profit for the year attributable to owners of the Company	786,412	531,885	+47.9%
EBITDA[Note 1]	2,053,253	390,981	+425.2%
EPS			
- Basic	6.10 HK cents	4.16 HK cents	+46.6%
- Diluted	6.05 HK cents	4.08 HK cents	+48.3%

OPERATION HIGHLIGHTS
For the year ended 31 December 2012

	2012	2011	Change %
Average daily net production			
- Upstream oil and gas production in Pakistan	24,681 boe	20,945 boe	+17.8%
- Liaohe EOR project in China	1,334 barrels	761 barrels	+75.3%
Lifting costs [Note 2] (HK$/boe)			
- Upstream oil and gas production in Pakistan	HK$44.5	HK$52.6	-15.4%
- Liaohe EOR project in China	HK$280.3	HK$308.3	-9.1%

Note:
1. EBITDA represents the profit before finance costs, income tax credit, depreciation and amortisation, gain on bargain purchase, impairment loss on intangible assets, reversal of impairment losses on intangible assets and loss on dissolution of a subsidiary.
2. Depreciation and amortisation, special petroleum revenue tax & other taxes and sales expenses are excluded in lifting costs.

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 (collectively referred to as the “Group”) for the year ended 31 December 2012 as follows:–

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	Note	2012 HK$’000	2011 HK$’000
Turnover	4	3,213,793	876,825
Cost of sales and services rendered		(1,922,960)	(741,407)
Gross profit		1,290,833	135,418
Other income	5	309,185	919,410
Oil exploitation expenses		-	(5,784)
Exploration expenses		(217,111)	(8,045)
Administrative expenses		(355,723)	(273,116)
Other operating expenses		(89,045)	(423,793)
Profit from operations		938,139	344,090
Finance costs	7	(254,492)	(71,563)
Profit before tax		683,647	272,527
Income tax credit	9	109,864	242,115
Profit for the year	8	793,511	514,642
Attributable to:			
Owners of the Company		786,412	531,885
Non-controlling interests		7,099	(17,243)
		793,511	514,642
Earnings per share			
Basic	10	6.10 HK cents	4.16 HK cents
Diluted	10	6.05 HK cents	4.08 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	2012 *HK$'000*	2011 *HK$'000*
Profit for the year	793,511	514,642
Other comprehensive income, net of tax		
Exchange differences on translating foreign operations	(8,301)	35,642
Total comprehensive income for the year	785,210	550,284
Attributable to:		
Owners of the Company	778,580	550,800
Non-controlling interests	6,630	(516)
	785,210	550,284

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		2,632,932	1,877,254
Intangible assets		8,596,597	8,762,996
Advances, deposits and prepayments		25,657	17,017
Deferred tax assets		177,391	63,383
		11,432,577	10,720,650
Current assets			
Inventories		681,839	495,185
Trade and other receivables	*11*	1,297,283	1,439,607
Held-to-maturity investments		-	30,850
Financial assets at fair value through profit or loss		3,455	2,508
Current tax assets		10,042	-
Pledged bank deposits		275,198	201,207
Bank and cash balances		1,111,466	482,323
		3,379,283	2,651,680
Current liabilities			
Trade and other payables	*12*	1,478,833	942,822
Due to directors		8,337	8,066
Bank loans		163,904	102,680
Current tax liabilities		21,476	11,067
		1,672,550	1,064,635
Net current assets		1,706,733	1,587,045
Total assets less current liabilities		13,139,310	12,307,695
Non-current liabilities			
Bank loans		4,836,000	4,914,000
Provisions		266,921	251,449
Deferred tax liabilities		1,259,576	1,058,759
		6,362,497	6,224,208
NET ASSETS		6,776,813	6,083,487
Capital and reserves			
Share capital		130,405	127,771
Reserves		6,554,730	5,558,576
Equity attributable to owners of the Company		6,685,135	5,686,347
Non-controlling interests		91,678	397,140
TOTAL EQUITY		6,776,813	6,083,487

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").

The Company was primarily involved in investment holding. The Group was mainly engaged in the development of strategic 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 oilfield support services in China using patented technologies.

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 that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. 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.

4. TURNOVER

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

	2012 HK$'000	2011 HK$'000
Sales and production of crude oil, condensate, gas and liquefied petroleum gas	3,120,289	819,585
Provision of oilfield support services utilizing patented technology	93,504	57,240
	3,213,793	876,825

The turnover from sales and production of crude oil, condensate, gas and liquefied petroleum gas are net of sales tax, royalty to government and sales discounts amounting to HK$188,907,000 (2011: HK$42,399,000), HK$387,733,000 (2011: HK$83,668,000) and HK$217,452,000 (2011: HK$62,505,000) respectively.

