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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, 2013

Dear Shareholders,

On behalf of the Board of Directors (“Board”) of MIE Holdings Corporation (“MIE” or the “Company”), I hereby present the annual results of the Company for the year ended December 31, 2013.

The overall performance of the Company and its subsidiaries (collectively the “Group”) for 2013 was solid, fully achieving our targets established by the Board of the Company at the beginning of the year. We’re pleased that with a substantial increase in both reserves and resources, the Group’s value has continued to grow significantly. Based on the year end 2013 reserves estimates reviewed by the independent consultants, the net present value, before income tax and discounted at 10%, of the Group’s Proved + Probable (2P) oil and gas reserves is approximately US\$3.5 billion. We believe that these reserves and resources, in terms of both scale and value, will provide a solid foundation to support the long-term development of the Group and significantly enhance value to our shareholders. In 2013, as compared to 2012, the Group’s successful operating results are also highlighted by the substantial 55% increase in production of Emir-Oil LLC (“Emir-Oil”) in Kazakhstan to 4,320 barrels oil per day (“BOPD”), as well as the tripling of net 2P gas reserves from Sino Gas & Energy Limited (“SGE”) in Shanxi Province, China to 303 billion cubic feet (BCF) (or 8.6 billion cubic meters, “BCM”, where 1 cubic meter = 35.315 cubic feet) and an increase in SGE’s best estimate prospective resources to more than 1 trillion cubic feet (28 BCM). These are two strong and positive steps in implementing our medium term growth strategy, pursuant to which funds from our assets in Northeast China, (which have strong cash flow and profitable production,) are invested into the assets with significant growth potential that we have acquired over the past three years. Our assets in Jilin and Hebei Provinces of China achieved gross-operated oil production of 1.07 million tons (7.95 million barrels) on reduced capital spending, and continued to contribute substantial and steady free cash flow to the Group, thereby enabling our new projects to be developed whilst maintaining relatively low leverage.

Operating results in 2013 proved the Group's strong ability to execute and optimize its operations, through technical and management expertise honed to a fine edge over the past decade of Northeast China operations and now, expanding outside its core areas.

In 2013, the Group's operated oil and gas production increased by 12.6% to 9.93 million barrels of oil equivalent ("BOE", converted at 6 thousand standard cubic feet ("MSCF") of gas to 1 BOE, for reference purposes only) from 8.81 million BOE in 2012. Net production rose by 3.1% from 5.50 million BOE in 2012 to 5.68 million BOE in 2013. Despite more production and overall satisfactory operating results, the Group experienced decreases in revenues and profits mainly attributed to lower average realized oil prices, less "cost recovery oil" allocations under the northeast China Production Sharing Contracts ("PSCs") where we strategically scaled back capital expenditures, and increased finance expenses in tandem with increased business activities. Total sales revenue slid 6.7% to RMB3,256.1 million, alongside a drop in profit before tax by 45.7% to RMB454.9 million. EBITDA fell 13.8% to RMB1,705.5 million, and adjusted EBITDA for the core business decreased to RMB1,802.8 million from RMB2,144.4 million in 2012. The Group's reported net profits of RMB279.8 million, decreased by 48.3% from 2012, and earnings per share decreased by 47.6% to RMB0.11 per share. In view of the overall performance in 2013, the Board recommended the payment of a final dividend of HKD0.029 per share.

For the year 2013, highlights of our Group include:

- **With a substantial increase in both reserves and resources, the Group's value has continued to grow significantly.** Based on the year end 2013 reserves estimates prepared by independent consultants, the Group's total Proved (1P) oil and gas reserves increased 33.7% to 83.22 million BOE, Proved + Probable (2P) oil and gas reserves increased 34.3% to 192.60 million BOE and Proved + Probable + Possible (3P) oil and gas reserves increased 29.2% to 290.60 million BOE. The net present value based on the reports from the independent consultants, before income tax and discounted at 10%, of the Group's 2P oil and gas reserves is approximately US\$3.5 billion. We believe that these reserves and resources, in terms of both scale and value, will provide a solid foundation to support the long-term development of the Group and significantly enhance tremendous value to our shareholders.
- **The performance of the base assets in China continues to be stable, serving as a solid foundation and generating strong and stable cash flow for the development of our growth projects.** As a result of a strategy adjustment in 2013, we reduced the number of new wells drilled by 77.5% and Capex by 63.7% in the Daan, Moliqing and Miao 3 projects in Jilin Province, China, compared with 2012. In spite of these reductions, the performance of the China base assets has been stable, with annual gross production reduced by only 2.2% in this segment. Based on 2013 gross production of 1.07 million tons of oil (7.95 million barrels) from the Jilin and Kongnan projects in China, we continue to be ranked first among independent exploration and production companies operating onshore China. The Northeast China PSCs remains a solid base for the Group, supporting the growth of the Emir-Oil project in Kazakhstan and the Sino Gas and Energy Limited ("SGE") project in Shanxi Province, China.

