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MIE HOLDINGS CORPORATION

MI能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1555)

ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2014

Dear Shareholders,

On behalf of the Board of Directors (“Board”) of MIE Holdings Corporation (“MIE” or the “Company”, together with the subsidiaries, the “Group”), I hereby present the annual results of the Company for the year ended December 31, 2014.

In 2014, the Group’s total operated oil and gas production exceeded 10 million barrels of oil equivalent (“BOE”, converting at 6,000 standard cubic feet (“MSCF”) of gas to 1 BOE for reference purpose only) for the first time, represented by its 0.8% increase from 9.93 million BOE in 2013 to 10.01 million BOE in 2014. Net oil and gas production increased 5.3% from 5.68 million BOE in 2013 to 5.98 million BOE in 2014. Group’s total sales revenue slid 8.4% to RMB3.0 billion, whilst profit before tax dropped by 48.0% to RMB236.7 million, both due mainly to the slump in global crude oil prices in second half of 2014, certain one-off finance expenses for the early redemption of 2016 Notes, as well as an impairment loss from our subsidiary Condor Energy Technology LLC in respect of its long-live assets in Niobrara, USA, and an impairment loss from the Moliqing property held by Riyadh Energy Limited. Nonetheless, our EBITDA in 2014 maintains at a healthy level at RMB1.6 billion. The Group’s reported net profits decreased by 91.9% year on year (“yoy”) to RMB22.5 million, and earnings per share decreased by 80.0% to RMB0.022/share. In order to preserve sufficient cash to support the Group’s liquidity and operation under foreseeable low crude oil price environment in 2015, the Board did not recommend payment of final dividend.

For the year 2014, highlights of the Group include:

- **Further Enhancement of Group Reserves Value.** Based on reports issued by independent technical consultants, the present value before tax and discounted at 10% (“NPV 10”), of the Group’s Net Proved + Probable (“2P”) oil and gas reserves as at yearend 2014 is approximately US\$4.0 billion, which represents a 14.3% increase over the NPV 10 of US\$3.5 billion reported at yearend 2013, despite the divestments and exclusion of Pan-China Resources Limited (“PCR”) and Miao Three Energy Limited (“Miao Three”). Comparing with yearend 2013, the Group total net Proved (“1P”) oil and gas reserves as of yearend 2014 increased 40.3% to 116.8 million barrels of oil equivalents, while total net 2P oil and gas reserves increased 13.6% to 218.7 million BOE, total net Proved + Probable + Possible (“3P”) oil and gas reserves was about flat at 289.8 million BOE.
- **Divestments of non-core assets generating decent returns in 2014.** In 2014, the Group successfully divested two non-core assets in China: 1) PCR, which operates the Kongnan Production Sharing Contract (“PSC”) in Hebei Province; and 2) Miao Three which operates the Miao Three PSC in Jilin Province. Based on reserves at yearend 2013, the total net 2P reserves of Kongnan and Miao Three combined only represented about 4.4% of the Group’s total net 2P oil reserves and as such it shall not cause any material impact on the Group’s total production and cash from operations going forward. The final adjusted consideration for the sale of PCR and Miao Three was approximately US\$83.1 million and US\$21.2 million, respectively. Upon the completion of both divestments in second half of 2014, the Group realized a total gain of about US\$42.2 million. Whilst these two transactions demonstrate the tremendous intrinsic value of the Group’s remaining assets, more importantly they provide the Group with further capital reserves for future new assets upgrade or acquisitions.
- **The cash operating costs of the Group’s core assets in China remains at low levels, serving as a solid foundation for the Group’s liquidity under the current low oil price environment.** As opposed to many pure play shale oil and gas producers in North America, our China oil projects consistently maintain cash operating costs at low levels. After the divestment of PCR and Miao Three, the lifting costs for our two remaining oil projects, Daan and Moliqing remains about US\$10.62/barrel, whereas cash operating cost (including the lifting cost, but excluding the special oil levy) approximates US\$16–18/barrel. In addition, since January 2015, upon the Chinese government raising the threshold for the special oil levy from US\$55/barrel to US\$65/barrel, the tax burden for our China oilfields has been further reduced. Accordingly, we are optimistic that even at current low crude oil prices, both Daan and Moliqing will continue to generate strong cash flow and profitability, which is critical for maintaining the Group’s operational and financial flexibility and stability under a volatile oil price environment.

- **Sino Gas & Energy Limited (SGE) achieved encouraging drilling and testing results, and well-positioned for the start of large scale production.** SGE's well testing program in 2014 has been successful, with average flow rate significantly increased in comparison to the 2013 testing program. In the Linxing Block, 28 flow tests were performed (excluding the horizontal well TB-1H), resulting in an average absolute open flow (AOF), potential rate of 925 thousand cubic feet per day (approximately 26,205 cubic meters per day, AOF¹). In the Sanjiaobei Block, where 10 flow tests were carried out, similar improvement was recorded with an average AOF potential rate of 380 thousand cubic feet per day (approximately 10,780 cubic meters per day, AOF).

SGE's successful drilling and testing programs have led to very significant upgrade in the project's reserves. According to our independent consultant's review of yearend 2014 reserves and resources for the Linxing and Sanjiaobei projects, the 1P Reserves (attributed to the Group, same for other reserves figures in the paragraph) increased by 171% to 364.1 billion cubic feet ("BCF") (or 10.3 billion cubic meters ("BCM"), where 1 cubic meter = 35.315 cubic feet), and 2P Reserves increased by 54% to 466.7BCF (13.2BCM). Furthermore, the yearend 2014 reserves assessment indicates that, based on 2P Gas Reserves, the Group's net share of the SGE's NPV 10 is estimated at about US\$1.6 billion. Starting from 2015, SGE will enter into an important phase of production growth. Despite the current global low crude oil price scenario, the price and demand for natural gas in China has remained strong. We anticipate that our SGE project will experience strong future growth and profitability, diversifying the Group's operation risks under oil price volatility.

- **Emir-Oil's production maintained growth momentum, with significant progress made on the construction of the new Central Processing Facility ("CPF").** In 2014, the average oil production for Emir-Oil was 5,201 barrels per day ("BOPD"), representing an increase of 20.4% from 4,320 BOPD in 2013. Groundbreaking for the construction of the new CPF took place in the 4Q2014. Despite our recent strategic decision to defer the target completion date for the CPF due to the drop in global crude oil prices, we remain poised and ready to accelerate completion of the project whenever oil prices recover. The new CPF, which is now rescheduled to be put into operation in 2016, represents an integral part of the long term solution to remove production bottleneck for Emir-Oil and to enhance sales margin.
- **Despite global crude oil price volatility, the Group exercises due care and discipline when pursuing future expansion strategies by making two minority investments.** (1) Co-investment with Can-China Global Resources Fund ("CCGRF") in Canadian International Oil Corporation ("CIOC"), with total consideration of about US\$7 million. CCGRF is a private equity fund focused in the natural resources sector with more than USD\$1 billion of commitments under management. Such investment has broadened our connection with global top-tier oil and gas focused operators and investors and set the stage to pursue our future global expansion strategies; and (2) A new joint venture to be established with China Oil & Gas Group Limited (00603.HK) to jointly develop LNG/CNG related downstream sales and distribution business, in order to maximize the integrated utilization of the Group's natural gas assets in Shanxi or other parts of China.

¹ AOF potential of a well is the calculated rate at which the well would produce against zero back pressure. AOF is used as a measure of gas well performance as it quantifies the ability of a reservoir to deliver gas to the wellbore. The AOF values provided herein are for reference purposes only.

The sharp slump of international crude oil prices since 2H2014 undoubtedly affects oil producers around the world. A vast number of oil companies ranging from independents to international majors have already announced substantial cuts to work plans and budgets for 2015. In view of current conditions, and given the global crude oil market outlook remains to be volatile and challenging, management of the Group is committed to exercise further due care when pursuing our business plans, particularly when that is related to any capital expenditures and/or investments. Flexibility and timely responses to changes in the market are critical when executing our 2015 budget/work programs. Under the current low oil price environment, we believe our 2,600+ existing wells in Northeast China will continue to provide strong free cash flow to support the Group's overall operation, as we plan to substantially scale back on drilling of new development wells for both China and Kazakhstan oil operations until oil prices recover. For the Linxing and Sanjiaobei projects under SGE, 2015 will be the first year of significant pilot production gas sales into pipeline. The Group anticipates growing cash flow from such sales and production along with two central gas stations commence operation.

For 2015, given the low global oil prices, the Group plans a reduced work program, compared to 2014. We plan to drill 32 gross wells (including 29 wells in SGE), with budgeted capital expenditure total about USD103.0 million. The expected net oil production is 9,800 to 11,100 barrels/day, net gas production of 9,600 to 10,100 MSCF/day. We are confident that this program will provide the basis for the Group's continued operational and financial stability and growth, even in the current challenging economic environment.

In closing, I thank you, our Board, staff, shareholders, bondholders, and business partners for your continued trust and support.

Chairman
Zhang Ruilin

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2014	2013
<i>Note</i>	RMB'000	RMB'000
Revenue	2,982,909	3,256,061
Operating expenses:		
Depreciation, depletion and amortization	(928,447)	(905,032)
Taxes other than income taxes	6 (695,092)	(740,628)
Employee benefit expense	(215,634)	(227,769)
Purchases, services and other direct costs	(337,340)	(370,205)
Geological and geophysical expense	(20,047)	(4,721)
Distribution expense	(36,595)	(31,346)
General and administrative expense	(123,733)	(102,528)
Impairment charges	(154,570)	–
Other gains/(losses), net	7 302,020	(4,635)
Total operating expenses	(2,209,438)	(2,386,864)
Profit from operations	773,471	869,197
Finance income	8 18,491	6,431
Finance costs	8 (499,818)	(351,984)
Share of losses of investments accounted for using the equity method	(55,432)	(68,777)
Profit before income tax	236,712	454,867
Income tax expense	9 (214,163)	(175,083)
Profit for the year	22,549	279,784
Other comprehensive income/(loss)		
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	4,001	(48,932)
<i>Items that may be reclassified to profit or loss</i>		
Change in value of available-for-sale financial assets	(20,285)	24,283
Reclassification of accumulated change in value of available-for-sale financial assets upon disposal	–	(4,093)
Currency translation differences	–	20,514
	(16,284)	(8,228)
Total comprehensive income for the year	6,265	271,556

		Year ended December 31,	
		2014	2013
	<i>Note</i>	RMB'000	RMB'000
Profit for the year attributable to:			
Owners of the Company		58,482	283,009
Non-controlling interests		(35,933)	(3,225)
		<u>22,549</u>	<u>279,784</u>
Total comprehensive income			
for the year attributable to:			
Owners of the Company		42,198	274,781
Non-controlling interests		(35,933)	(3,225)
		<u>6,265</u>	<u>271,556</u>
Earnings per share for profit attributable to			
owners of the Company for the year			
(expressed in RMB per share)			
Basic earnings per share	<i>10</i>	0.02	0.11
Diluted earnings per share	<i>10</i>	0.02	0.11
Dividends	<i>4</i>	<u>–</u>	<u>60,969</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31,	
	2014	2013
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets		
Non-current assets		
Property, plant and equipment	6,629,673	7,160,160
Intangible assets	494,552	544,469
Investments accounted for using the equity method	499,284	273,348
Deferred income tax assets	20,538	40,783
Available-for-sale financial assets	75,541	50,422
Prepayments, deposits and other receivables	210,389	34,941
<i>11</i>		
Restricted cash	12,955	11,884
	<hr/> 7,942,932 <hr/>	<hr/> 8,116,007 <hr/>
Current assets		
Inventories	41,046	44,835
Financial assets at fair value through profit or loss	–	7,791
Prepayments, deposits and other receivables	622,013	549,188
<i>11</i>		
Trade receivables	158,957	273,125
<i>12</i>		
Restricted cash	139,411	37,071
Cash and cash equivalents	689,208	274,529
	<hr/> 1,650,635 <hr/>	<hr/> 1,186,539 <hr/>
Total assets	<hr/> 9,593,567 <hr/>	<hr/> 9,302,546 <hr/>
Equity		
Equity attributable to owners of the Company		
Share capital	842,520	856,134
Other reserves	153,864	241,766
Retained earnings		
— Proposed final dividend	–	60,969
— Others	2,560,637	2,502,138
	<hr/> 3,557,021 <hr/>	<hr/> 3,661,007 <hr/>
Non-controlling interests	7,490	43,423
	<hr/> 3,564,511 <hr/>	<hr/> 3,704,430 <hr/>
Total equity		