5. OTHER INCOME

	2012 *HK$'000*	2011 *HK$'000*
Interest income	8,972	7,039
Management fees income	10,465	5,550
Net foreign exchange gains	2,071	4,424
Rental income	312	356
Reversal of allowance on inventories	-	819
Reversal of impairment losses on intangible assets	172,395	-
Gain on bargain purchase	77,537	896,606
Fair value gain on financial assets at fair value through profit or loss	947	-
Liquefied petroleum gas processing fees charged to concessions, net	5,098	1,721
Recovery of other receivables written off	648	311
Other payables written back	22,139	2,100
Others	8,601	484
	309,185	919,410

6. SEGMENT INFORMATION

The Group's reportable segments are as follows:

1. Exploration and production – activities relating to the exploration and production of crude oil and natural gas in Pakistan.

2. Oil exploitation – activities relating to the production of crude oil in PRC utilizing production enhancement technology.

3. Oilfield support services – activities relating to the provision of oilfield support services using patented technology.

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
- 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:

- deferred tax assets
- financial assets at fair value through profit or loss
- held-to-maturity investments
- current tax assets
- 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	Oilfield support services HK'000	Total HK$'000
Year ended 31 December 2012				
Turnover from external customers	2,763,392	356,897	93,504	3,213,793
Segment profit	1,079,426	73,766	25,717	1,178,909
Interest revenue	-	1,792	32	1,824
Interest expenses	5,005	2,178	1,414	8,597
Depreciation and amortisation	1,250,000	63,421	46,665	1,360,086
Income tax credit	97,407	13,331	28,271	139,009
Other material non-cash items:				
Gain on bargain purchase	77,537	-	-	77,537
Reversal of impairment losses on intangible assets	172,395	-	-	172,395
Additions to segment non-current assets	1,547,121	224,492	34,058	1,805,671
At 31 December 2012				
Segment assets	7,976,949	4,881,535	369,414	13,227,898
Segment liabilities	1,110,709	1,745,969	62,908	2,919,586

6. SEGMENT INFORMATION (CONTINUED)

	Exploration and production HK$'000	Oil exploitation HK$'000	Oilfield support 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	63,593	(56,498)	806,830
Interest revenue	-	2,059	13	2,072
Interest expenses	1,176	-	-	1,176
Depreciation and amortisation	428,956	69,793	44,698	543,447
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	267,270	22,749	541,582
At 31 December 2011				
Segment assets	7,222,386	4,629,245	416,240	12,267,871
Segment liabilities	578,039	1,470,812	85,561	2,134,412

6. SEGMENT INFORMATION (CONTINUED)

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

	2012 *HK$'000*	2011 *HK$'000*
Profit or loss		
Total profit of reportable segments	1,178,909	806,830
Unallocated amounts:		
Other income (except for certain other income included in the exploration and production and oil exploitation segments)	35,259	15,532
Corporate expenses	(171,170)	(237,333)
Finance costs (except for unwinding of discount on provision for decommissioning cost included in the exploration and production segment)	(249,487)	(70,387)
Consolidated profit for the year	793,511	514,642
Assets		
Total assets of reportable segments	13,227,898	12,267,871
Unallocated amounts:		
Other receivables and other assets	6,410	324,188
Deferred tax assets	177,391	63,383
Financial assets at fair value through profit or loss	3,455	2,508
Held-to-maturity investments	-	30,850
Current tax assets	10,042	-
Pledged bank deposits	275,198	201,207
Bank and cash balances	1,111,466	482,323
Consolidated total assets	14,811,860	13,372,330
Liabilities		
Total liabilities of reportable segments	2,919,586	2,134,412
Unallocated amounts:		
Other liabilities	85,324	118,078
Due to directors	8,337	8,066
Bank loans	4,999,904	5,016,680
Current tax liabilities	21,476	11,067
Provisions (except for provision for decommissioning costs included in the exploration and production segment)	420	540
Consolidated total liabilities	8,035,047	7,288,843

6. SEGMENT INFORMATION (CONTINUED)

Geographical information:

	Turnover		Non-current assets	
	2012	**2011**	**2012**	**2011**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	-	-	569	978
PRC	450,401	277,463	4,829,612	4,699,807
Pakistan	2,763,392	599,362	6,425,005	5,955,489
Others	-	-	-	993
Consolidated total	3,213,793	876,825	11,255,186	10,657,267

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 discounts derived from major customers who contributed 10% or more of total turnover of the Group are as follows:

	2012	**2011**
	HK$'000	**HK$'000**
Exploration and production segment		
Customer A	964,097	224,378
Customer B	721,228	152,472
Customer C	641,357	100,825
Customer D	338,452	N/A
Oil exploitation segment		
Customer E	356,897	220,223