- **Emir-Oil’s production maintained robust growth momentum, and its profitability improved significantly.** In 2013, the significant ramp up in production of Emir-Oil was in line with our expectations. The average production was 4,320 BOPD, representing an increase of 55% from 2,787 BOPD in 2012, near the high end of previously provided range of 3,800–4,400 BOPD for 2013 production guidance. This rapid production growth has greatly enhanced the profitability of Emir-Oil.

Emir-Oil has experienced several key operational milestones over the past two years since our acquisition in September 2011. Both annual production and sales value have grown significantly, and the number of wells has increased to 39 from 24, since we took over as operator. In 2013, we signed the fourth production contract (Emir Production Contract) based on similar terms to those of the original three production contracts. At the North Kariman exploration discovery, a pilot production permit for the prolific North Kariman-2 well was approved by local Kazakhstan authorities. What is more, Emir-Oil project’s first horizontal well, Kariman-113, which began producing in August 2013 with the highest oil and gas production rate in the Group history so far, is still producing at a stable rate above 1,200 BOPD. All of these highlights undoubtedly foreshadow the continued success and exciting prospects for our growing operations at Emir-Oil.

- **Comprehensive exploration and pilot production work programs for SGE were successfully executed, and reserves and resources were significantly increased.** According to the 2013 year end report provided by RISC Operations Pty Ltd, an independent technical consultant, the total 2P gas reserves of Linxing and Sanjiaobei projects increased by 227%, as compared to year end of 2012. Since July 2012 when our Group acquired a 51% equity interest in SGE, the number of wells has been increased from 15 to 58 as a result of the substantial 2012 and 2013 drilling activities. Another significant milestone was achieved in 2013 when the China Reserves Report (“CRR”) for Linxing East was reviewed and officially submitted to the relevant authorities for approval. Although SGE represents our Group’s first gas exploration and development project, our 2013 operational achievements, in addition to our longstanding track record in respect of our various oil PSCs in China should demonstrate our capability to operate in the exciting and fast growing China gas sector.

Regarding progress towards gas sales, we took several important steps during 2013. A gas sales agreement for the Linxing project was signed in June 2013 and SGE is now laying the necessary pipelines to commence pilot production. In October 2013, SGE signed a trial sales agreement for compressed natural gas (“CNG”) and “first sales” took place in December 2013. Also during 2013, the Chinese government announced policy changes to move towards a deregulated gas pricing system, based on market pricing and independent price negotiations. With the expanding robust demand for natural gas and the new market-related price mechanism in China, the Group believes that we will realize considerable gas price upside and commercial value from SGE in the coming years.

Developing Emir-Oil and SGE, and unlocking their value are the top priorities in respect of near term strategy for our Group. Looking forward in 2014, the Group will continue to boost the exploration and development for these two growth projects, while ensuring stable operations and cashflow elsewhere in the Group. Meanwhile, we will focus on optimizing our asset portfolio with the goal of maintaining a strong capital structure and improving the overall Group's profitability to the greatest extent possible. As the development of our new and existing crude oil and natural gas assets progresses, we are confident that the Group will continue expanding into a diversified, productive and profitable international oil and gas company.

In 2014, the Group plans to drill 232 gross wells (including 59 wells in SGE), and the expected net capital expenditure to be invested by the Group is about USD350 million. The expected net oil production is 15,300 to 16,300 barrels/day and the expected net gas production is 6,400 to 7,400 MSCF/day.