		As at December 31,	
		2014	2013
	<i>Note</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Borrowings	<i>15</i>	4,174,878	3,589,503
Deferred income tax liabilities		312,971	261,472
Trade and notes payable	<i>13</i>	54,739	46,113
Provisions, accruals and other liabilities	<i>14</i>	141,350	145,424
		<u>4,683,938</u>	<u>4,042,512</u>
Current liabilities			
Trade and notes payable	<i>13</i>	654,373	1,022,424
Provisions, accruals and other liabilities	<i>14</i>	346,841	462,238
Current income tax liabilities		4,449	10,942
Borrowings	<i>15</i>	339,455	60,000
		<u>1,345,118</u>	<u>1,555,604</u>
Total liabilities		<u>6,029,056</u>	<u>5,598,116</u>
Total equity and liabilities		<u>9,593,567</u>	<u>9,302,546</u>
Net current assets/(liabilities)		<u>305,517</u>	<u>(369,065)</u>
Total assets less current liabilities		<u>8,248,449</u>	<u>7,746,942</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended December 31,	
	Note	2014 RMB'000	2013 RMB'000
Net cash generated from operating activities	16	1,180,423	1,209,099
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,314,023)	(1,408,913)
Purchase of available-for-sale financial assets		(71,986)	–
Proceeds from disposal of subsidiaries		532,479	–
Deposit received in relation to disposal of subsidiaries		46,400	–
Capital contribution to investments accounted for using the equity method		(269,375)	(180,773)
Loans to investments accounted for using equity method		(163,856)	–
Decrease in restricted cash		(103,411)	1,838
Interest received		14,364	2,863
Proceeds from contingent consideration receivable		8,134	–
Proceeds from realized gain of oil option		10,208	–
Net cash used in investing activities		(1,311,066)	(1,584,985)
Cash flows from financing activities			
Proceeds from borrowings		411,545	120,000
Proceeds from issue of senior notes payable, net of issuance costs		2,986,181	1,229,212
Repayments of senior notes		(2,465,600)	–
Payment of premium related to the repayments of senior notes		(120,198)	–
Proceeds from disposal of a joint venture		–	16,741
Proceed from partial disposal of interest in a subsidiary		–	44,507
Payment for settlement of share options		(10,385)	–
Proceeds from exercise of share options		–	1,177
Repayments of borrowings		(126,455)	(998,612)
Dividends paid		(60,952)	(124,365)
Dividends on repurchased shares held in trust		970	1,976
Payment of loan arrangement fee and others		(14,994)	(25,339)
Payment for shares purchased under Share Award Scheme		–	(50,240)
Payment for repurchase of shares and cancellation		(13,614)	–
Payment for settlement of options to acquire shares of subsidiaries		(44,605)	–
Net cash generated from financing activities		541,893	215,057
Net increase/(decrease) in cash and cash equivalents		414,250	(160,829)
Cash and cash equivalents at beginning of the year		274,529	467,164
Exchange gains/(losses) on cash and cash equivalents		3,429	(31,806)
Cash and cash equivalents at end of the year		689,208	274,529

1. GENERAL INFORMATION

MIE Holdings Corporation (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the exploration, development, production and sale of oil and other petroleum products in the People’s Republic of China (the “PRC”), the Republic of Kazakhstan (the “Kazakhstan”), and the United States of America (“USA”) under production sharing contracts (“PSC”) and other similar arrangements. The Group currently has two producing oil PSCs in the PRC, an exploration contract and four production contracts in Kazakhstan and a working interest in the Niobrara shale oil and gas assets in the USA. The Group also participates through a joint venture in the exploration of two unconventional gas assets located on the eastern flank of the Ordos Basin in the PRC pursuant to two separate PSCs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2013, as described therein.

2.1 Basis of preparation

The financial information of the Group for the year ended December 31, 2014 set out in this announcement is based on the consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) through profit or loss, which are carried at fair value.

2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2014:

- Amendments to IFRS 10, 12 and IAS 27 ‘Consolidation for investment entities’. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an ‘investment entity’ definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.
- Amendments to IAS 32, ‘Financial instruments: Presentation’ on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms.
- Amendments to IAS 36, ‘Impairment of assets’, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

- Amendments to IAS 39, 'Financial Instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The group has applied the amendment and there has been no significant impact on the group financial statements as a result.
- Amendments to IAS 19, 'employee benefits' (effective from January 1, 2014), these amendments eliminate the corridor approach and calculate finance expenses on a net funding basis.
- International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognized.

The adoption of the above new and amended standards did not result in any significant impact to the Group's financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Group.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after March 3, 2014 in accordance with section 358 of that Ordinance. The group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

(b) New standards, amendments and interpretations not effective for the financial year beginning January 1, 2014 and not yet adopted.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

IFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

The Group has already commenced an assessment of the related impact of the above revised standards, amendments and interpretations to the Group’s financial statements and is not expecting any significant impact to the Group’s financial position and results.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Property, plant and equipment

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion, amortization and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The cost of oil and gas properties is amortized at the field level based on the unit of production method. Unit of production rates are based on oil and gas proved and probable developed producing reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements. The Group’s reserves estimates represent crude oil and gas which management believes can be reasonably produced within the current terms of their production agreements.

Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings and improvements	7–10 years
Office equipment	3 years
Motor vehicles and production equipment	10 years

The assets’ residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within ‘Other gains, net’ in profit or loss.

2.3 Exploration and evaluation expenditure

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, supporting equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells (including certain geophysical costs which are directly attributable to the drilling of these wells) are capitalized as exploration and evaluation assets pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalized in oil and gas properties.

Identifiable exploration assets acquired are recognized as assets at their fair value, as determined by the requirements of business combinations. Exploration and evaluation expenditure incurred subsequent to the acquisition of an exploration asset in a business combination is accounted for in accordance with the policy outlined above.

2.4 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal at each reporting date.

2.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, and retains neither continuing managerial involvement nor effective control over the goods sold, and it is probable that the economic benefits associated with the transaction will flow to the Group and related revenue and cost can be measured reliably.

With respect to the Group's operation under PSC, revenues are recognized upon delivery of crude oil that are allocated to the Group under the relevant PSCs and other conditions discussed above are met.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) *Estimation of proved and probable reserves*

Proved reserves are those quantities of petroleum that by analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. Economic conditions include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed producing reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Proved undeveloped reserves are quantities expected to be recovered through future investments: from new wells on undrilled acreage in known accumulations, from extending existing wells to a different (but known) reservoir, or from infill wells that will increase recovery. Probable reserves are additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

The Group's reserve estimates were prepared for each oilfield and include only reserves that the Group believes can be reasonably produced within current economic and operating conditions.

Proved and probable reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance. Well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

In general, changes in the technical maturity of reserves resulting from new information becoming available from development and production activities and change in oil and gas price have tended to be the most significant cause of annual revisions.

(ii) *Depletion, depreciation and amortization of property, plant and equipment and intangible assets*

In addition to the depletion, depreciation and amortization of oil and gas properties, mining extraction and mining rights using the unit of production method based on the estimated reserves as disclosed in the Group's consolidated financial statement, management of the Group determines the estimated useful lives and related depreciation and amortization charges for other property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions, or based on value-in-use calculations or market valuations according to the estimated periods that the Group intends to derive future economic benefits from the use of intangible assets.

Management will adjust the estimated useful lives where useful lives vary with previously estimated useful lives. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require material adjustments to the carrying amount of property, plant and equipment and intangible assets.

(iii) *Estimation of impairment of property, plant and equipment and intangible assets*

Property, plant and equipment, including oil and gas properties, and intangible assets are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of crude oil and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

For the year ended December 31, 2014 the Group recognized an impairment charge on property, plant and equipment and intangible assets amounting to RMB29.3 million (2013: nil) and RMB125.3 million (2013: nil) for assets under the Group's operation in the PRC and USA, respectively.

(iv) *Provision for remediation and restoration*

Provision for remediation and restoration included environmental remediation costs, assets retirements obligation and similar obligation in relation to the Group's operations. Provision is made when the related environmental disturbance and present obligations occur, based on the net present value of estimated future costs. The ultimate cost of environmental disturbances, asset retirement and similar obligation are uncertain and management uses its judgment and experience to provide for these costs over the life of operations. Cost estimates can vary in response to many factors including changes to the relevant legal requirements, the Group's related policies, the emergence of new restoration techniques and the effects of inflation. Cost estimates are updated throughout the life of the operation. The expected timing of expenditure included in cost estimates can also change, for example in response to changes in reserves, or production volumes or economic conditions. Expenditure may occur before and after closure and can continue for an extended period of time depending on the specific site requirements. Some expenditure can continue into perpetuity. Cash flows must be discounted if this has a material effect. The selection of appropriate sources on which to base calculation of the risk free discount rate used for this purpose also requires judgment. As a result of all of the above factors there could be significant adjustments to the provision for close down, restoration and clean-up costs which would affect future financial results.

The Group currently operates mainly in PRC and Kazakhstan. The outcome of environmental and other similar obligations under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. Under existing legislation, however, the directors of the Company are in their opinion that there are no probable liabilities that are in addition to amounts which have already been reflected in the financial statements that will have a materially adverse effect on the financial position of the Group.

(v) *Income taxes*

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4. DIVIDENDS

The Board of Directors does not recommend any payment of final dividend for the year ended December 31, 2014.

	Year ended December 31,			
	2014		2013	
	HK\$'000	RMB'000	HK\$'000	RMB'000
Proposed no final dividend (2013: HK\$0.029) per ordinary share	—	—	77,572	60,969

5. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors of the Company that are used to make strategic decisions.

The Board of Directors considers the business performance of the Group from a geographic perspective being the PRC, Kazakhstan and USA. The PRC segment derives its revenue substantially from the sale of oil. Revenue is realized from the sale of the Group's share of crude oil to PetroChina Company Limited ("PetroChina") pursuant to respective PSCs. The Kazakhstan segment derives its revenue from the sale of oil and gas through the operation of an oil and gas exploration and four production contracts in Kazakhstan. The USA segment derives its revenue from the sale of shale oil and gas through working interest in the Niobrara asset in the USA.

The Board of Directors assesses the performance of the operating segments based on each segment's operating result.

The segment information provided to the Board of Directors for the reportable segments for the year ended December 31, 2014 is as follows:

	PRC RMB'000	Kazakhstan RMB'000	USA RMB'000	Corporate and others RMB'000	Total RMB'000
Segment revenue	2,217,183	746,361	19,365	–	2,982,909
Depreciation, depletion and amortization	(806,894)	(97,527)	(23,548)	(478)	(928,447)
Taxes other than income taxes (Note 6)	(341,432)	(331,960)	(1,464)	(20,236)	(695,092)
Employee benefit expense	(111,163)	(49,755)	–	(54,716)	(215,634)
Purchases, services and other direct costs	(227,008)	(97,430)	(12,902)	–	(337,340)
Geological and geophysical expense	–	(20,047)	–	–	(20,047)
Distribution expense	(29,018)	(7,577)	–	–	(36,595)
General and administrative expense	(39,974)	(28,989)	(7,198)	(47,572)	(123,733)
Segment operating result	661,694	113,076	(25,747)	(123,002)	626,021
Impairment charges	(29,282)	–	(125,288)	–	(154,570)
Other gains/(losses), net	278,918	–	(408)	23,510	302,020
Finance income	453	1,629	3,792	12,617	18,491
Finance costs	(20,347)	32,704	(1,771)	(510,404)	(499,818)
Share of losses of investments accounted for using the equity method	–	–	–	(55,432)	(55,432)
Profit/(loss) before income tax	891,436	147,409	(149,422)	(652,711)	236,712
Income tax expense	(169,734)	(44,260)	–	(169)	(214,163)
Profit/(loss) for the year	721,702	103,149	(149,422)	(652,880)	22,549
Total assets	2,171,909	2,941,774	92,536	4,387,348	9,593,567
Total assets includes:					
Property, plant and equipment	4,297,259	2,275,176	24,238	33,000	6,629,673
Intangible assets	7,197	484,581	2,774	–	494,552
Investments accounted for using the equity method	–	–	–	499,284	499,284
Additions to non-current assets	487,330	377,367	3,164	955	868,816
Total liabilities	976,475	660,221	50,345	4,342,015	6,029,056

The segment information provided to the Board of Directors for the reportable segments for the year ended December 31, 2013 is as follows:

	PRC RMB'000	Kazakhstan RMB'000	USA RMB'000	Corporate and others RMB'000	Total RMB'000
Segment revenue	2,443,844	782,631	29,586	–	3,256,061
Depreciation, depletion and amortization	(781,723)	(101,868)	(21,229)	(212)	(905,032)
Taxes other than income taxes (Note 6)	(413,194)	(319,450)	(386)	(7,598)	(740,628)
Employee benefit expense	(109,531)	(48,347)	–	(69,891)	(227,769)
Purchases, services and other direct costs	(238,201)	(120,966)	(11,038)	–	(370,205)
Geological and geophysical expense	–	(4,668)	(53)	–	(4,721)
Distribution expense	(31,346)	–	–	–	(31,346)
General and administrative expense	(41,183)	(18,145)	(7,926)	(35,274)	(102,528)
Segment operating result	<u>828,666</u>	<u>169,187</u>	<u>(11,046)</u>	<u>(112,975)</u>	<u>873,832</u>
Other gains/(losses), net	13,315	(23,055)	(1,380)	6,485	(4,635)
Finance income	360	2,380	3,626	65	6,431
Finance costs	(15,952)	(221)	(953)	(334,858)	(351,984)
Share of losses of investments accounted for using the equity method	–	–	–	(68,777)	(68,777)
Profit before income tax	<u>826,389</u>	<u>148,291</u>	<u>(9,753)</u>	<u>(510,060)</u>	<u>454,867</u>
Income tax (expense)/benefit	<u>(195,667)</u>	<u>20,584</u>	<u>–</u>	<u>–</u>	<u>(175,083)</u>
Profit/(loss) for the year	<u>630,722</u>	<u>168,875</u>	<u>(9,753)</u>	<u>(510,060)</u>	<u>279,784</u>
Total assets	<u>5,901,879</u>	<u>2,642,182</u>	<u>257,941</u>	<u>492,753</u>	<u>9,294,755</u>
Total assets includes:					
Property, plant and equipment	4,994,736	1,977,432	155,586	32,406	7,160,160
Intangible assets	35,918	492,697	15,854	–	544,469
Investments accounted for using the equity method	–	–	–	273,348	273,348
Additions to non-current assets	851,161	511,700	113,555	1,895	1,478,311
Total liabilities	<u>1,206,279</u>	<u>593,292</u>	<u>48,013</u>	<u>3,735,395</u>	<u>5,582,979</u>

All segment information above represented segment results after elimination of inter-segment transactions, which primarily include interest income or expense from intra-group accounts and loans.

The revenue reported to the Board of Directors is measured consistently with that in the consolidated statement of comprehensive income. The amounts provided to the Board of Directors with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and the physical location of the asset. Segment operating result represent operating profit/(loss) after excluding impairment charges and other gains/(losses), net.

The financial assets at fair value through profit or loss including oil options held by the Group are not considered to be segment assets. Oil options premium payable are not considered to be segment liabilities.

Reportable segments' assets are reconciled to total assets as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Segment assets for reportable segments	9,593,567	9,294,755
Unallocated:		
Financial assets at fair value through profit or loss	–	7,791
Total assets per consolidated statement of financial position	<u>9,593,567</u>	<u>9,302,546</u>

Reportable segments' liabilities are reconciled to total liabilities as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Segment liabilities for reportable segments	6,029,056	5,582,979
Unallocated:		
Oil options premium payable	–	15,137
Total liabilities per consolidated statement of financial position	<u>6,029,056</u>	<u>5,598,116</u>

Entity-wide information

Analysis of revenue by category

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Sales of oil and gas	2,970,017	3,253,140
Provision of services	12,892	2,921
	<u>2,982,909</u>	<u>3,256,061</u>

For the year ended December 31, 2014, total revenue from crude oil sales in the PRC amounting to RMB2,204.1 million (2013: RMB2,440.9 million) are derived solely from PetroChina. For Kazakhstan, Titan oil was the Group's main customer and revenue amounting to RMB624.6 million (2013: RMB698.0 million) are derived from it. Revenues from PetroChina and Titan Oil accounted for 73.9% and 20.9% (2013: 75.0% and 21.4%) of the Group's total revenue for the year ended December 31, 2014, respectively.

6. TAXES OTHER THAN INCOME TAXES

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
<i>PRC:</i>		
Special oil levy	328,878	399,323
Urban construction tax and education surcharge	12,110	13,473
Others	444	398
	<u>341,432</u>	<u>413,194</u>
<i>Kazakhstan:</i>		
Mineral extraction tax	44,588	45,329
Rent export tax	176,536	185,696
Rent export duty expenditures	87,328	56,973
Property tax	23,508	31,452
	<u>331,960</u>	<u>319,450</u>
<i>USA:</i>		
Withholding tax	930	386
Severance tax	534	–
	<u>1,464</u>	<u>386</u>
<i>Corporate:</i>		
Withholding tax (Note)	20,236	7,598
	<u>695,092</u>	<u>740,628</u>

Note:

For the year ended December 31, 2014, all (2013: all) withholding tax is related to interest expense arising from the intra-group loans.

7. OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Gains on disposal of subsidiaries	259,389	–
Gains/(losses) on oil put options	19,564	(7,626)
Gains on changes in value of financial assets at fair value	11,723	5,458
Service income	3,834	14,111
Loss on fair value change of warrants	(408)	–
Losses on disposal of investment in a joint venture	–	(1,379)
Accident indemnity (Note)	–	(23,055)
Others	7,918	7,856
	<u>302,020</u>	<u>(4,635)</u>

Note:

During the year ended December 31, 2013, the Group accrued provisions amounting to RMB23 million for indemnities resulting from a traffic accident involving oil tanks in Kazakhstan, which has been fully settled during the year ended December 31, 2014.

8. FINANCE COSTS — NET

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Finance income		
Interest income on deposits	<u>18,491</u>	<u>6,431</u>
Finance costs		
Interest expenses at coupon rates/bank rates	(335,521)	(329,945)
Amortization of discounts	(33,288)	(28,465)
Premium and unwinding of unamortized costs from early redemption of borrowings (<i>Note</i>)	(154,902)	(38,398)
Other fees relating to borrowings	<u>(8,903)</u>	<u>(5,476)</u>
	<u>(532,614)</u>	<u>(402,284)</u>
Exchange gains, net	<u>32,796</u>	<u>50,300</u>
	<u>(499,818)</u>	<u>(351,984)</u>
Finance costs — net	<u><u>(481,327)</u></u>	<u><u>(345,553)</u></u>

Note:

For the year ended December 31, 2014, premium and unwinding of unamortized costs from early redemption of borrowings includes the premium amounting to RMB120.2 million (2013: RMB25.2 million) and unamortized costs written off amounting to RMB34.7 million (2013: RMB13.5 million) in relation to the early redemption of 2016 Notes (Note 15) (2013: early repayment of China Minsheng Bank loan).

During the years ended December 31, 2014 and 2013, the Group did not capitalize any borrowing costs.

9. INCOME TAX EXPENSE

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Current income tax — overseas	134,833	209,154
Deferred income tax	<u>79,330</u>	<u>(34,071)</u>
	<u><u>214,163</u></u>	<u><u>175,083</u></u>

Taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Profit before income tax	236,712	454,867
Tax calculated at domestic tax rates applicable to profits in the respective countries	116,501	195,689
Tax effects of:		
— Income not subject to tax	(1,125)	(2,912)
— Expenses not deductible for tax purposes	40,859	7,674
— Re-measurement of deferred tax due to change in the Kazakhstan tax rate	—	(30,728)
— Tax losses and temporary differences for which no deferred income tax asset was recognized	55,105	1,624
— Adjustments in respect of prior years	1,482	3,736
— Others	1,341	—
Tax charge	214,163	175,083

The weighted average effective tax rate was 90% (2013: 38%) for the year ended December 31, 2014.

Deferred tax in Kazakhstan has been re-measured to reflect the changes in excess profit tax rate of Kazakhstan will be applied in the future, which is mainly caused by changes in management forecast of future capital expenditures and other tax rates.

The excess profit tax rate is based on rate of return on subsurface use operations and requires estimation of future taxable income, capital expenditures and other assumptions which affect the estimations of amounts and periods when deductible/taxable temporary differences existing at the reporting date are reversed/settled.

10. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Profit attributable to owners of the Company	58,483	283,009
Weighted average number of ordinary shares (<i>thousands</i>)	2,603,617	2,615,535
Earnings per share, Basic (<i>RMB per share</i>)	0.02	0.11

(b) **Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding which are potentially dilutive. A calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. The number of ordinary shares calculated above for basic earnings per share is increased by the number of ordinary shares that would have been issued assuming the exercise of the share options at the date later of beginning of the relevant period or the date of issue.

	Year ended December 31,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to owners of the Company used to determine diluted earnings per share	<u>58,483</u>	<u>283,009</u>
Weighted average number of ordinary shares (thousands)	2,603,617	2,615,535
Adjustments for:		
— share options (thousands)	<u>3,461</u>	<u>8,123</u>
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	<u>2,607,078</u>	<u>2,623,658</u>
Earnings per share, Diluted (<i>RMB per share</i>)	<u>0.02</u>	<u>0.11</u>

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At December 31, 2014, prepayments, deposits and other receivables are summarized as follows:

	As at December 31,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from related parties	375,519	270,606
Loans and other receivables	128,341	147,631
Receivables arising from realized gain of oil option	16,925	–
Interest receivable	7,698	3,571
Consideration receivables from disposal of subsidiaries	84,071	–
Deposits	58,131	57,921
Advances to employees	5,829	6,569
	<u>676,514</u>	<u>486,298</u>
Less: provision for impairment	(1,090)	(2,106)
	<u>675,424</u>	<u>484,192</u>
Value-added-tax recoverable	71,107	62,114
Prepaid expenses	25,855	7,592
Advances to suppliers	41,610	28,898
Current income tax prepayment	18,406	1,333
	<u>832,402</u>	<u>584,129</u>
Current	622,013	549,188
Non-current	210,389	34,941
	<u>832,402</u>	<u>584,129</u>

Movements on the provision for impairment of advances to suppliers, loans and other receivables are as follows:

	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
At January 1,	2,106	2,171
Unused amounts reversed	(1,024)	–
Exchange differences	8	(65)
	<u>1,090</u>	<u>2,106</u>

The creation and release of provision for impaired receivables have been included in 'other gains/(losses) net' in the consolidated statement of comprehensive income (Note 7).

The other classes within prepayments and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of prepayments and other receivables mentioned above. The Group does not hold any collateral as security.

12. TRADE RECEIVABLES

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Trade receivables from PetroChina	94,339	167,190
Trade receivables from other third parties	10,197	28,982
Unbilled receivables from PetroChina	54,421	76,953
	<u>158,957</u>	<u>273,125</u>
Less: allowance for impairment of trade receivables	–	–
Trade receivables — net	<u>158,957</u>	<u>273,125</u>

The aging analysis of trade receivables were as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Up to 30 days	158,764	273,094
31–180 days	193	31
	<u>158,957</u>	<u>273,125</u>

The Group's trade receivables have credit terms of between 30 days to 180 days. As at December 31, 2014 and 2013, there were no trade receivables past due which are impaired.

At December 31, 2014 and 2013, the trade receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables. The Group does not hold any collateral as security.