7. FINANCE COSTS

	2012	**2011**
	HK$'000	***HK'000***
- Interest on bank loans	249,487	70,387
- Unwinding of discount on provision for decommissioning costs	5,005	1,176
	254,492	71,563

8. PROFIT FOR THE YEAR

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

	2012 HK$'000	2011 HK$'000
Depreciation and amortisation (note a)	1,361,333	549,847
Allowance for other receivables	39	2,255
Allowance for advances, deposits and prepayments	-	1,301
Acquisition-related costs (included in administrative expenses)	1,530	121,607
Auditors' remuneration		
- Current	3,638	2,852
- Under-provision in prior year	61	200
	3,699	3,052
Allowance for inventories (included in cost of inventories sold)	-	19,500
Cost of inventories sold (note b)	1,799,710	543,108
Directors' emoluments	24,273	18,837
Loss on disposals of property, plant and equipment	468	31
Operating lease charges		
- Hire of office equipments and motor vehicles	9,876	3,093
- Land and buildings (note c)	28,591	10,985
	38,467	14,078
Research and development expenditures	241	633
Staff costs including directors' emoluments		
Salaries, bonuses and allowances (note c)	234,605	96,249
Retirement benefits scheme contributions	29,839	6,461
Equity-settled share-based payments	7,329	10,127
	271,773	112,837
Fair value loss on financial assets at fair value through profit or loss	-	879
Impairment losses on intangible assets (included in other operating expenses)	-	393,650

Note a: Depreciation and amortisation includes the amortisation charges of intangible assets of approximately nil (2011: HK$5,784,000), HK$737,883,000 (2011: HK$271,396,000) and HK$25,039,000 (2011: HK$29,603,000) 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 and amortisation, operating lease charges and allowance for inventories of approximately HK$1,399,177,000 (2011: HK$482,785,000) which are included in the amounts disclosed separately above.

Note c: The amounts include the accommodation benefits provided to directors amounting to approximately HK$80,000 (2011: HK$480,000).

9. INCOME TAX CREDIT

	2012	2011
	HK$'000	*HK$'000*
Current tax - PRC enterprise income tax		
Provision for the year	6,623	4,076
Over-provision in prior years	(284)	(573)
	6,339	3,503
Current tax – Overseas		
Provision for the year	43,954	7,827
Over-provision in prior years	215	-
	50,508	11,330
Deferred tax	(160,372)	(253,445)
	(109,864)	(242,115)

No provision for profits tax in the Bermuda, Bahamas, Barbados, British Virgin Islands, Singapore, Republic of Panama, Mauritius or Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the years ended 31 December 2012 and 2011.

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.

During the year ended 31 December 2012, the Group's subsidiary in the PRC was approved as a high technology enterprise pursuant to which the PRC subsidiary can enjoy a preferential income tax rate of 15% effective from 2011 to 2013.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

10. EARNINGS PER SHARE

Basic earnings per share
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$786,412,000 (2011: HK$531,885,000) and the weighted average number of ordinary shares of 12,890,604,909 (2011: 12,777,091,632) in issue during the year.

Diluted earnings per share
The calculation of diluted 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$786,412,000 (2011: HK$531,885,000) and the weighted average number of ordinary shares of 13,001,202,818 (2011: 13,021,424,989), being the weighted average number of ordinary shares of 12,890,604,909 (2011: 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 110,597,909 (2011: 244,333,357) assumed to have been issued at no consideration on the deemed exercise of the share options and unlisted warrants (2011: unlisted warrants) outstanding during the year.

11. TRADE AND OTHER RECEIVABLES

	2012 *HK$'000*	2011 *HK$'000*
Trade receivables (note a)	1,185,994	778,170
Other receivables (note b)	111,289	661,437
Total trade and other receivables	1,297,283	1,439,607

(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 (2011: range from 30 to 45 days). In 2012, a new oilfield support service contract was entered with credit term of 300 days. The contract value of that particular service contract is approximately RMB13,450,000. 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:

	2012 *HK$'000*	2011 *HK$'000*
0 to 30 days	1,145,941	668,522
31 to 60 days	40,053	59,094
61 to 90 days	-	11,936
91 to 180 days	-	31,170
181 to 365 days	-	7,448
	1,185,994	778,170

(b) Other receivables

	2012 *HK$'000*	2011 *HK$'000*
Amounts due from joint venture partners	23,857	35,010
Central excise duty receivables	5,713	5,806
Prepayment to non-controlling shareholder of a subsidiary (Note)	-	315,825
Deposits and prepayments	26,310	13,980
Advances to staff	8,086	9,143
Excess consideration receivables	-	251,794
Sales tax receivables	41,764	27,630
Others	5,559	2,249
	111,289	661,437

Note : 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. The dissolution was completed during the year and such amounts had been recognized in equity.