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

	<i>Notes</i>	Year ended December 31,	
		2013	2012
		RMB'000	RMB'000
Revenue	4	<u>3,256,061</u>	<u>3,485,616</u>
Operating expenses:			
Depreciation, depletion and amortization		(905,032)	(861,367)
Taxes other than income taxes	5	(740,628)	(816,972)
Employee compensation costs	7	(227,769)	(269,546)
Purchases, services and others		(370,205)	(278,679)
Geological and geophysical expenses		(4,721)	(22,922)
Distribution expenses		(31,346)	(33,483)
General and administrative expenses		(102,528)	(117,382)
Other (losses)/gains, net	6	<u>(4,635)</u>	<u>39,547</u>
Total operating expenses		<u>(2,386,864)</u>	<u>(2,360,804)</u>
Profit from operations	7	869,197	1,124,812
Finance income	8	6,431	5,797
Finance costs	8	(351,984)	(285,307)
Share of losses of investments accounted for using the equity method		<u>(68,777)</u>	<u>(8,265)</u>
Profit before income tax		454,867	837,037
Income tax expense	9	<u>(175,083)</u>	<u>(295,765)</u>
Profit for the year		<u>279,784</u>	<u>541,272</u>
Other comprehensive income/(loss)			
<i>Items that will not be reclassified to profit or loss</i>			
Currency translation differences		(48,932)	(3,214)
<i>Items that may be reclassified to profit or loss</i>			
Change in value of available-for-sale financial assets		24,283	–
Reclassification of accumulated change in value of available-for-sale financial assets upon disposal		(4,093)	–
Currency translation differences		<u>20,514</u>	<u>(1,580)</u>
		<u>(8,228)</u>	<u>(4,794)</u>
Total comprehensive income for the year		<u><u>271,556</u></u>	<u><u>536,478</u></u>

	<i>Notes</i>	Year ended December 31, 2013 RMB'000	2012 RMB'000
Profit for the year attributable to:			
Owners of the Company		283,009	543,966
Non-controlling interests		(3,225)	(2,694)
		<u>279,784</u>	<u>541,272</u>
Total comprehensive income			
for the year attributable to:			
Owners of the Company		274,781	539,172
Non-controlling interests		(3,225)	(2,694)
		<u>271,556</u>	<u>536,478</u>
Earnings per share for profit attributable to			
owners of the Company for the year			
(expressed in RMB per share)			
Basic	<i>10</i>	0.11	0.21
Diluted	<i>10</i>	0.11	0.20
		<u>0.11</u>	<u>0.20</u>
Dividends	<i>11</i>	60,969	126,665
		<u>60,969</u>	<u>126,665</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at December 31,	
		2013	2012
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		7,160,160	6,632,652
Intangible assets		544,469	603,898
Investments accounted for using the equity method		273,348	181,636
Deferred income tax assets		40,783	–
Available-for-sale financial assets		50,422	3,966
Prepayments, deposits and other receivables		34,941	178,817
Restricted cash		11,884	9,687
		8,116,007	7,610,656
Current assets			
Inventories		44,835	52,616
Derivative financial instruments		7,791	418
Prepayments, deposits and other receivables		549,188	302,132
Trade receivables	12	273,125	438,048
Restricted cash		37,071	41,106
Cash and cash equivalents		274,529	467,164
		1,186,539	1,301,484
Total assets		9,302,546	8,912,140
EQUITY			
Equity attributable to owners of the Company			
Ordinary shares		17,638	17,629
Share premium		838,496	836,374
Other reserves		241,766	203,107
Retained earnings			
— Proposed final dividend		60,969	126,665
— Others		2,502,138	2,279,598
		3,661,007	3,463,373
Non-controlling interests		43,423	810
Total equity		3,704,430	3,464,183

		As at December 31,	
	<i>Notes</i>	2013	2012
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	<i>13</i>	3,589,503	3,327,894
Deferred income tax liabilities		261,472	260,135
Trade and notes payable	<i>14</i>	46,113	131,867
Provisions, accruals and other liabilities	<i>15</i>	145,424	122,657
Derivative financial instruments		–	67,839
		<u>4,042,512</u>	<u>3,910,392</u>
Current liabilities			
Trade and notes payable	<i>14</i>	1,022,424	988,137
Provisions, accruals and other liabilities	<i>15</i>	462,238	416,314
Current income tax liabilities		10,942	73,114
Borrowings	<i>13</i>	60,000	60,000
		<u>1,555,604</u>	<u>1,537,565</u>
Total liabilities		<u>5,598,116</u>	<u>5,447,957</u>
Total equity and liabilities		<u>9,302,546</u>	<u>8,912,140</u>
Net current liabilities		<u>(369,065)</u>	<u>(236,081)</u>
Total assets less current liabilities		<u>7,746,942</u>	<u>7,374,575</u>

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

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, 2012, as described therein.