13. TRADE AND NOTES PAYABLE

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Trade payables	682,005	920,254
Notes payable	27,107	148,283
	<u>709,112</u>	<u>1,068,537</u>
Less: non-current portion of trade payables	<u>(54,739)</u>	<u>(46,113)</u>
Current	<u>654,373</u>	<u>1,022,424</u>

At December 31, 2014 and 2013, the aging analysis of the trade and notes payable is as follows:

	As at December 31,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 6 months	427,290	656,530
6 months–1 year	176,906	232,232
1–2 years	68,275	144,342
2–3 years	19,139	28,853
Over 3 years	17,502	6,580
	<u>709,112</u>	<u>1,068,537</u>

14. PROVISIONS, ACCRUALS AND OTHER LIABILITIES

	Group	
	As at December 31,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to related parties	–	61,293
Asset retirement obligations	54,684	56,372
Interest payable	75,627	65,784
Salary and welfare payable	47,713	79,515
Special oil levy	31,910	104,145
Withholding and other tax payable	71,409	123,289
Deposit received in relation to disposal of a subsidiary	46,400	–
Payable in relation to settlement of options to acquire shares of subsidiaries	50,971	–
Other payables	109,477	117,264
	<u>488,191</u>	<u>607,662</u>
Less: non-current portion of		
— Asset Retirement obligations	(54,684)	(56,372)
— Withholding tax payable	(28,611)	(38,314)
— Other payables	(58,055)	(50,738)
	<u>(141,350)</u>	<u>(145,424)</u>
Current	<u>(346,841)</u>	<u>462,238</u>

15. BORROWINGS

(i) Summary of borrowings

	Group	
	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Non-current		
— senior notes payable (<i>Note</i>)	4,169,243	3,589,503
— unsecured bank loans	5,635	—
	<u>4,174,878</u>	<u>3,589,503</u>
Current		
— secured bank loans	122,380	—
— unsecured bank loans	217,075	60,000
	<u>339,455</u>	<u>60,000</u>
	<u>4,514,333</u>	<u>3,649,503</u>

Note:

	Coupon rate	Due date	As at December 31,	
			2014	2013
			RMB'000	RMB'000
2016 Notes	9.75%	May 12, 2016	—	2,399,658
2018 Notes	6.875%	February 6, 2018	1,190,967	1,189,845
2019 Notes	7.5%	April 25, 2019	2,978,276	—
			<u>4,169,243</u>	<u>3,589,503</u>

On May 12, 2011, the Company issued US\$400 million senior notes due 2016 (“the 2016 Notes”). The 2016 Notes bear a coupon rate of 9.75% per annum, payable semi-annually in arrears on May 12 and November 12 annually. The net proceeds, after deduction of underwriting fees, discounts and commissions and other expenses amounted to approximately US\$390 million (equivalent to RMB2,535 million). A portion of the proceeds from the issuance of the 2016 Notes was used to repay in full US\$200 million MIE’s credit facility with CITIC Bank. The remaining proceeds were used to finance the Company’s acquisition of Emir-Oil from BMB Munai, Inc. and for working capital and general corporate purposes.

On February 6, 2013, the Company issued US\$200 million senior notes due 2018 (the “2018 Notes”). The 2018 Notes bear coupon rate of 6.875% per annum, payable semi-annually in arrears on February 6 and August 6 annually. The net proceeds, after deduction of discounts, fees, commissions and other expenses, amounted to approximately US\$195 million (equivalent to RMB1,222 million). A substantial portion of the proceeds from the 2018 Notes was used to repay all of existing indebtedness of the Company’s subsidiary, MIE, to Minsheng Bank. The remaining proceeds were used for capital expenditures, working capital and general corporate purposes of the Group.

On April 25, 2014, the Company issued US\$500 million (equivalent to RMB3,076.4 million) senior notes due in April 2019 (the “2019 Notes”). The 2019 Notes bear coupon rate of 7.50% per annum, payable semi-annually in arrears on April 25 and October 25 annually. The net proceeds, after deduction of discounts, fees, commissions and other expenses, amounted to approximately US\$485.0 million (equivalent to RMB2,986.1 million). The proceeds are used to (i) to redeem in full the US\$400 million (equivalent to RMB2,461.1 million) 9.75% senior notes due 2016 issued by the Company on May 12, 2011 and fund the related redemption costs, including a call premium of US\$19.5 million (equivalent to RMB120.2 million) and (ii) the remaining balance for capital expenditures, working capital and general corporate purposes.

The 2016 Notes, 2018 Notes and 2019 Notes (collectively “Senior Notes”) are general obligation of the Company and are senior in right of payment to any existing and future obligations of the Company and its subsidiaries expressly subordinated in right of payment to the Senior Notes, respectively.

The Senior Notes and the guarantees provided by the certain subsidiaries will limit the ability of the Company and certain of its subsidiaries to, among other things (and subject to certain qualifications and exceptions) incur additional indebtedness, issue preferred stock and make investment.

At any time on or after February 6, 2016 and April 25, 2017, the Company may at its option redeem the 2018 Notes and 2019 Notes, respectively, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on February 6 and April 25, respectively, of any year set forth below:

	Redemption Price
2018 Notes:	
2016	103.4375%
2017	101.71875%
2019 Notes:	
2017	103.750%
2018	101.875%

At any time prior to February 6, 2016 and April 25, 2017, the Company may at its option redeem the 2018 Notes and the 2019 Notes, respectively, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2018 Notes and 2019 Notes, respectively, plus the applicable premium and accrued and unpaid interest to the redemption date.

In addition, at any time prior to February 6, 2016, the Company may redeem up to 35% of the aggregate principal amount of the 2018 Notes, with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 106.875% of the principal amount of 2018 Notes, plus accrued and unpaid interest, if any to (but excluding) the redemption date, provided that at least 65% of the aggregate principal amount of the 2018 Notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

At any time prior to April 25, 2017 the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an equity offering at a redemption price of 107.50% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but excluding) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

All Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

(ii) Effective interest rate at the end of reporting period are as follows:

	Bank borrowings	Senior Notes
Effective interest rate:		
As at December 31, 2014	6.77% to 8.00%	8.14% to 8.55%
As at December 31, 2013	6.44%	7.83% to 10.91%
	<u> </u>	<u> </u>
Estimated fair value		
As at December 31, 2014	345,090	3,408,283
As at December 31, 2013	60,000	3,777,030
	<u> </u>	<u> </u>

The fair values of Senior Notes are based on its closing prices quoted on Singapore Exchange Securities Trading Limited and are within level 1 of the fair value hierarchy; and the fair value of bank borrowings is based on the borrowing rate from 6.23% to 8.55% (2013: 6.44%) and within level 2 of the fair value hierarchy.

(iii) The exposure of the Group's bank borrowings to contractual interest rate changes based on LIBOR and the base rate as published by the People's Bank of China at December 31, 2014 are as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Up to 1 year	217,075	60,000
1-2 years	2,910	-
2-5 years	2,725	-
	<u> </u>	<u> </u>
	222,710	60,000
	<u> </u>	<u> </u>

The Senior Notes which bear fixed interest rates are not subject to interest rate changes.

(iv) The Group has the following undrawn banking facilities:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Floating rate:		
— Expiring within one year	290,000	—
— Expiring beyond one year	—	300,000
Fixed rate:		
— Expiring within one year	220,025	—
— Expiring beyond one year	—	151,717
	<u>510,025</u>	<u>451,717</u>

16. CASH GENERATED FROM OPERATING ACTIVITIES

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
Profit before income tax	236,712	454,867
Adjustments for:		
Depreciation, depletion and amortization	928,447	905,032
Interest expenses — net	514,122	394,826
Exchange gains	(32,796)	(50,300)
Impairment charge	154,570	—
Gains on disposal of subsidiaries (<i>Note 7</i>)	(259,389)	—
Gains on change in fair value of available-for-sale financial assets	(11,314)	—
(Gains)/losses on oil hedge options	(19,564)	7,626
Loss on disposal of investment in a joint venture	—	1,379
Value of employee services under stock option schemes	12,315	26,549
Share of losses of investments accounted for using the equity method	55,432	68,777
Changes in working capital:		
Inventories	(2,478)	2,681
Trade and other receivable	226,175	88,316
Trade and other payable	(140,530)	(127,154)
Cash generated from operations	<u>1,661,702</u>	<u>1,772,599</u>
Cash flows from operating activities		
Cash generated from operations	1,661,702	1,772,599
Interest paid	(326,022)	(295,931)
Income tax paid	(155,257)	(267,569)
Net cash generated from operating activities	<u>1,180,423</u>	<u>1,209,099</u>

17. COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) Capital commitments for the purchase of property, plant and equipment

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Authorized by the Board of Directors but not contracted for	409,072	2,117,619
Contracted but not provided for	236,400	4,258
	<u>645,472</u>	<u>2,121,877</u>

(ii) Operating lease commitments

The Group has operating lease commitments related to its non-cancellable operating leases for offices. The future aggregate minimum lease payments under these operating leases are as follows:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Less than 1 year	13,195	13,530
Within 1–2 years	5,733	3,202
Within 2–5 years	693	320
	<u>19,621</u>	<u>17,052</u>

(iii) According to the production contracts for four blocks in Kazakhstan, the Group is obligated to perform minimum work program during the life of the production contracts. Set out below is the commitments for the minimum work program:

	As at December 31,	
	2014	2013
	RMB'000	RMB'000
Less than 1 year	578,409	409,438
Within 1–2 years	538,322	434,868
Within 2–5 years	1,419,575	1,429,438
Over 5 years	4,953,807	5,388,564
	<u>7,490,113</u>	<u>7,662,308</u>

The minimum work program includes capital expenditure of RMB2,022 million (2013: RMB2,161 million) to be incurred over the life of the production contracts expiring in 2036. Other commitments represent mainly other direct operation and maintenance costs of wells and related facilities.

(iv) The Group has a commitment to provide funding if called by SGE in accordance with the 2015 SGE annual budget as approved by its board of directors up to US\$51.0 million (equivalent to RMB312.1 million).

(b) Contingencies

On August 28, 2000, MIE entered into a PSC with Sinopec for exploration and development of Luojiayi 64 block at Shengli oilfield in Shandong Province, which was suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment under the PSC. The Company believes its investment in the project at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings. As advised by the external legal counsel of the Company, the probability of claim from Sinopec for unfulfilled investment commitment, if any, in relation to the pilot-development phase is remote as the statute of limitations has run out.

Apart from the above, the Group has contingent liabilities in respect of claims or other legal procedures arising in its ordinary course of business from time to time. As at December 31, 2014, the directors of the Company did not anticipate that any material liabilities will arise from the contingent liabilities other than those provided for in the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Overview

The year 2014 can be viewed as having two distinctly different parts, with the first half of the year having benefited from high crude oil prices (average realized price US\$96.02 per barrel) and the second half of the year characterized by drastic global oil prices decline, which negatively disrupted the entire upstream oil and gas industry. Overall, the Group's average realized price was US\$86.15 per barrel, a decrease of US\$10.03 per barrel, compared with 2013.

We are pleased that despite the oil price slump since 2H2014 and material scale back of the Group's capital expenditure ("Capex"), the Group delivered solid execution of the work programs set out at the beginning of 2014 and successfully achieved production targets by increasing both oil and gas gross (operated) production and net production, compared with 2013. In particular, it is worth underscoring that the average daily oil production of Emir-Oil in Kazakhstan for 2014 was 5,201 BOPD, which represents an increase of 20.4%% compared to 2013. Also notable is that our SGE project in Shanxi Province China reached a significant milestone in November 2014, when the Qiaojiashan Gas Processing Station ("QJS Station") in the Sanjiaobei Block was put into service, pilot production gas sales into pipeline was officially started.

In 2014, the Group divested two non-core assets in China: 1) PCR, which operates the Kongnan PSC in Hebei Province; and 2) Miao Three which operates the Miao 3 PSC in Jilin Province. The final adjusted consideration of the PCR and Miao Three divestments was approximately US\$83.1 million and US\$21.2 million, respectively. The Group realized a total gain of about US\$42.0 million. We believe that these two transactions demonstrate the tremendous intrinsic value of the Group's remaining assets (e.g. the PCR sale price represents a valuation of approximately US\$16.3 per 2P Reserve Barrel), and more importantly, the sale proceeds from these divestments provide good support for the Group's liquidity and operations under current low oil price environment.

Based on the 2014 yearend oil and gas reserves and resources estimates prepared by independent consultants, the Group's reserves value continues to enhance significantly, with NPV10 of the Group's 2P oil and gas reserves estimated to be approximately US\$4.0 billion, or a 14.3% increase from 2013, which is largely based on the gas reserves increases achieved in the SGE project.

The Group drilled 193 wells in 2014 (including 36 wells in SGE), which is fewer than our 2014 guidance, as we strategically scaled down drilling activities after oil price dropped in second half of 2014. As of December 31, 2014, the Group operated a total of 2,753 wells, of which, 2,703 are located in China, 45 in Kazakhstan, and 5 in the USA.