12. TRADE AND OTHER PAYABLES

	2012 *HK$'000*	2011 *HK$'000*
Trade payables (note a)	280,020	189,225
Other payables (note b)	1,198,813	753,597
Total trade and other payables	1,478,833	942,822

(a) Trade payables

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

	2012 *HK$'000*	2011 *HK$'000*
0 to 30 days	267,798	175,095
31 to 45 days	6,805	8,809
Over 45 days	5,417	5,321
	280,020	189,225

(b) Other payables

	2012 *HK$'000*	2011 *HK$'000*
Accrual for operating expenses	639,431	489,127
Salaries and welfare payables	3,222	3,200
Deposits received	9,374	10,043
Temporary receipts	-	22,139
Other tax payables	250,782	161,104
Amount due to joint venture partners	169,534	66,451
Bills payables	116,832	-
Others	9,638	1,533
	1,198,813	753,597

13. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012 and 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The year ended 31 December 2012 (the "year under review") was the first full year operation and production of Liaohe Project in China and after the acquisition of the upstream oil and gas assets in Pakistan acquired from British Petroleum plc. ("BP plc"). The Group's turnover increased to approximately HK$3,213,793,000 for the year ended 31 December 2012, which represented a significant increase of approximately 2.67 times as compared to the turnover of approximately HK$876,825,000 for the year ended 31 December 2011. The turnover for the year ended 31 December 2012 was from the sale of crude oil, condensate, gas and liquefied petroleum gas (2012: approximately HK$3,120,289,000, 2011: approximately HK$819,585,000) and services fees income derived from provision of oilfield support services utilizing patented technology (2012: approximately HK$93,504,000, 2011: approximately HK$57,240,000). For the year ended 31 December 2012, the Group's gross profit was approximately HK$1,290,833,000 (gross profit ratio approximately 40.2%) which represented a substantial increase of 8.53 times as compared to gross profit of 2011 of HK$135,418,000 (gross profit ratio approximately 15.4%). The Company reported an EBITDA of approximately HK$2,053,253,000 for the year under review (2011: HK$390,981,000).

For the year ended 31 December 2012, the Group reported a total other income approximately HK$309,185,000 (For year ended 31 December 2011: approximately HK$919,410,000). The main contributors of other income in the year under review were the reversal of impairment losses on intangible assets (approximately HK$172,395,000) and gain on bargain purchase (approximately HK$77,537,000), while the main contributor in 2011 was the gain on bargain purchase of approximately HK$896,606,000 from the acquisition of the Pakistan assets from BP plc.

Administrative expenses increased from approximately HK$273,116,000 for the year ended 31 December 2011 to approximately HK$355,723,000 for the year ended 31 December 2012. The increase in administrative expenses reflected an enlarged overhead of operating the Pakistan business for a full year. These expenses for the year ended 31 December 2012 included staff cost of approximately HK$143,897,000 (2011: HK$68,369,000), non-cash expenses of approximately HK$7,329,000 (2011: HK$10,127,000) due to equity settled share-based payment transactions from share options granted to the employees per the share option scheme and depreciation of approximately HK$46,481,000 (2011: approximately HK$4,466,000).

Exploration expenses of HK$217,111,000 (2011: HK$8,045,000) are incurred during the year. The significant increase in exploration expenses were incurred for the result of a full yield of the 3D seismic studies and exploration drilling performed in Pakistan.

In summary, profit attributable to owners of the Company was approximately HK$786,412,000 for the year ended 31 December 2012, representing a 47.9% increase over the profit attributable to shareholders of the Company of approximately HK$531,885,000 for the year ended 31 December 2011. This result is reflected in the basic earnings per share which was 6.10 HK cents for the year ended 31 December 2012 as compared with the basic earnings per share of 4.16 HK cents for the year ended 31 December 2011.

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 year under review.

The Group's Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2012. 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 is one of the largest listed upstream oil and gas corporations in Hong Kong, with business now extended to South Asia. 2012 was the first full financial year after the Group's acquisition of the upstream oil and gas assets in Pakistan which has recorded satisfactory growth in production levels. Notably, as at 31 December 2012, the Group reached a single day net production of 35,030 barrel oil equivalent ("boe") (Note: Including 19.74% MKK working interest acquired), which makes the Group ranked as the fourth largest oil and gas producer listed in the Hong Kong Stock Exchange, after the three Chinese national oil companies.

During the year under review, the Group has recorded an average daily net production of 26,015 boe (Pakistan: 24,681 boe (Oil and liquid ratio: 29.2%); Liaohe, China 1,334 barrels (Oil and liquid ratio: 100%)).

On 12 December 2012, 25% working interest in the petroleum sharing contract of Offshore Block G located in Pakistan was transferred to the Group by BP plc without cost. On 31 December 2012, the Group has also completed the acquisition of 19.74% working interest at MKK at consideration of US$ 36,830,000. After that, as at 31 December 2012, the Group held 71.05% working interest in the MKK Concession.