2.1 Basis of preparation

The financial information of the Group for the year ended December 31, 2013 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 of the Company have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are carried by fair value.

2.1.1 Going concern

At December 31, 2013, the Group’s current liabilities exceeded its current assets by RMB369.1 million (2012: RMB236.1 million), which was mainly due to significant capital expansion programs undertaken by the Group in recent years. The Group generated cash and cash equivalents from its operating activities of RMB1,209.1 million (2012: RMB1,147.7 million) for the year ended December 31, 2013, and expects to continue to generate significant positive cash flow in the next 12 months from the approval date of these financial statements.

Additionally, the directors of the Company have taken measures and are confident to obtain other available sources of funding from other financial institutions in 2014. At December 31, 2013, the Group has committed unutilized banking facilities amounting to RMB451.7 million (2012: RMB334.5 million). Based on their assessment, the Board of Directors of the Company is of the opinion that the Group has sufficient working capital to enable it to repay its debts as and when they fall due. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.1.2 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, 2013:

- IFRS 10, ‘Consolidated financial statements’ builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 11, ‘Joint arrangements’ focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.
- IFRS 12, ‘Disclosures of interests in other entities’ includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.
- IFRS 13, ‘Fair value measurement’, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.
- IAS 27 (revised 2011), ‘Separate financial statements’ includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (revised 2011), ‘Associates and joint ventures’ includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
- Amendment to IAS 1, ‘Financial statement presentation’ regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in ‘other comprehensive income’ (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- Amendment to IAS 16, “Property, plant and equipment” clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.

- Amendment to IAS 34, “Interim financial reporting” clarifies the disclosure requirements for segment assets and liabilities in interim financial information.
- IAS 19, ‘Employee benefits’ was revised in June 2011. The changes on the Group’s accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- Amendment to IFRS 7, ‘Financial instruments: Disclosures’, on asset and liability offsetting. This amendment requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

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

(b) New standards, amendments and interpretations not effective for the financial year beginning January 1, 2013 and not yet adopted

- IFRS 9, ‘Financial instruments’ (effective from January 1, 2015).
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective from January 1, 2014).
- Amendments to IAS 36, ‘Impairment of assets’ (effective from January 1, 2014).
- Amendment to IAS 32, ‘Financial instruments: Presentation’ (effective from January 1, 2014).
- Amendment to IAS 39, ‘Financial Instruments: Recognition and Measurement’ (effective from January 1, 2014).
- Amendment to IAS 19, ‘employee benefits’ (effective from January 1, 2014).
- IFRIC 21, ‘Levies’ (effective from January 1, 2014).

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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 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.

(a) Sales of goods

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.

(b) Rendering of services

The Group provides certain technical services to other oil companies, and recognizes the related revenue in the accounting period in which the services are rendered.

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 and mining rights using the unit of production method based on the estimated reserves as disclosed in Note 3.1(i), 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*

Property, plant and equipment, including oil and gas properties, 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.

(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.

(vi) *Going concern*

As set out in Note 2.1.1, the ability of the Group to continue operations is dependent upon obtaining the necessary financing borrowings in order to obtain sufficient cash flow to meet its liabilities as they fall due. In the event the Group is unable to obtain adequate funding, there is uncertainty as to whether the Group will be able to continue as a going concern. These financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Group and the Company be unable to continue as a going concern.

4. 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 from the sale of oil. Revenue is realized from the sale of the Group's share of crude oil to PetroChina pursuant to four 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 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 profit from operation.