The following table provides a recap of the Group's key operational metrics and product prices for the year 2013:

	FY2014	FY2013	% Change	FY2014 Guidance
Average Daily Operated Production (BOE/day)	27,418	27,207	0.8%	
Average Daily Net Production (BOE/day)	16,373	15,555	5.3%	
Average Daily Net Oil Production (BOPD)	15,326	14,673	4.5%	15,300~16,300
Average Daily Net Gas production (Mscf/day)	6,280	5,295	18.6%	5,500~5,900
Average realized oil price (USD/barrel)	85.99	97.06	(11.4%)	
Average realized gas price (USD/Mscf)	1.27	1.64	(22.3%)	
Total Wells Drilled	193	145	33.1%	205

Notes:

- (1) For reference purpose only, barrels of oil equivalent is calculated using the conversion factor of 6 Mscf of natural gas being equivalent to one barrel of oil
- (2) Gross production includes production from all assets operated by the Group
- (3) Net production includes entitlement from all assets operated by the Group

The following table is the summary of the expenditures incurred in our exploration, development and production activities for FY2014:

<i>(Millions of RMB)</i>	Exploration expenditures	Development expenditures	Production/ operating expenditures	Comments
China	262	683	226	
Oil Projects (Daan, Moliqing, Miao 3, Kongnan)	–	683	226	
Gas Projects (Linxing, Sanjiaobei)				Based on 51% of total expenditures incurred by SGE
	262	–	–	
Kazakhstan (Emir-Oil)	96	240	97	
USA (Condor)	–	5	13	
Total	358	928	336	

Review on Operations by Segment

- *China Operations*

(1) *Oil Projects (Jilin Province: Daan, Moliqing, Miao 3; Hebei Province: Kongnan)*

As part of the Group's strategy to continuously upgrade our core assets portfolio, two definitive agreements were signed during 3Q2014 to divest PCR and Miao Three. Both transactions were completed in 4Q2014, with the final adjusted consideration being approximately US\$83.1 million and US\$21.2 million respectively and realized a total gain of about US\$42.0 million. The PCR sale price represents a valuation of approximately US\$16.3 per 2P Reserve Barrel, and the Miao Three sale price represents a valuation of approximately US\$37 per 2P Reserve Barrel. We believe that these sales valuation metrics confirm and validate the high value of the Group's remaining oil producing assets. The sale proceeds from these divestments will also serve as a strong buffer for the Group's operation under the current low oil price environment.

In terms of total average daily operated oil production, the three Northeast China projects (i.e. Daan, Moliqing and Miao 3) in Jilin Province recorded a decrease of 3.9% yoy to 19,349 BOPD, whilst net production decreased 1.6% yoy to 9,088 BOPD. In particular, the average daily operated and net oil production for Daan and Moliqing for FY2014 were 18,854 BOPD and 8,863 BOPD, respectively (FY2013: 19,469 BOPD and 8,931 BOPD, respectively). Meanwhile, average daily net oil production for our two divested projects Kongnan and Miao 3 was approximately 945 BOPD and 225 BOPD, respectively during the same period. Due primarily to the sharp drop in global crude oil prices since 2H2014, the realized Daqing oil price (in respect of our Jilin oilfields) averaged approximately US\$97.31/bbl for FY2014, representing a decrease of 6.7% yoy, compared to US\$104.25/bbl for FY2013. The average realized CINTA oil price (in respect of Kongnan oilfield) was US\$103.59/bbl, for the period January 2014 to the end of November 2014 (i.e. the completion of the divestment).

A total of 151 gross wells were drilled and completed in our China oil fields during FY2014 and the total net Capex incurred was US\$109million. Compared to our Revised Capex Guidance provided in August 2014 (US\$122 million), the actual Capex for 2014 in our China oilfields was reduced mainly due to our strategic cancellation of some drilling and downhole completions work, in view of declining oil prices. As we have no contractual obligation to commit a minimum amount of Capex or production level in any given period, we have the flexibility to cut back capital spending or production output whenever oil prices come down.

Direct Lifting costs in our Northeast China projects (i.e. Daan, Moliqing and Miao 3) increased by US\$0.56/barrel, or 5.4%, from US\$10.39/barrel for 2013 to US\$10.95/barrel for 2014 as a result of higher staff costs, power, fuel and downhole operation costs. Including the Kongnan project, the direct lifting costs of our four China oil projects for 2014 was US\$11.83/barrel. Direct Lifting costs for Daan and Moliqing increased by US\$0.69/barrel, or 6.9%, from US\$9.93/barrel for 2013 to US\$10.62/barrel for 2014.

The cash netback (Cash Netback is defined as Oil Price realized minus costs of Direct Lifting, Distribution Costs, and Taxes or Duties Other than Income Tax) for our Northeast China projects decreased by US\$4.8/barrel, or 6.4%, from US\$75.0/barrel for 2013 to US\$70.2/barrel for 2014. The decrease in cash netback was primarily due to (1) the decrease of the average realized oil price, although that is partially offset by the decrease of special oil levy for the northeast China projects and (2) the increase of direct lifting cost. After including Kongnan project, the cash netback of our four China oil projects for 2014 was US\$69.6/barrel. The cash netback of Daan and Moliqing for 2014 was US\$70.4/barrel.

(2) *Gas Projects (Shanxi Province: Linxing, Sanjiaobei)*

We are pleased with the progress made by SGE on testing, pilot production and gas sales, as well as on preparation of China Reserve Reports (CRRs) and Overall Development Plans (ODPs) in 2014.

Overall, SGE's well testing program in 2014 has been successful, with average flow rate significantly increased (by at least 1.5 times) in comparison to the 2013 testing program. In the Linxing Block, 10 flow tests were performed (excluding the horizontal well TB-1H), resulting in an average absolute open flow (AOF), potential rate of 925 MSCF per day (approximately 26,205 cubic meters per day, AOF). In the Sanjiaobei Block, where 9 flow tests were carried out, similar improvement was recorded with an average AOF potential rate of 380 MSCF per day (approximately 10,780 cubic meters per day, AOF). The first horizontal well TB-1H and the new vertical well TB-23 in Linxing Block have achieved particularly encouraging test results. For TB-1H, flow testing resulted in a gas flow rate of 4.93 million cubic feet ("MMSCF") (approximately 140,000 cubic meters per day) per day with stable tubing head pressure of 2,008 psi (or 14MPa) during 80 hours of testing in two stages. Positive results were also attained at the vertical well TB-23, where a gas flow rate of 2.0 MMSCF per day (approximately 56,600 cubic meters per day) was achieved. SGE's second horizontal well, TB-2H also had encouraging preliminary flow rates, with the test achieving a sustained flow rate of 3.7 MMSCF per day (approximately 106,000 cubic meters/day) at the relatively stable flowing tubing head pressure of 1,494 psi (or 10Mpa). This is a particularly significant result because the TB-2H well is located 25 km north of the TB-1H well, and thereby demonstrates the great potential of the extensive north central part of the Linxing West Block. In short, the significantly improved test results achieved in 2014 underscore the tremendous potential of both the Linxing and Sanjiaobei PSCs. The test improvements also highlight SGE's strong and rapidly expanding technological and operational know-how in gas well fracking and completion operations for both horizontal and vertical wells.

In November 2014, SGE's Qiaojiashan Gas Processing Station ("QJS Station") was officially put into pipeline pilot production. A total of 16 vertical wells, including 14 wells in the Linxing West block and 2 wells in the Sanjiaobei block have been connected to the QJS Station. Currently, 7 wells are producing, with a combined total pilot production rate of about 4 MMSCF per day (or approximately 113 thousand cubic meters per day). With respect to the QJS station's capacity of 7 MMSCF per day (or 200,000 cubic meters per day), this provides substantial room for the rapid production ramp up expected early in FY2015, as more positive flow rates are recorded and more wells are brought onto production. SGE has recently signed two new gas sales agreements: the first agreement was signed in November 2014, based on a sales price for the pilot production of US\$9.50/MSCF (RMB2.04/cubic meter); and the second agreement was signed in February 2015, based on a sales price for the pilot production of US\$9.60/mscf (RMB2.13/cubic meters). With SGE's next gas processing station in the Linxing West block (with capacity of 17 million cubic feet per day) expected to be put into pilot production in 2H2015, the total production from both blocks is expected to increase significantly by late 2015 when the project enters into a new phase of pilot production development.

In FY2014, a total of 36 new wells were drilled by SGE, bringing the total number of new wells drilled since the Group's acquisition of its 51% stake in SGE in July 2012 to 79 wells. For FY2014, the incurred Capex attributed to the Group was about US\$42 million. Our Revised Capex Guidance provided in August 2014 was US\$48 million, and from this amount, approximately US\$6 millions of Capex (or 12.5%) has been deferred into FY2015.

The CRR for Linxing East has received official approval from the China authorities. Whilst the CRRs for Linxing West and Sanjiaobei have been submitted to the relevant China partners in 2H2014, the internal preparation and compilation work for the Linxing East and Sanjiaobei ODPs are also underway, as another priority.

SGE's successful drilling and testing programs have led to very significant increases in the project's reserves. According our independent consultant's review of yearend 2014 reserves and resources for the Linxing and Sanjiaobei projects, the net 1P Reserves, attributed to the Group increased by 171% to 364.1 BCF (or 10.3BCM, and 2P Reserves increased by 54% to 466.7BCF(13.2BCM). Furthermore, the yearend 2014 reserves assessment indicates that, based on 2P Gas Reserves, the Group's net share NPV 10 is estimated at about US\$1.6 billion. In the current global low oil price scenario, the price and demand for natural gas in China has remained strong, and SGE currently sells gas at US\$9.50 to US\$9.60 per MSCF. With huge net contingent and prospective resources attributed to the Group totaling more than 1,350 BCF (38.3BCM, Best Estimate Prospective Resources + 2C Contingent Resources) in an extensive area of about 3,000 square kilometers, SGE still has significant growth potential. We are very positive that our SGE project will experience strong growth and profitability in the foreseeable future.

- ***Kazakhstan Operations (Emir-Oil)***

Average daily oil production for Emir-Oil increased by 20.4% yoy from 4,320 BOPD in FY2013 to 5,201 BOPD in FY2014. However, the average realized oil price for Emir-Oil was US\$62.82/barrel for FY2014, representing a drop of 21.1% yoy, compared to US\$79.64/barrel for FY2013. The average realized export oil price (after deducting export sales discount of US\$20.98/barrel) and domestic oil price were US\$69.72/barrel and US\$40.15/barrel respectively, compared to US\$87.80/barrel (export) and US\$41.57/barrel (domestic) realized for FY2013. The drop in average realized oil price was mainly due to: 1) lower export oil price particularly since 2H2014; and 2) decrease in export:domestic sales mix from 82:18 for FY2013 to 76:24 during FY2014.

As of December 31, 2014, Emir-Oil operated a total of 45 wells, of which 22 wells were producing and 16 wells were shut-in. During FY2014, 6 new wells were drilled by Emir-Oil, including 4 development wells and 2 exploration wells. Also, 1 side-track of an existing well was completed. As of yearend FY2014, 3 new wells and 1 side-track well had been spudded and were on schedule to complete in FY2015.

Although the groundbreaking for construction of the new CPF took place in November 2014, the Group has recently decided to postpone the target date of completion for the CPF from 1H2015 (original target date) to 2016, in light of current global oil price volatility. Total Capex for Emir-Oil incurred in FY2014 amounted to about US\$54 million. With respect to the Revised Capex Guidance provided in August 2014 of US\$125 million, the reduction of Emir's actual Capex was mainly related to our strategic deferral of construction work on the CPF and deferral of completion of 3 wells into FY2015.

In January 2015, Emir-Oil and the Kazakhstan Ministry of Energy (formerly known as Ministry of Oil and Gas) executed an agreement to extend the expiration period of the Aksaz-Dolinnoe-Emir-Kariman ("ADEK") Exploration Contract by 2 years to January 9, 2017. Based on incremental reserves and resources attributable to prior exploration work within the ADEK area, the Group is excited about the upside potential provided by this exploration contract extension.

In order to enhance profit margins, particularly in light of the current low oil price environment, Emir-Oil executed a new sales agreement with our Kazakhstan export oil marketing company, Euro-Asian Oil SA (formerly known as "Titan Oil") in February 2015 to change the transportation route for our export oil, in order to reduce the transport cost. The new export route goes from Emir-Oil's oilfield to Aktau Port (Kazakhstan), across the Caspian Sea via vessel to Makhachkala Port (Russia), and then further via onshore oil pipeline reaches Novorossiysk Port (Russia), which is the final destination. The new transportation route will increase the cash netback for the export oil by approximately US\$2 to US\$3 per barrel, after taking account for the differential between Brent and the new sales price which is based on the benchmark Urals (RCMB) Oil Price.

The direct lifting cost for Emir-Oil decreased by US\$0.33/barrel, or 6.3%, from US\$5.18/barrel for 2013 to US\$4.85/barrel for 2014. The decrease in lifting cost was primarily due to the ramp up of production.

The cash netback for the domestic sales oil of Emir-Oil was about flat at US\$31.81/barrel comparing with 2013. The cash netback for the export sales oil of Emir-Oil decreased by US\$28.52/barrel, or 34.3%, from US\$43.42/barrel for 2013 to US\$14.89/barrel for 2014. The decrease in cash netback for export sales oil was primarily due to the decrease of the average export realized oil price, alongside with the global oil price decline in 2H2014.