During the year under review, lifting costs and direct costs incurred and recognized in cost of sales and services rendered by the Group is approximately HK$ 574,331,000 (Pakistan: approximately HK$ 402,910,000, Liaohe, China: approximately HK$ 130,386,000, Oilfield Support Services: approximately HK$ 41,035,000), and the Group invested approximately HK$1,336,920,000 of capital expenditure in oil exploration, development and production activities (Pakistan: approximately HK$1,180,140,000; Liaohe, China: approximately HK$156,780,000) 51 new wells has been drilled (Pakistan: 31 wells, Liaohe, China: 20 wells) with drilled depth totaling 352,675 feet (Pakistan: 215,725 feet, Liaohe, China: 136,950 feet). The Group has also completed 2,277 km^2 3D seismic data acquisition in Pakistan.

Benefited from the Group's aggressive investment and drilling activities, as at 31 December 2012, the Group's net proved reserve reached 60.34 million boe (Pakistan: 33.84 million boe; Liaohe, China: 26.5 million boe) recording an increase of 7.02 million boe proved reserve compared to 31 December 2011.

Under the implementation of "reliable operation + rapid expansion" business strategy, the Group operations in performance of the Group's assets in Pakistan and Liaohe asset have both recorded shown significant growth enhancement. Both In the year under review, the Group has recorded another year of significant growth in both the turnover and profit, have once again recorded significant increase. The significant increase is a proof that the Company thereby is delivering fulfilling its promises to deliver to the shareholders and investors on sustainable returns and growth and return.

Pakistan Oil and Gas Project:

Year 2012 was the first full financial year after the acquisition of the assets. In the year under review, the Pakistan Project has recorded an average daily net production of 24,681 boe, marking 17.8% increase compared to the period from 16 September 2011, the day that the Group completed the acquisition, to 31 December 2011. As a result of the aggressive efforts to acquire and interpret 3D seismic data, the Group have drilled 11 exploration wells and 20 developing wells and added 8.24 million boe proved reserves during the year under review. It is worth noting that on a single day production basis, the Pakistan project was producing 31,532 boe (Note: Not including 19.74% MKK working interest acquired) on 31 December 2012, which is 50.2% higher than the production level on 31 December 2011.

The Group has also approximately 600 staff members in Pakistan exploration and development project. Those staff members are well-trained and with average 12 year of experience in oil and gas industry which are part of the Group most valued human resources to explore and develop the assets.

Liaohe EOR, China:
The Group's Enhance Oil Recovery Project located in Liaohe ("Liaohe Project") is the largest commercial application of fireflood technology in enhance oil recovery projects in China. The project was approved by National Development and Reform Commission to enter into development stage in July 2010 and the project entered into production stage in February 2011.

Since Liaohe Project entered into development and production stage and recorded double-digit growth for two consecutive years. The average daily net production has reached 1,334 barrels marking 75.3% increase compared with the corresponding period in 2011. On a single day production basis, the Liaohe project was producing 1,427 barrels on 31 December 2012, which is 193% higher than the production level on 31 December 2011.
During the year under review, the company has installed 8 sets of fireflood units and drilled 20 development wells.

The Group' fireflood application in the Gaosheng block of Liaohe oilfield has made significant progress. The coverage of fireflood application has increased from 25% to the current level of 37% at the end of 2012. During the year under review, Liaohe Project has substantially completed the drilling of infill wells for conversion of production wells into fireflood producers. This has laid the ground work for significant increase in the coverage rate of fireflood producers. Benefited from the oil prices and the progress to convert production wells into fireflood application, it is expected that Liaohe Project will contribute significantly in term of cash-flow for the Group.

Oilfield Support Services:
As a leading fireflood technology company in China, the Group plans to maintain its leadership by conducting research in fireflood technology. Through providing patented technology support services to oilfields, the Group will contribute to enhancing the residual values of abolished or retiring oilfields through increasing their ultimate recovery ratios and thereby creating greater economic values.

The Group's provision of patented technology oilfield support services has made excellent progress. In 2012, it has expanded the fireflood service coverage at Block Du 66 and Du 48 located in Jilin, increasing the number of fireflood units from 17 units in 2011 to 27 units in 2012. Turnover increased 63.4% from HK$57,240,000 in 2011 to HK$93,504,000 in 2012. The Group has also jointly set up a laboratory focused on the application of fireflood technology with Xian Petroleum University, a leading academic institute devoted to conduct further research in the use of Fireflood Technology. The Group places significant emphasis on investment in research and development, as this will form a solid basis for future development in the technology. The Group's successful application of fireflood technology can help promoting the technology to elsewhere in the region implying a great business potential. Since the Chinese oilfields are aging gradually, the Group has the patented fireflood technology to explore the opportunity of "secondary development" which will enhance the production volume and life of the maturing oilfields. The Group is currently in negotiations with a number of corporations and actively exploring business opportunities that will significantly increase revenue generated from oilfield support services.