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

	PRC <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	USA <i>RMB'000</i>	Corporate and other segments <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	2,443,844	782,631	29,586	–	3,256,061
Operating expenses:					
Depreciation, depletion and amortization	(781,723)	(101,868)	(21,229)	(212)	(905,032)
Taxes other than income taxes	(413,194)	(319,450)	(386)	(7,598)	(740,628)
Employee compensation costs	(109,531)	(48,347)	–	(69,891)	(227,769)
Purchases, services and others	(238,201)	(120,966)	(11,038)	–	(370,205)
Geological and geophysical expenses	–	(4,668)	(53)	–	(4,721)
Distribution expenses	(31,346)	–	–	–	(31,346)
General and administrative expenses	(41,183)	(18,145)	(7,926)	(35,274)	(102,528)
Other gains/(losses), net	13,315	(23,055)	(1,380)	6,485	(4,635)
Total operating expenses	(1,601,863)	(636,499)	(42,012)	(106,490)	(2,386,864)
Profit/(loss) from operation	841,981	146,132	(12,426)	(106,490)	869,197
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	826,389	148,291	(9,753)	(510,060)	454,867
Income tax (expense)/benefit	(195,667)	20,584	–	–	(175,083)
Profit/(loss) for the year	630,722	168,875	(9,753)	(510,060)	279,784
Total assets	5,901,879	2,642,182	257,941	492,753	9,294,755
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	1,206,279	593,292	48,013	3,735,395	5,582,979

The segment information provided to the Board of Directors for the reportable segments for the year ended December 31, 2012 is as follows:

	PRC <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	USA <i>RMB'000</i>	Corporate and other segments <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	2,924,726	557,113	3,777	–	3,485,616
Operating expenses:					
Depreciation, depletion and amortization	(741,487)	(115,849)	(3,814)	(217)	(861,367)
Taxes other than income taxes	(540,296)	(227,355)	–	(49,321)	(816,972)
Employee compensation costs	(182,246)	(47,433)	–	(39,867)	(269,546)
Purchases, services and others	(203,792)	(72,841)	(2,046)	–	(278,679)
Geological and geophysical expenses	–	(18,729)	(4,193)	–	(22,922)
Distribution expenses	(33,483)	–	–	–	(33,483)
General and administrative expenses	(63,368)	(5,572)	(6,599)	(41,843)	(117,382)
Other gains, net	695	–	–	38,852	39,547
Total operating expenses	(1,763,977)	(487,779)	(16,652)	(92,396)	(2,360,804)
Profit/(loss) from operation	1,160,749	69,334	(12,875)	(92,396)	1,124,812
Finance income	2,974	2,763	56	4	5,797
Finance cost	(22,514)	(2,018)	(121)	(260,654)	(285,307)
Share of losses of investments accounted for using the equity method	(9,330)	–	1,065	–	(8,265)
Profit before income tax	1,131,879	70,079	(11,875)	(353,046)	837,037
Income tax expense	(268,026)	(27,739)	–	–	(295,765)
Profit/(loss) for the year	863,853	42,340	(11,875)	(353,046)	541,272
Total assets	6,342,120	2,325,320	134,560	109,722	8,911,722
Total assets includes:					
Property, plant and equipment	4,922,437	1,642,950	65,901	1,364	6,632,652
Intangible assets	69,301	517,949	16,648	–	603,898
Investments accounted for using the equity method	–	–	–	181,636	181,636
Additions to non-current assets	1,598,886	307,096	67,723	–	1,973,705
Total liabilities	2,223,758	473,352	34,293	2,643,687	5,375,090

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.

The derivative financial instruments relating to oil hedge options held by the Group are not considered to be segment assets.

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

	As at December 31,	
	2013	2012
	RMB'000	<i>RMB'000</i>
Segment assets for reportable segments	9,294,755	8,911,722
Unallocated:		
Derivative financial instruments	<u>7,791</u>	<u>418</u>
Total assets per consolidated statement of financial position	<u>9,302,546</u>	<u>8,912,140</u>

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

	As at December 31,	
	2013	2012
	RMB'000	<i>RMB'000</i>
Segment liabilities for reportable segments	5,582,979	5,375,090
Unallocated:		
Derivatives financial instrument premium payable	15,137	5,028
Non-current derivative financial instruments	<u>–</u>	<u>67,839</u>
Total liabilities per consolidated statement of financial position	<u>5,598,116</u>	<u>5,447,957</u>

Entity-wide information

Analysis of revenue by category

	Year ended December 31,	
	2013	2012
	RMB'000	<i>RMB'000</i>
Sales of goods	3,253,140	3,485,616
Provision of services	<u>2,921</u>	<u>–</u>
	<u>3,256,061</u>	<u>3,485,616</u>

For the year ended December 31, 2013, our total revenue from crude oil sales in the PRC amounting to RMB2,440.9 million (2012: RMB2,924.7 million) are derived solely from PetroChina. For Kazakhstan, Titan oil was our main customer and revenue amounting to RMB698.0 million (2012: RMB511.6 million) are derived from it. Revenues from PetroChina and Titan Oil accounted for 75.0% and 21.4% (2012: 83.9% and 14.7%) of the Group's total revenue for the year ended December 31, 2013, respectively.