Due the above factors, the weighted average cash netback for Emir-Oil decreased by US\$12.23/barrel, or 29.6%, from US\$41.37/barrel for 2013 to US\$29.14/barrel for 2014.

- ***USA Operations (Condor) and Others***

There were no drilling activities during 2014 in our US business. The Group's subsidiary, Condor Energy Technology LLC, operates 5 horizontal wells in the Niobrara project. For 2014, the average daily operated oil and gas production was 129 BOPD and 209 MSCF/day, net oil and gas production was 92 BOPD and 209MSCF/day, respectively. Average realized oil and gas price was US\$83.11/barrel and US\$6.44/MSCF, respectively.

- ***Other Segment***

In November 2014, the Group participated in a co-investment opportunity with CCGRF for a minority interest in CIOC. Total consideration paid by the Group for this investment is approximately US\$7.0 million. CIOC is a Calgary (Canada) headquartered private oil and gas producer. With approximately 250,000 net acres, CIOC's core asset is located in the Alberta Deep Basin where it is developing unconventional multi-zone, oil and liquids-rich gas plays. CCGRF is a private equity fund focused in the natural resources sector with more than US\$1 billion of commitments under management. The Group's strategic alliance with CCGRF and co-investment in CIOC has broadened our connection with global top-tier oil and gas specialized operators and investors and set the stage to pursue our future global expansion strategies.

Review of Reserves and Resources

Below are the highlights of the oil and gas reserves and resources review results for the Group at yearend 2014:

1. Based on the yearend 2014 reserves estimates reviewed by the independent consultants, NPV 10 of the Group's Net 2P oil and gas reserves is approximately US\$4.0 billion, which represents a 14.3% increase over the NPV 10 of US\$3.5 billion reported at yearend 2013.
2. Comparing with yearend 2013, the Group's total net 1P oil and gas reserves as of yearend 2014 increased significantly by 40.3% to 116.8 million BOE, while total net 2P oil and gas reserves increased 13.6% to 218.7 million BOE, and total net 3P oil and gas reserves were about flat at 289.8 million BOE.
3. The Group's 2P and 3P net reserves still comprise mainly oil, but gas has taken over as the majority in terms of 1P reserves. At yearend 2014, on a BOE basis, our reserves were 42%, 57% and 59% oil for 1P, 2P and 3P, respectively. The strong growth in gas reserves from the successful drilling campaign at our SGE properties in China's Ordos Basin has significantly increased the gas component of our reserves. Compared to yearend 2013, on a BOE basis, the gas portion of the Group's total net reserves has increased for 1P, 2P and 3P by 24%, 9% and 4%, respectively. Despite the current global low oil price environment, demand and sales price for natural gas remains high in China. The Group is very pleased with the strong growth of the China gas component in our total net reserves.
4. The Group's net 1P, 2P and 3P gas reserves at yearend 2014 were 408.3 BCF (11.6BCM), 563.9 BCF (16.0 BCM) and 711.8 BCF (20.2 BCM), respectively, which correspond to 68.0 million BOE, 94.0 million BOE and 118.6 million BOE, respectively. The Group net gas reserves increased by 234.0 BCF (6.6 BCM), 165.2 BCF (4.7 BCM) and 71.8 BCF (2.0 BCM), or by 134%, 41% and 11% for 1P, 2P and 3P, respectively. The majority of the increases are attributable to the increases of 230.1 BCF (6.5 BCM), 164.1 BCF (4.6 BCM) and 80.5 BCF (2.3 BCM) for 1P, 2P and 3P net gas reserves, respectively in our SGE Ordos Basin properties.
5. The comparison of 2013 and 2014 yearend crude oil reserves is adjusted for the divestment of the PCR and Miao Three during 2H2014. When PCR and Miao Three reserves are included in year end 2013 total reserves, the Group net 1P oil reserves as of year end 2014 decreased 10% to 48.7 million barrels, while 2P net oil reserves decreased by 1% to 124.7 million barrels and 3P net oil reserves decreased by 7% to 171.2 million barrels respectively. When PCR and Miao Three reserves are excluded from the year end 2013 total reserves, the Group's year end 2014 1P net oil reserves decreased only by 5%, mainly due to production, while 2P net oil reserves increased by 4%.

The following were the prices used to determine the reserves and resources at the yearend of 2013 and 2014:

Segment	Basin	2013	2014
China Gobi Energy (Daan)/ Riyadh Energy (Moliqing)	Songliao/Jiayi	Constant oil price of US\$104.16 per barrel (average of 2013), unescalated,	Constant oil price of US\$96.05 per barrel (average of 2014), and gas price 13.25 \$/MSCF, unescalated
Sino Gas & Energy	Ordos	Low, Medium and High gas prices of US\$7.40, US\$8.79 and US\$10.18 per MSCF respectively (equivalent to 1.60, 1.90 and 2.20 RMB per cubic meter), escalating at 3.75% per annum	Low, Medium and High gas prices of US\$8.30, US\$9.76 and US\$11.23 per MSCF respectively (equivalent to 1.76, 2.11 and 2.43 RMB per cubic meter at 6.12 RMB/US\$), escalating at 3.75% per annum
Kazakhstan — Emir-Oil	Mangistau	2013 average, constant prices, unescalated: export oil at US\$87.90 per barrel (US\$108.57 Dated Brent price less US\$20.67 for marketing and transportation discount), domestic oil at US\$46.86 before VAT per barrel and gas at US\$1.35 per MSCF	2014 average, constant prices, unescalated: export oil at US\$80.10 per barrel (US\$101.21 Dated Brent price less US\$21.11 for marketing and transportation discount), domestic oil at US\$39.06 before VAT per barrel and gas at US\$1.13 per MSCF
US-Condor	Niobrara	Constant prices, unescalated: US\$88.31 per barrel, US\$5.72 per MSCF (both are realized prices)	Constant prices, unescalated: US\$82.68 per barrel, US\$6.47 per MSCF (both are realized prices)

2015 Guidance

Following is our preliminary guidance for 2015, although we will closely monitor the situation and we may revise our work program as warranted in a timely fashion, based on changes in oil prices. We believe it is very important to maintain a high degree of flexibility in order to ensure the stability and profitability of our business in this current volatile oil price environment.

	Numbers of Wells (Gross)	Net Investments (millions of US\$)	Net Production	Comments
Group in Total	32	103	Total: 11,400–12,800BOED Oil: 9,800–11,100 BOPD Gas: 9,600–10,100 MCFD (270–280MCMD)	Represents a 22–31% yoy decrease (without PCR & Miao 3 in 2014) of oil production, 53–61% yoy increase of gas production
China Oil Projects (Daan, Moliqing)	–	13	Oil: 6,700–7,000 BOPD	No wells will be drilled under current low oil price outlook; minimal Capex for converting development wells to injection wells and other surface engineering
China Gas Projects (SGE: Linxing, Sanjiaobei)	29	51	Gas: 4,500–5,000 MCFD (130–140 MCMD)	Based on 51% of US\$99 mm SGE budget approved by the Board in Jan 2015, including 8 exploration wells, 21 development wells and US\$9.2 mm seismic expenses not capitalized by the Group. Significant ramp up of pilot production with Linxing Central Gas Station operational in 2H2015
Kazakhstan (Emir-Oil)	3	39	Oil: 3,000–4,000 BOPD Gas: 5,000 MCFD (142MCMD)	Including completion work for 1 exploration well, 2 development wells, all spudded in 2014; Capex for CPF is US\$19 mm
USA (Condor)	–	–	Oil: 100 BOPD Gas: 100 MCFD (3MCMD)	

FINANCIAL RESULTS

Revenue

The Group's revenue is generated from sales of oil and gas products and rendering of services.

The Group's revenue from sales of oil and gas decreased by RMB283.1 million, or 8.7%, from RMB3,253.1 million for 2013 to RMB2,970.0 million for 2014. This decrease was primarily due to the decrease of average realized oil price, from US\$97.06 per barrel of year 2013 to US\$86.15 per barrel in 2014. Our total net sales volume of crude oil was 5.58 million barrels for 2014, compared to 5.38 million barrels for 2013.

The Group's revenue from rendering of services is RMB12.9 million for 2014.

- ***China***

Our China oil fields realized revenue from oil sales of RMB2,204.1 million in 2014, decreased from RMB2,440.9 million for 2013. The decrease was mainly due to decrease in realized oil price and sales volumes. Our China total net sales volume was 3.66 million barrels for 2014, compared to 3.77 million barrels for 2013, the average realized oil price was US\$97.89 per barrel for 2014, compared to US\$104.35 per barrel for 2013.

- ***Kazakhstan***

In 2014, Emir-Oil realized revenue of RMB746.3 million. In 2013, revenue contributed by Emir-Oil was RMB782.6 million.

- (a) *Crude oil sales*

In 2014, Emir-Oil realized revenue from crude oil sales of RMB732.7 million. Emir-Oil exported 76.4% of its sales volume of oil and realized Brent prices (before transportation and sales commission) for such export sales. The average realized oil price comprising export and domestic sales was US\$63.34 per barrel for 2014. The average realized oil price for 2014 was US\$70.63 per barrel from export sales (after transportation and marketing commissions of US\$20.98 per barrel) and US\$39.68 per barrel from domestic sales. Emir-Oil's total oil sales volume was 1,882,351 barrels, comprising 1,438,962 barrels from export sales and 443,389 barrels from domestic sales. Revenue from export sales of oil accounted for 85.2% of Emir-Oil's total oil revenue.

During 2013, Emir-Oil realized revenue from oil sales of RMB768.9 million. Emir-Oil exported 82.3% of its sales volume of oil and realized Brent prices for these sales. The average realized oil price comprising export and domestic sales was US\$79.64 per barrel. The average realized oil price was US\$87.80 per barrel from export sales (after transportation and marketing commissions of US\$20.76 per barrel) and US\$41.57 per barrel from domestic sales. Emir-Oil's oil sales volume was 1,559,808 barrels for 2013, comprising of 1,284,287 barrels from export sales and 275,520 barrels from domestic sales. Revenue from export sales of oil accounted for 90.8% of Emir-Oil's total oil revenue.

(b) *Gas sales*

In 2014, Emir-Oil realized revenue from gas sales of RMB13.6 million with average realized gas price of US\$1.14 per Mscf and total gas sales volume of 1,954,375 Mscf, whilst revenue realized from gas sales in 2013 was RMB13.8 million with average realized gas price of US\$1.34 per Mscf and total gas sales volume 1,661,583 Mscf.

Operating expenses

The Group's operating expenses decreased by RMB177.5 million, or 7.4%, from RMB2,386.9 million for 2013 to RMB2,209.4 million for 2014, primarily due to the inclusion RMB259.4 million "Other Gains" from disposal of subsidiaries, partially offset by assets impairment loss, and increase in general and administrative expense.

- *Depreciation, depletion and amortization.* The Group's depreciation, depletion and amortization increased by RMB23.4 million, or 2.6%, from RMB905.0 million for 2013 to RMB928.4 million for 2014. The increase in depreciation, depletion and amortization was mainly due to slightly higher unit of production from of China oil and gas properties.
- *Taxes other than income taxes.* The Group's taxes other than income taxes decreased by RMB45.5 million, or 6.1%, from RMB740.6 million for 2013 to RMB695.1 million for 2014. The following table summarizes taxes other than income taxes for the years ended December 31, 2014 and December 31, 2013:

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
PRC		
Special oil levy	328,878	399,323
Urban construction tax and education surtax	12,110	13,473
Others	444	398
	<u>341,432</u>	<u>413,194</u>
Kazakhstan		
Rent export tax	176,536	185,696
Mineral extraction tax	44,588	45,329
Export duty	87,328	56,973
Property tax	23,508	31,452
	<u>331,960</u>	<u>319,450</u>
USA		
Withholding tax	930	386
Severance tax	534	–
Corporate		
Withholding tax	<u>20,236</u>	<u>7,598</u>
	<u>695,092</u>	<u>740,628</u>

The decrease in taxes other than income taxes for our China operations was mainly due to lower crude oil production and sales volume and decrease in average realized oil price, which resulted in lower unit special oil levy (windfall tax). The Special Oil Levy is calculated according to five progressive levels and valorem rates on the excess amounts of the realized crude oil price; it is calculated on a monthly basis and paid on a quarterly basis. The Ministry of Finance of the People’s Republic of China (“MOF”) recently issued a notice regarding the uplift of the threshold of the special oil levy (Cai Shui [2014] No.115) (“Notice”) from US\$55 to US\$65 per barrel, with effect from 1 January 2015. Details are as follows:

Crude oil prices (US\$/barrel)	Level of levy
65–70 (inclusive)	20%
70–75 (inclusive)	25%
75–80 (inclusive)	30%
80–85 (inclusive)	35%
Over 85	40%

The decrease in Special Oil Levy in China operation was partially offset by the increases in Export Duty of our Kazakhstan operation, which were mainly caused by export duty increased from US\$60 per metric ton to US\$80 per metric ton, with effect from March 2014.