Business and market outlook
Oil prices maintains strong as it is being affected by geopolitical instabilities. Strong oil prices were positive for the Group's revenue. On the other hand, the volatile global economy drives the value of certain oil companies and oil and gas projects attractive hence creates greater opportunities for merger and acquisitions.

To deliver our target at becoming a world class upstream corporation, our Group actively explores opportunities for acquiring quality projects to enhance the scale of the Group's upstream operation. The Group signed a project cooperation agreement with China Development Bank at US$ 5 billion for five years on 26 October 2012, signifying the Company's continued ability to enjoy the Bank's preferential financial support in acquisitions. This enhances the Group's financial power in bidding for assets, in line with our reliable operation + rapid expansion" strategy. The Group can make use of this strong support to search for quality assets or co-operation opportunities thereby expanding the scale of assets and operations. This creates the best environment to achieve shareholding value maximization.

Pakistan Oil and Gas Project:
Notably, the country has faced a severe energy shortage starting from 2010. Pakistan, one of the most populated developing countries in the world, has strong demand for energy. The Government of Pakistan has released a series of policies encouraging investment in energy. The Group, as one of the largest foreign energy companies at Pakistan, has a solid and reputed brand in the country. The company continues to search for quality projects and opportunities to fully make use of the company's advantage in the sector. In view of the macro-economic development in the country, it is believed that fundamental factor is significant development opportunities for oil and gas companies in Pakistan.

On 5 March 2013, the Group has signed an agreement with a third party to acquire an additional 3.95% working interest in MKK Concession in Pakistan. The acquisition is expected to be completed within 2013. When completion, the Group will finally hold 75% working in MKK Concession where the remaining 25% working interest in MKK Concession is owned by the Government of Pakistan, with the exploration costs carried by the Group.

On 19 March 2013, the Government of Pakistan granted approval to United Energy Pakistan Limited ("UEP"), an indirectly wholly-owned subsidiary of the Company, for surrender of Offshore Indus-V & W blocks with effect from 13 February 2013 and transfer of outstanding 790 work units to Offshore Indus-U block. These work units will not offset against the additional work units earned prior to the surrender of Offshore Indus-V & W blocks. UEP will discharge its outstanding working obligations in Offshore Indus-V & W. Based on the studies, Offshore Indus-U has significant exploration potential. The surrender will allow the Group effectively allocates its resources to explore the Pakistan Offshore opportunities.

The Group plans to further increase the daily net production in Pakistan to above 60,000 boe in 5 years time and the average compound annual growth rate is approximately 20%. The Group will also target to maintain the cost of production at or below US$5 per barrel.

To ramp up the daily production and to improve the total reserves, the Group plans to invest approximately US$250-300 million CAPEX on exploration and development activities average per year through 2017.

On the other hand, the Group plans to further invest in 3D seismic data acquisition and analysis which covers 3,830 km² onshore area and 800 km² offshore area in 2013. We also plan at conducting a complete workover program in 2013 to enhance the production efficiency.

Liaohe EOR Project, China
Since the Liaohe EOR Project entered into development and production stage, the project has recorded double-digit growth for two consecutive years. In five years' time, the Group plans to increase the net average daily production volume to above 3,000 barrels and to maintain the lifting cost at or below US$35 per barrel.

Conclusion
As one of the largest listed upstream oil companies in Hong Kong, United Energy will keep looking for

opportunities to expand its business in China and other regions to maximize the returns for shareholders. Stepping in 2013, the Group is implementing the development principles of "Cooperation to achieve win-win, and to speed up development". The Group will work closely with Chinese oil companies and other oil companies in search for the values creation. The Group targets at achieving enhancing oil and gas production in Pakistan, lowering the lifting cost and improvement in profit margins and it will also enhance the exploration scale, increasing the reserves ratio to build a solid base as a large-scale oil and gas operator. At the same time, the Group will continue to increase investment in Liaohe EOR fireflood technology, exploration and production to achieve higher profitability under a new corporate development model.