5. TAXES OTHER THAN INCOME TAXES

	Year ended December 31,	
	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
PRC:		
Special oil levy	399,323	524,391
Urban construction tax and education surcharge	13,473	15,611
Others	398	294
	413,194	540,296
Kazakhstan:		
Mineral extraction tax	45,329	34,984
Rent export tax	185,696	135,150
Rent export duty expenditures	56,973	29,876
Property tax	31,452	24,420
Social liability expense	–	2,925
	319,450	227,355
USA:		
Withholding tax	386	–
	7,598	49,321
Corporate:		
Withholding tax (<i>Note</i>)	7,598	49,321
	740,628	816,972

Note:

For the year ended December 31, 2013, all (2012: all) withholding tax is related to interest expense arising from the intra-group loans.

6. OTHER (LOSSES)/GAINS, NET

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
(Losses)/gains on oil hedge options	(7,626)	1,487
Gains from change in fair value on financial liabilities at fair value through profit or loss	–	17,317
Service income	14,111	17,499
Gain on disposal of available-for-sale financial assets	5,458	–
Losses on disposal of investment in a joint venture	(1,379)	–
Accident indemnity (<i>Note</i>)	(23,055)	–
Others	7,856	3,244
	<u>(4,635)</u>	<u>39,547</u>

Note:

During the year ended December 31, 2013, the Group accrued provisions amounting to RMB23 million for damages, loss of property and pollution fines resulting from a traffic accident involving oil tanks in Kazakhstan.

7. PROFIT FROM OPERATION

Profit from operation is arrived at after charging:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Employee compensation costs:		
Wages, salaries and allowances	184,730	147,839
Housing subsidies	2,509	3,143
Share options — value of employee services	26,549	66,644
Stock appreciation rights expenses	(16,965)	19,422
Pension costs — defined contribution plans	16,190	14,961
Welfare and other expenses	14,756	17,537
	<u>227,769</u>	<u>269,546</u>
Amortization of intangible assets	17,318	44,639
Depreciation and depletion of property, plant and equipment	887,714	816,728
Auditors' remuneration	4,480	5,029
Operating lease expenses	13,951	13,216
	<u>947,228</u>	<u>947,159</u>

8. FINANCE COSTS — NET

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Finance income		
Interest income on bank deposits	<u>6,431</u>	<u>5,797</u>
Finance costs		
Interest expenses at coupon rates/bank rates	(330,972)	(262,286)
Unwinding of discount/up-front and other fees	(69,278)	(18,744)
Accretion expenses of asset retirement obligations	<u>(2,034)</u>	<u>(1,970)</u>
	<u>(402,284)</u>	<u>(283,000)</u>
Exchange gains/(losses), net	<u>50,300</u>	<u>(2,307)</u>
	<u>(351,984)</u>	<u>(285,307)</u>
Finance costs — net	<u><u>(345,553)</u></u>	<u><u>(279,510)</u></u>

For the year ended December 31, 2013, unwinding of discounts/up-front and other fees represents mainly RMB44.8 million (2012: nil) write off of unamortized transaction costs, and early payment fee in relation to the early repayment of Minsheng Bank loan.

During the years ended December 31, 2013 and 2012, the Group did not capitalize any borrowing costs.

9. INCOME TAX EXPENSE

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
Current income tax — overseas	209,154	276,887
Deferred income tax	<u>(34,071)</u>	<u>18,878</u>
	<u><u>175,083</u></u>	<u><u>295,765</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.