Set out below are the various taxes that our Kazakhstan operation being subject to:

Rent Export Tax

Rent export tax is payable on export oil and is calculated based on world prices for crude oil. Rent Export Tax rate depends on export price for crude oil and can be 0% if export price is less than US\$40 per barrel or up to 32% if export price is higher than US\$190 per barrel.

Mineral Extraction Tax (“MET”)

MET is payable at a rate of 5% for export oil and 2.5% for domestic oil. MET for export oil is calculated at 5% based on barrels of oil produced, less barrels of domestic oil and barrels of internally consumed oil, multiplied by average world oil price per barrel. MET for domestic oil is calculated at 2.5% based on barrels of domestic oil multiplied by production cost per barrel multiplied by 120%.

Export Duty

Before April 14, 2013, export duty is payable on export oil and calculated as US\$40 per metric ton or US\$5.35 per barrel multiplied by volume of export oil sales. From April 14, 2013, this duty increased to USD60 per metric ton. From March 12, 2014, this duty was increased to US\$80 per metric ton.

Property Tax

Property tax is payable on oil and gas assets which have been granted a production license at a rate of 1.5% based on average balance of oil and gas properties.

Corporate

Withholding tax represents accrual of withholding tax on interest charged on intercompany loans.

- *Employee compensation costs.* The Group's employee compensation costs decreased by RMB12.2million, or 5.4%, from RMB227.8 million for 2013 to RMB215.6 million for 2014. The drop in employee compensation costs was primarily due to decrease in performance bonus.
- *Purchases, services and other expenses.* Our purchases, services and other expenses decreased by RMB32.9 million, or 8.9%, from RMB370.2 million for 2013 to RMB337.3million for 2014. The decrease in purchase, service and other expenses was primarily due to (i) less work over and fracturing of wells for Emir-Oil ; (ii) less amount was paid or settled with suppliers in Kazakhstan upon Tenge's devaluation in early 2014; (iii) only ten months of Miao Three's purchases, services and other expenses being included before the completion of its disposal.
- *Geological and geophysical expenses.* The Group adopts "successful method" accounting and under this method, exploration costs including geological and geophysical expenses (other than direct exploration wells drilling costs) are charged to profit and loss account in the period of incurrence. During 2014, the Group incurred geological and geophysical expenses in of about RMB20.0 million, compared to RMB4.7 million of 2013.
- *Distribution expenses.* The Group's distribution expenses increased by RMB5.3 million, or 16.9%, from RMB31.3 million for 2013 to RMB36.6 million for 2014. The increase in such pipeline expenses was due to the increase in sales volume of our Kazakhstan operation in 2014.
- *General and administrative expenses.* The Group's general and administrative expenses increased by RMB21.2 million, or 20.7% from RMB102.5 million for 2013 to RMB 123.7 million for 2014. The increase was primarily due to: (i) Emir-Oil incurred more education services, training, and donation expenses; and (ii) more business travel expenses incurred at corporate level.
- *Impairment charges.* Thre Group recognized an impairment charge amounting to RMB29.3 million and RMB125.3 million on the long-live assets (including mineral extractions rights) relating to a block in the PRC and the working interest in the USA, respectively, to reduce their carrying value to the respective estimated recoverable amount calculated based on value-in-use.

- *Other (losses)/income.* The Group incurred “other income” of RMB302.0 million for 2014, compared to other loss of RMB4.6 million for 2013. Other income for the current year includes mainly (i) RMB52.2 million gains from disposal of Miao Three and RMB207.2 million from disposal of PCR; (ii) realized gain of RMB19.6 million from oil hedge contracts for our 2014 production; (iii) royalty income received by PCR for its interest in the Zhou 13 Bock in Daqing of RMB8.1 million; and (iv) non-cash revaluation gain of RMB3.6 million for this interest. Other losses for 2013 represented (i) a non-cash, unrealized loss of RMB7.63 million from changes in fair value of oil hedge options for our 2014 production; (ii) an indemnity provision for Emir-oil’s traffic accident of RMB23.1 million, which is offset by (iii) royalty income received by PCR for its interest in the Zhou 13 Bock in Daqing of RMB5.5 million and (iv) consulting fee income of RMB14.1 million.

Profit from operations

The Group’s profit from operations decreased by RMB95.7 million, or 11.0%, from RMB869.2 million for 2013 to RMB773.5 million for 2014. This decrease was primarily due to the decrease in realized oil price and impairment loss for Condor and MLQ oil & gas properties, which is partially offset by the increase in sales volume and gains from disposal of Miao Three and PCR.

Finance income/(costs), net

The Group’s finance income increased by RMB12.1 million, or 189.1%, from RMB6.4 million for 2013 to RMB18.5 million for 2014. This increase was primarily due to our cash and cash equivalent balance as at 2014 increased significantly.

Finance cost increased by RMB147.8 million, or 42.0%, from RMB352.0 million for 2013 to RMB499.8 million for 2014. This increase was primarily due to: (i) RMB120.2 million call premium for the early redemption of the 2016 Notes; (ii) RMB34.7 million unamortized expenses of the 2016 Notes charged to finance cost as a result of redemption.

Share of loss of joint ventures

The Group holds a 51% interest in SGE. This investment was accounted for as joint ventures by the Group and our share of loss of SGE decreased from RMB68.8 million in 2013 to RMB55.4 million in 2014. This is mainly due to the decrease in loss of our investment in SGE, as a result of decreases in geological, geophysical and other exploration expenses (mainly seismic expenditures). These expenses are accounted for under IFRS “successful method” by the Group and being charged to profit and loss account in the period of incurrence (note that SGE adopts IFRS “full cost method”, under which similar exploration expenses are capitalized as exploration and evaluation assets and will be transferred to oil and gas properties, and will ultimately depreciated on the unit-of-production basis driving the production phase of the project in future).

Profit before income tax

The Group's profit before income tax decreased by RMB218.2 million, or 48.0%, from RMB454.9 million for 2013 to RMB236.7 million for 2014. This decrease was primarily due to the cumulative effects of the above factors.

Income tax expense

The Group increased income tax expense of RMB214.2 million for 2014, compared to income tax expense of RMB175.1 million for 2013. This change was primarily due to a decrease in our taxable income for our China operation and a tax credit for our Kazakhstan operation. The weighted average effective tax rate for 2014 is 90%, compared to 38% in 2013. The increase in effective tax rate is mainly due to non-deductible one-off finance expense related to the 2016 Notes, share of loss of SGE, impairment loss of Condor, and other expenses incurred by non-operating group companies of the Group.

Net profit for the year

As a result of the foregoing, our net profit for the year decreased by RMB257.2 million, or 91.9%, from RMB279.8 million for 2013 to RMB22.6 million for 2014.

EBITDA and Adjusted EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to net profit for the year, as our most directly comparable financial performance calculated and presented in accordance with IFRS. EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude non-cash items such as withholding tax on interest accrued for intercompany loans, share-based compensation expense, realized and unrealized loss/(gain) on the oil hedge options, loss on impairment of assets, and any other non-recurring items such as acquisition expenses, fair value changes of options granted, and geological and geophysical expenses and income/(loss) on disposal of subsidiary.

The Group's adjusted EBITDA reflects the Group's recurring cash flow earnings from its core operations.

We have included EBITDA and adjusted EBITDA as we believe EBITDA is a financial measure commonly used in the oil and gas industry. We believe that EBITDA and adjusted EBITDA are used as supplemental financial measures by our management and by investors, research analysts, bankers and others, to assess our operating performance, cashflow and return on capital as compared to those of other companies in our industry, and our ability to take on financing. However, EBITDA and adjusted EBITDA should not be considered in isolation or construed as alternatives to profit from operations or any other measure of performance or as an indicator of our operating performance or profitability. EBITDA and adjusted EBITDA fail to account for corporate tax, finance income, finance costs and other non-operating cash expenses. EBITDA and adjusted EBITDA do not consider any functional or legal requirements of the business that may require us to conserve and allocate funds for any purposes.

The following table presents a reconciliation of EBITDA and adjusted EBITDA to net profit for the years ended December 31, 2014 and December 31, 2013:

	Year Ended December 31,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the year	22,549	279,784
Income tax expenses	214,163	175,083
Finance income	(18,491)	(6,431)
Finance cost	499,818	351,984
Depreciation, depletion and amortization	928,447	905,032
	<hr/>	<hr/>
EBITDA	1,646,486	1,705,452
	<hr/> <hr/>	<hr/> <hr/>
Share-based compensation expenses	12,315	9,584
Impairment charges	154,570	–
(Gain)/Loss on oil hedge options	(19,564)	7,626
Geological and geophysical expense		
— Emir	20,047	4,721
— Share of SGE	19,842	44,339
Emir accident indemnity	–	23,055
Withholding tax arised from intercompany loan	21,166	7,984
Gain on disposal of subsidiaries	(259,389)	–
	<hr/>	<hr/>
Adjusted EBITDA	1,595,473	1,802,761
	<hr/> <hr/>	<hr/> <hr/>

The Group's EBITDA decreased by approximately RMB59.0 million, or 3.5%, from approximately RMB1,705.5 million for 2013 to approximately RMB1,646.5 million for 2014. The decrease in EBITDA was also primarily due to the decrease in realized oil price, and assets impairment loss for Condor and MLQ oil & gas properties, which is partially offset by the gains from disposal of subsidiaries.

The Group's adjusted EBITDA decreased by approximately RMB207.3 million, or 11.5%, from approximately RMB1,802.8 million for 2013 to approximately RMB1,595.5 million for 2014. The decrease in adjusted EBITDA was also primarily due to the decrease in realized oil price.

The Group's EBITDA and Adjusted EBITDA by operating segment are set out below;

	Year Ended December 31,2014				
	China <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	USA <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Net profit for the year	721,702	103,149	(149,422)	(652,880)	22,549
Income tax expenses	169,734	44,260	–	169	214,163
Finance income	(453)	(1,629)	(3,792)	(12,617)	(18,491)
Finance cost	20,347	(32,704)	1,771	510,404	499,818
Depreciation, depletion and amortization	806,894	97,527	23,548	478	928,447
EBITDA	1,718,224	210,603	(127,895)	(154,446)	1,646,486
Share-based compensation expenses	13,428	752	–	(1,865)	12,315
Impairment charges	29,282	–	125,288	–	154,570
(Gain)/Loss on oil hedge options	–	–	–	(19,564)	(19,564)
Geological and geophysical expense					
— Emir	–	20,047	–	–	20,047
— Share of SGE	–	–	–	19,842	19,842
Withholding tax arised from intercompany loan	–	–	930	20,236	21,166
Gains on disposal of subsidiaries	(259,389)	–	–	–	(259,389)
Adjusted EBITDA	1,501,545	231,402	(1,677)	(135,797)	1,595,473

	Year Ended December 31, 2013				Total RMB'000
	China RMB'000	Kazakhstan RMB'000	USA RMB'000	Others RMB'000	
Net profit for the year	630,722	168,875	(9,753)	(510,060)	279,784
Income tax expenses	195,667	(20,584)	–	–	175,083
Finance income	(360)	(2,380)	(3,626)	(65)	(6,431)
Finance cost	15,952	221	953	334,858	351,984
Depreciation, depletion and amortization	781,723	101,868	21,229	212	905,032
EBITDA	<u>1,623,704</u>	<u>248,000</u>	<u>8,803</u>	<u>(175,055)</u>	<u>1,705,452</u>
Share-based compensation expenses	5,901	(483)	–	4,166	9,584
(Gain)/Loss on oil hedge options	–	–	–	7,626	7,626
Geological and geophysical expense					
— Emir	–	4,668	53	–	4,721
— Share of SGE	–	–	–	44,339	44,339
Emir accident indemnity	–	23,055	–	–	23,055
Withholding tax arised from intercompany loan	–	–	386	7,598	7,984
Adjusted EBITDA	<u>1,629,605</u>	<u>275,240</u>	<u>9,242</u>	<u>(111,326)</u>	<u>1,802,761</u>

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's primary sources of cash during 2014 were cash flow from operating activities and cash flow from financing activities.