Material Acquisition and Disposal

During the year under review, the Group continued its strategy of international expansion. With the completion of the acquisition of the Pakistan upstream oil and gas assets from BP plc on 16 September 2011, the Group acquired a 68.42% working interest in the licence in the areas under the MKK Concessions (which includes a 17.11% working interest owned by Government Holdings Private Limited, a company owned by the Government of Pakistan, with the exploration costs carried by the Group) and a 51.31% working interest in the lease in the areas under the MKK Concessions. On 1 October 2012, the Group entered into a share purchase agreement for the acquisition of a company, Oasis Natural Energy, Inc., which indirectly owns a 26.32% working interest in the licence in the areas under the MKK Concessions (which includes a 6.58% working interest owned by Government Holdings Private Limited with the exploration costs carried by the seller) and a 19.74% working interest in the lease in the areas under MKK Concession in Pakistan with the consideration of US$33,330,000 (equivalent to approximately HK$259,974,000) subject to adjustments upon closing of this acquisition. On 31 December 2012, the closing took place with the total consideration paid of US$36,830,000 (equivalent to approximately HK$287,274,000). After completion of two acquisitions of working interest in MKK Concessions, the Group totally owns a 94.74% working interest in the licence in the areas under the MKK Concessions (which includes a 23.69% working interest owned by Government Holdings Private Limited with the exploration costs carried by the Group) and a 71.05% working interest in the lease in the areas under the MKK Concessions. It would facilitate the implementation of the Group's business plan in respect of the MKK Concessions which will be beneficial to the business of the Group.

Further, on 12 December 2012, 25% of the petroleum sharing contract of Offshore Block G located in Pakistan was transferred to the Group by BP plc without cost.

During the year under review, the dissolution of Shenyang Shengtaiyuan Logistics Company Limited, an 80% owned subsidiary of the Group, has been completed.

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 year under review with cash and cash equivalents amounting to approximately HK$1,111,466,000 as at 31 December 2012 (as at 31 December 2011: approximately HK$482,323,000).

On 26 January 2010, the Group had 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. As United Petroleum has completed part of its obligation in December 2010, April 2011 and November 2011 and March 2012, CNPC confirmed and agreed to release part of the performance in the amount of HK$357,630,000 (equivalent to approximately US$45,850,000). As at 31 December 2012, the Group's cash at banks with carrying value of approximately HK$110,370,000 (equivalent to approximately US$14,150,000) were pledged for the banking facilities.

On 22 February 2012, the Company issued various unlimited corporate guarantees in favour of the President of the Islamic Republic of Pakistan and certain joint venture partners of the Group, for guarantee to provide United Energy Pakistan Limited ("UEP"), an indirect wholly-owned subsidiary of the Company, with all necessary financial and other means to enable UEP to fully perform its obligations as stipulated in the concession agreements.

On 20 March 2012, UEP issued various bank guarantees in an aggregate sum of approximately HK$105,066,000 (equivalent to US$13,470,000) in favour of the President of the Islamic Republic of Pakistan, for guarantee UEP's performance of its financial and works obligations as stipulated in the concession and production sharing agreements. As at 31 December 2012, the Group's cash at bank with carrying value of approximately HK$105,406,000 (equivalent to US$13,514,000) were pledged to a bank for the issuance of these bank guarantees. The expiry date of these bank guarantees is 1 December 2013.

On 27 June 2012, United Petroleum & Natural Gas (Panjin) Limited, an indirectly wholly-owned subsidiary of the Company ("United Petroleum (Panjin)"), entered into a facility agreement with Citic Bank (Shenyang Branch) for a credit line of RMB 100,000,000 for the bank loan with expiry on 13 December 2013. The Orient Group Industrial Holdings Company Limited, a related party of the Group due to Mr. Zhang Hong Wei as ultimate controlling party, ("Orient Group Industrial"), has provided a guarantee in favour of United Petroleum (Panjin) to Citic Bank (Shenyang Branch) against the credit line to the extent in the amount of RMB110,000,000. On the same day, United Petroleum (Panjin) entered into a loan agreement with Citic Bank (Shenyang Branch) in order to draw down RMB 50,000,000 (equivalent to HK$61,360,000) from the credit line at floating interest rate (basic lending rate of People's Bank of China under same period and same grade + 20 bps) with expiry on 27 June 2013 for purchase of raw materials. On 29 November 2012, United Petroleum (Panjin) entered another facility agreement with Citic Bank (Shenyang Branch) to extend the credit line to RMB 160,000,000 for both bank loan and bills payable with expiry on 27 May 2014. As at 31 December 2012, the outstanding balance of the bank loan and the bills payables are RMB50,000,000 (equivalent to HK$61,360,000) and RMB94,501,000 (equivalent to approximately HK$115,972,000).

On 26 October 2012, the Company entered into a project cooperation agreement with China Development Bank Corporation Hong Kong Branch ("CDBHK") for a period of five years from the date of such project cooperation agreement with target size of US$ 5 billion in respect of the acquisition of the oil and gas projects of the Group (the "Agreement"). The Agreement refreshes the cooperation agreement signed with CDBHK on 18 December 2010. During the period of the Agreement, the Group agrees to take CDBHK as its preferred financing partner and CDBHK agrees to provide the Group's projects with financing support services including consultancy and planning. CDBHK also agrees to give preferential consideration to financing applications in respect of the Group's projects. Any financing to be provided under the Agreement may be by way of bilateral or syndicated loans arranged by CDBHK. China Development Bank Capital Co., Ltd., a wholly-owned subsidiary of China Development Bank, will closely cooperate with the Group in relation to equity investment opportunities. The actual financing terms and conditions and the loan amount for specific projects will be subject to the contract signed by both parties and corresponding approvals and loan documentations.