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,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to owners of the Company	<u>283,009</u>	<u>543,966</u>
Weighted average number of ordinary shares (<i>thousands</i>)	<u>2,615,535</u>	<u>2,644,812</u>
Earnings per share, Basic (<i>RMB per share</i>)	<u>0.11</u>	<u>0.21</u>

(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,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to owners of the Company used to determine diluted earnings per share	<u>283,009</u>	<u>543,966</u>
Weighted average number of ordinary shares (<i>thousands</i>)	2,615,535	2,644,812
Adjustments for:		
— share options (<i>thousands</i>)	<u>8,123</u>	<u>10,592</u>
Weighted average number of diluted potential ordinary shares for diluted earnings per share (<i>thousands</i>)	<u>2,623,658</u>	<u>2,655,404</u>
Earnings per share, Diluted (<i>RMB per share</i>)	<u>0.11</u>	<u>0.20</u>

11. DIVIDENDS

A final dividend of HK\$0.059 per share in respect of the year ended December 31, 2012, amounting to a total dividend of HK\$156 million (equivalent to RMB126 million) was approved at the annual general meeting on May 24, 2013 and was fully paid on June 13, 2013.

A dividend in respect of the year ended December 31, 2013 of HK\$0.029 per share, amounting to a total dividend of HK\$78 million (equivalent to RMB61 million), is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

	Year ended December 31,			
	2013		2012	
	HK\$'000	RMB'000	HK\$'000	RMB'000
Proposed final dividend of HK\$0.029 (2012: HK\$0.059) per ordinary share	<u>77,572</u>	<u>60,969</u>	<u>156,223</u>	<u>126,665</u>

12. TRADE RECEIVABLES

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
Trade receivables from PetroChina	167,190	223,701
Trade receivables from other third parties	28,982	66,261
Unbilled receivables from PetroChina	<u>76,953</u>	<u>148,086</u>
	273,125	438,048
Less: allowance for impairment of trade receivables	<u>—</u>	<u>—</u>
Trade receivables — net	<u>273,125</u>	<u>438,048</u>

The aging analysis of trade receivables were as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
0–30 days	273,094	376,538
31–180 days	<u>31</u>	<u>61,510</u>
	<u>273,125</u>	<u>438,048</u>

The Group's trade receivables have credit terms of between 30 days to 180 days. As at December 31, 2013 and 2012, there were no trade receivables past due which are impaired.

At December 31, 2013 and 2012, 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. BORROWINGS

(i) Summary of borrowings

	As at December 31,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current		
— guaranteed bank loans (<i>Note (a)</i>)	—	860,161
— senior notes payable (<i>Note (c)</i>)	3,589,503	2,467,733
	3,589,503	3,327,894
Current		
— secured bank loans (<i>Note (b)</i>)	—	60,000
— unsecured bank loans (<i>Note (b)</i>)	60,000	—
	60,000	60,000
	3,649,503	3,387,894

(a) Loan from China Minsheng Bank (“Minsheng Bank”)

At December 31, 2012, guaranteed bank loans of RMB860 million represented US\$80 million (equivalent to RMB489 million) and US\$60 million (equivalent to RMB371 million) drawn down under a US\$80 million term loan and a US\$100 million term loan respectively, both guaranteed by the Company. Under the US\$100 million term loan, the Company had agreed to secure part of the loan with a pledge of the Group’s entitlement under the Moliqing PSC and a charge over bank accounts of MIE, a subsidiary of the Group, with Minsheng Bank. On March 19, 2013, all outstanding balance under these two loans was repaid in full by the Group.

(b) Loan from China Construction Bank (“CCB”)

In July 2012, the Group obtained a 6-month working capital loan amounting to RMB60 million from CCB which was secured by a pledge of the Company’s entitlement to the sales income from Moliqing and Miao 3 oilfields. All outstanding balance under this loan agreement was fully repaid in January 2013.

On January 25, 2013, the Company entered into a facility agreement for a new RMB60 million working capital loan for 6-month revolver commencing on January 25, 2013 with tender of 2 years. The interest rate is the base rate as published by the People’s Bank of China at 5.6% per annum plus 15% of the base rate and the resulting effective interest rate is 6.44% per annum. The loan is guaranteed by two subsidiaries of the Company.

In July 2013, the Group repaid all outstanding balance upon expiration of the January CCB facility agreement and a new 6-month facility agreement for RMB60 million working capital loan with identical terms was entered into by and between CCB and the Group.