In 2014, we had net cash generated from operating activities of RMB1,180.4 million, net cash used in investing activities of RMB1,311.1 million, net cash generated from financing activities of RMB541.9 million, an exchange losses on cash and cash equivalent of RMB3.4 million, and a net increase in cash and cash equivalent of RMB414.3 million.

Cash generated from operating activities

Net cash generated from operating activities was RMB1,180.4 million in the year ended December 31, 2014. In the year ended December 31, 2014, our net cash generated in operating activities included profit before income tax of RMB236.7 million adjusted for, depreciation, depletion and amortization of RMB928.4 million, net interest expenses of RMB514.1 million, employee share option of RMB12.3 million, share of loss from investments in joint ventures of RMB55.4 million, offset by gains on disposal of subsidiaries of RMB259.4 million, exchange gain of RMB32.8, and gains on changes of fair value of derivative financial instruments of RMB11.3 million, gains on oil hedge options of 19.6 million. The cash movements from changes in working capital which included decrease in trade and other payables of RMB140.5 million, an decrease in trade and other receivables of RMB226.2 million and an decrease in inventories of RMB2.5 million, and interest paid of RMB326.0 million and income tax paid of RMB155.3 million.

Net cash generated from operating activities was RMB1,209.1 million in the year ended December 31, 2013. In the year ended December 31, 2013, our net cash generated in operating activities included profit before income tax of RMB454.9 million adjusted for, depreciation, depletion and amortization of RMB905.0 million, net interest expenses of RMB394.8 million, employee share option of RMB26.5 million, share of loss from investments in joint ventures of RMB68.8 million, offset by exchange gain of RMB50.3 million. The cash movements from changes in working capital which included decrease in trade and other payables of RMB150.2 million, an decrease in trade and other receivables of RMB258.8 million and an decrease in inventories of RMB2.7 million, and interest paid of RMB295.9 million and income tax paid of RMB267.6 million.

Cash used in investing activities

Net cash used in investing activities in the year ended December 31, 2014 amounted to RMB1,311.1 million, as a result of purchases of property, plant and equipment of RMB1,314.0 million, capital contribution to/acquisition of investments accounted for using the equity method of RMB269.4 million, loans to investments accounted for using equity method of RMB163.9 million, increase in restricted cash of RMB103.4 million, purchase of available-for-sale financial assets of RMB72.0 million, offset by proceeds from disposal of interest in subsidiaries net of disposal expenses, cash and cash equivalent balance as at disposal date of RMB532.5 million, deposit received in relation to disposal of subsidiary of RMB46.4 million, proceeds from contingent consideration receivable of RMB8.1 million and interest received of RMB14.4 million.

Net cash used in investing activities in the year ended December 31, 2013 amounted to RMB1,585.0 million, as a result of purchases of property, plant and equipment of RMB1,408.9 million, capital contribution to and acquisition of investments accounted for using the equity method of RMB180.8 million, offset by a decrease in restricted cash of RMB1.8 million, and interest received of RMB2.9 million.

Cash generated from financing activities

Net cash generated from financing activities in the year ended December 31, 2014 amounted to RMB541.9 million primarily due to: (i) proceeds from the issue of the 2019 Notes of RMB2,986.2 million in April 2014, (ii) proceeds from bank borrowings of RMB411.5 million, comprising one RMB55 million and two RMB5 million short-term working capital loan from China Construction Bank (“CCB”), USD35 million from Deutsche Bank (“DB”), and USD20 million from Bank of Communication (“BCM”), and (iii) dividends on repurchased shares held in trust of RMB1.0 million, offset by: (i) 2013 final cash dividend of RMB61.0 million paid in June 2014, (ii) RMB2,465.6 million used for repayment of the 2016 Notes in May 2014 and the repayment of RMB125 million short-term and RMB1.5 million long-term working capital loan from CCB, (iii) RMB120.2 million used for the payment of premium related to the repayments of the 2016 Notes, (iv) RMB10.4 million used for the payment for settlement of share options, (v) RMB15.0 million used for the payment of loan arrangement fees and other fees, (vi) settlement of options to consultants for investments in subsidiaries of RMB44.6 million and (vii) RMB13.6 million payment for buyback of shares and cancellation.

Net cash generated from financing activities in the year ended December 31, 2013 amounted to RMB215.1 million primarily due to: (i) proceeds from bank borrowings of RMB120.0 million comprising two RMB60 million short-term working capital loan from CCB, (ii) proceeds from issue of senior note payable, net of issuance costs of RMB1,229.2 million, (iii) dividends on repurchased shares held in trust of RMB2.0 million, (iv) proceeds from disposal of a joint venture of RMB16.7 million, proceeds from partial disposal of interest in subsidiary of RMB44.5 million, offset by: (i) 2012 final dividend paid of RMB124.4 million, (ii) repayments of RMB998.6 million comprising repayment a US\$80 million loan and US\$60 million loan from Minsheng and two RMB60 million short-term working capital loan from CCB, (iii) RMB25.3 million used for the payment of loan arrangement fees and (v) payment for share purchased under Share Award Scheme of RMB50.2 million.

Our gearing ratio, which is defined as total borrowings less cash and cash equivalents (“Net Borrowings”) divided by the sum of Net Borrowings and total equity, increased slightly from 47.7% as at December 31, 2013 to 51.8% as at December 31, 2014, principally due to the newly issued 2019 Notes.

Our Total Borrowings to EBITDA ratio, which is defined as total borrowings divided by EBITDA increased from 2.14 as at December 31, 2013 to 2.74 as at December 31, 2014.

Our Total Borrowings to Adjusted EBITDA ratio, which is defined as total borrowings divided by Adjusted EBITDA increased from 2.02 as at December 31, 2013 to 2.83 as at December 31, 2014.

MARKET RISKS

Our market risk exposures primarily consist of fluctuations in oil prices and exchange rates.

Oil price risk

Our realized oil prices are determined by reference to oil prices in the international market, changes in international oil prices will have a significant impact on us. Unstable and high volatility of international oil prices may have a significant impact on our revenue and profit.

Currency risk

The majority of the Group's China operation sales are in US dollars, while production and other expenses in China are incurred in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

The functional currency of the Kazakhstan subsidiary is in US dollars and all export sales are in US dollars. The transactions of the Kazakhstan subsidiary which are denominated in the Kazakhstan Tenge are exposed to fluctuations in the US dollars and Kazakhstan Tenge exchange rate. Management is not in a position to anticipate changes in the PRC foreign exchange regulations or the fluctuations between the US dollar and Kazakhstan Tenge exchange rates, and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates.

EMPLOYEES

As at December 31, 2014, the Group had 2,131 employees, with 1,783 based in China (Mainland and Hong Kong), 344 based in Kazakhstan and 4 based in USA.

We have adopted a market-oriented employment system and a competitive remuneration scheme. The remuneration scheme and employment system are periodically reviewed. Apart from pension funds and in-house training programs, performance bonuses and share options may be awarded to employees according to assessment of individual contribution.

Contingencies

On August 28, 2000, MIE entered into a PSC with Sinopec for exploration and development of the Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at the Shengli oilfield and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at the Shengli oilfield. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least USD2 million under the PSC. MIE believes its investment in the project at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

SHARE OPTION SCHEME

Cancellation of Vested Options

On September 20, 2011, the Company granted, pursuant to the share option scheme adopted by the Company on November 27, 2010 (the “Scheme”), share options to certain employees of the Company, entitling the option holders to subscribe for an aggregate of 112,048,000 ordinary shares of the Company of USD0.001 each at the exercise price of HK\$2.254 per share (“2011 Grant”). The share options for an aggregate of 5,987,200 shares subsequently lapsed pursuant to the terms of the Scheme and the relevant option agreements as at December 31, 2014.

Since February 2013, the exercise price of the vested options has been higher than the prevailing market price of the shares. As a result, the options could no longer serve as an effective incentive. In view of this, the Company offered these option holders a cash consideration of HK\$0.20 per share to cancel vested options under the 2011 Grant, subject to the option holders consenting to such cancellation. As a result, options in respect of 65,358,066 shares were cancelled on March 21, 2014.

Grant of New Options

On March 21, 2014, the Company granted share options pursuant to the Scheme to 151 eligible participants comprising certain directors, substantial shareholders and employees of the Company to subscribe for an aggregate of 97,280,000 shares. These options have an exercise price of HKD1.40 per share and a term of 10 years from the grant date, and will vest over the next three or four years. The share options for an aggregate of 4,008,379 shares subsequently lapsed pursuant to the terms of the Scheme and the relevant option agreements as at December 31, 2014.

DIVIDEND

The Board did not recommend the payment of final dividend for the year ended December 31, 2014 (2013: HK\$77,572,000).

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Group’s consolidated financial statements for the year ended December 31, 2014 including the accounting policies adopted by the Group and has discussed the internal controls and financial reporting matters of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Pursuant to the repurchase mandate granted to the Board of the Company at the annual general meeting of the Company held on May 16, 2014, the Company purchased 17,134,000 of its own ordinary shares of US\$0.001 each in the capital of the Company as at December 31, 2014 at the highest and lowest prices of HK\$1.01 and HK\$0.99 per share respectively (“Shares Repurchase”).

The aggregate purchase price paid for the Shares Repurchase was approximately HK\$17,178,313.11 (including transaction cost) and was funded by internal resources of the Company. Such shares purchased by the Company represents approximately 0.65% of the issued share capital of the Company before the Shares Repurchase.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled on or around Friday, May 22, 2015. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, May 20, 2015 to Friday, May 22, 2015, both days inclusive, a period during which no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, May 19, 2015.

CORPORATE GOVERNANCE CODE

The Company has complied with the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules for the year ended December 31, 2014, except for Code Provisions A.2.1 and E.1.2 as explained below.

Code Provision A.2.1

Code Provision A.2.1 of the CG Code stipulates that the roles of the Chairman and Chief Executive Officer are required to be separated and not to be performed by the same individual. Mr. Zhang Ruilin ("Mr. Zhang") is the Chairman of the Board. In addition to the role of Chairman of the Board, the role of Chief Executive Officer is also designated to Mr. Zhang. This constitutes a deviation from Code Provision A.2.1. The reason for such deviation is set out below.

The Company is engaged in the oil and gas exploration and production business which is different from integrated oil companies engaging in both upstream and downstream operations. In light of this, the Board considers that the interest of the Company's oil and gas exploration and production business is best served when strategic planning decisions are made and implemented by the same person. The Nomination Committee of the Company also agreed that it is in the best interest of the Company that the roles of the Chairman of the Board and Chief Executive Officer be performed by the same individual. In this respect, the Company does not currently propose to designate another person as the Chief Executive Officer of the Company. However, the Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

Code Provision E.1.2

Code Provision E.1.2 of the CG Code stipulates that, among others, the chairman of the Board shall attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.

At the annual general meeting of the Company held on May 16, 2014 (the “2014 AGM”), Mr. Mei Jianping (Chairman of the Nomination Committee and the Remuneration Committee and member of the Audit Committee), Mr. Jeffrey W. Miller (Chairman of the Audit Committee and member of the Nomination Committee and the Remuneration Committee) and Mr. Cai Rucheng (member of the Audit Committee, the Nomination Committee and the Remuneration Committee) were unable to turn up due to other important business engagements.

However, Mr. Zhang Ruilin (the executive director and Chairman of the Board), Mr. Andrew Sherwood Harper (the executive director) and Mr. Tao Tak Yin Dexter (the executive director) have attended the 2014 AGM to answer questions where necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules and applied the same to the directors and the employees who are likely to be in possession of unpublished inside information of the Company.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended December 31, 2014. In addition, no incident of non-compliance of the Model Code by the employees was noted by the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The electronic version of this annual results announcement is published on the websites of the Company (www.mienergy.com), Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and Singapore Exchange Securities and Trading Limited (www.sgx.com). An annual report for the year ended December 31, 2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the said websites in due course.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held in Hong Kong on or around Friday, May 22, 2015. Notice of the Annual General Meeting will be published and sent to shareholders in due course.

By order of the Board of
MIE Holdings Corporation
Mr. Zhang Ruilin
Chairman

Hong Kong, March 19, 2015

As at the date of this announcement, the Board comprises (1) the executive directors namely Mr. Zhang Ruilin, Mr. Zhao Jiangwei, Mr. Tak Yin Dexter Tao, Mr. Tian Hongtao and Mr. Andrew Harper; (2) the non-executive director namely Mr. Wang Sing (Mr. Hung Leung is alternate to Mr. Wang Sing); and (3) the independent non-executive directors namely Mr. Mei Jianping, Mr. Jeffrey W. Miller and Mr. Cai Rucheng.