As at 31 December 2012, the outstanding balance of the bank loan from CDBHK for acquisition of the Pakistan upstream oilfield assets from British Petroleum in September 2011 was US$630,000,000, approximately equivalent to HK$4.914 billion (as at 31 December 2011: US$640,000,000 , approximately equivalent to HK$4.992 billion).

As at 31 December 2012, the gearing ratio was approximately 33.8% (as at 31 December 2011: 37.5%), based on bank loan under current liabilities and non-current liabilities of approximately HK$163,904,000 (as at 31 December 2011: HK$102,680,000) and HK$4,836,000,000 (as at 31 December 2011: HK$4,914,000,000) respectively and total assets of approximately HK$14,811,860,000 (as at 31 December 2011: HK$13,372,330,000). As at 31 December 2012, the current ratio was approximately 2.02 times (as at 31 December 2011: approximately 2.49 times), based on current assets of approximately HK$3,379,283,000 (as at 31 December 2011: approximately HK$2,651,680,000) and current liabilities of approximately HK$1,672,550,000 (as at 31 December 2011: approximately HK$1,064,635,000).

Capital Structure
During the year under review, the changes of the share capital structure of the Company are as follows:

On 10 January 2012 and 22 October 2012, the Company resolved to award 6,783,880 new shares and 4,620,138 new shares respectively as the scheme shares to 519 Pakistan employees under the Share Match Scheme approved and adopted by the Company for Pakistan employees after the completion of the acquisition of the upstream oil and gas business in Pakistan on 16 September 2011. The objectives of the Share Match Scheme were to provide Pakistan employees with incentives in order to retain them for the continual operation and development of the newly acquired Pakistan business and to attract suitable personnel for the growth and further development of the Group. The allotments of the 6,783,880 scheme shares and 4,620,138 scheme shares were completed on 19 January 2012 and 30 October 2012 respectively.

During the year under review, 2,000,000 units of share options granted and vested under the Company's Share Option Schemes adopted on 11 May 2006 were exercised by management personnel and allotments of the 2,000,000 shares were completed on 1 June 2012 and 5 July 2012.

On 20 July 2012, 250,000,000 units of unlisted Warrants granted and vested under the Warrant Instrument approved and issued by the Company on 26 July 2010 were exercised by the Warrantholder and allotment of the 250,000,000 scheme shares were completed on 31 July 2012.

After completion of all the above allotments during the year under review, the total number of issued shares of the Company was increased from 12,777,091,632 shares as at 1 January 2012 to 13,040,495,650 shares as at 31 December 2012.

Employees
As at 31 December 2012, the Group employed a total of 950 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, year end bonuses, medical benefits and a contributory provident fund.

During the year under review, Mr. Andrew Leo Kirby and Mr. Ho King Fung, Eric has resigned as executive director and non-executive director of the Company respectively due to their personal reasons.

Contingent Liabilities
On 22 February 2012, the Company issued various unlimited corporate guarantees in favour of the President of the Islamic Republic of Pakistan and certain joint venture partners of the Group, for guarantee to provide United Energy Pakistan Limited ("UEP"), an indirect wholly-owned subsidiary of the Company, with all necessary financial and other means to enable UEP to fully perform its obligations as stipulated in the concession agreements.

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 Renminbi and Pakistani Rupees. 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 2012, the Group's largest and five largest customers represented 94.0% of total turnover (2011: 89.1%) and the Group's largest and five largest suppliers represented 43.8% of total cost of sales and services rendered (2011: 11.1%).

PURCHASE, SALE OR REDEMPTION OF SHARES

As at 31 December 2012, 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 2012 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 and Nomination 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 2012.

CODE OF CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2012, the Board is of the view that, for the period from 1 January 2012 to 31 March 2012, the Company has complied with the former code provisions on the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules and for the period from 1 April 2012 till 31 December 2012, the Company has complied with the code provisions included in the amendments made to the former code which took effect since 1 April 2012 (the "Code"), save for the deviations disclosed below:

Code provision A.2.1 - The Company has 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.

The Code A.6.7 -- All the independent non-executive Directors were unable to attend the Company's Annual General Meeting which was held on 29 May 2012 due to other prior business engagements in China.

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 2012 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 2012 annual report will be despatched to the shareholders and available on the Company's website at www.uegl.com.hk and HKEx news website at www.hkexnews.hk in due course.

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

Hong Kong, 27 March 2013

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