(c) *Senior Notes*

At December 31, 2013, the Group has the following Senior Notes outstanding:

	Coupon rate	Due date	As at December 31,	
			2013 RMB'000	2012 RMB'000
2016 Notes	9.75%	May 12, 2016	2,399,658	2,467,733
2018 Notes	6.875%	February 6, 2018	1,189,845	–
			<u>3,589,503</u>	<u>2,467,733</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.

The 2016 Notes and 2018 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 2016 Notes and 2018 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. In addition, the 2016 Notes are secured by capital stock of certain subsidiaries of the Company.

At any time on or after May 12, 2014 and February 6, 2016, the Company may redeem the 2016 Notes and 2018 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 May 12 and February 6, respectively, of any year set forth below:

	Redemption Price
<i>2016 Notes</i>	
2014	104.8750%
2015	102.4375%
<i>2018 Notes</i>	
2016	103.4375%
2017	101.7188%

At any time prior to May 12, 2014 and February 6, 2016, the Company may at its option redeem the 2016 Notes and the 2018 Notes, respectively, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2016 Notes and 2018 Notes, respectively, plus the applicable premium and accrued and unpaid interest to the redemption date.

In addition, at any time prior to May 12, 2014 and February 6, 2016, the Company may redeem up to 35% of the aggregate principal amount of the 2016 Notes and the 2018 Notes, respectively, 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 109.75% and 106.875% of the principal amount of the 2016 Notes and 2018 Notes, respectively, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the aggregate principal amount of the 2016 Notes and 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.

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

- (ii) Movements in borrowings and their effective interest rate at the end of reporting period are as follows:

	Minsheng Bank	CCB	Senior Notes	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount as at January 1, 2013	860,161	60,000	2,467,733	3,387,894
Issuance of the 2018 Notes	–	–	1,221,847	1,221,847
Drawdown	–	120,000	–	120,000
Repayments	(878,612)	(120,000)	–	(998,612)
Unwinding of discounts	19,778	–	17,097	36,875
Exchange differences	(1,327)	–	(117,174)	(118,501)
	<u>–</u>	<u>60,000</u>	<u>3,589,503</u>	<u>3,649,503</u>
Carrying amount as at December 31, 2013	<u>–</u>	<u>60,000</u>	<u>3,589,503</u>	<u>3,649,503</u>
Effective interest rate:				
As at December 31, 2013	–	6.44%	7.83% to 10.91%	6.44% to 10.91%
As at December 31, 2012	<u>9.05% to 9.61%</u>	<u>6.44%</u>	<u>10.91%</u>	<u>6.44% to 10.91%</u>
Estimated fair value	<u>–</u>	<u>60,000</u>	<u>3,777,030</u>	<u>3,837,030</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 loan from CCB is based on the borrowing rate of 6.44% (2012: 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, 2013 are as follows:

	As at December 31,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
<1 year:	60,000	60,000
1–2 years:	–	357,321
2–5 years:	–	<u>502,840</u>
	<u>60,000</u>	<u>920,161</u>

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

(iv) The carrying amount of the borrowing are denominated in the following currencies:

	As at December 31,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
US\$	3,589,503	3,327,894
RMB	60,000	60,000
	<u>3,649,503</u>	<u>3,387,894</u>

(v) The Group has the following undrawn banking facilities at fixed rate:

	As at December 31,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Expiring within one year	–	334,474
Expiring beyond one year	451,717	–
	<u>451,717</u>	<u>334,474</u>

14. TRADE AND NOTES PAYABLE

	As at December 31,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	920,254	914,478
Notes payable	148,283	205,526
	1,068,537	1,120,004
Less: non-current portion of trade payables	(46,113)	(131,867)
Current	<u>1,022,424</u>	<u>988,137</u>

At December 31, 2013 and 2012, the aging analysis of the trade and notes payable is as follows:

	As at December 31,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
< 6 months	656,530	805,043
6 months–1 year	232,232	189,299
1–2 years	144,342	96,012
2–3 years	28,853	12,440
> 3 years	6,580	17,210
	<u>1,068,537</u>	<u>1,120,004</u>
Total	<u>1,068,537</u>	<u>1,120,004</u>

15. PROVISIONS, ACCRUALS AND OTHER LIABILITIES

	As at December 31,	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to related parties	61,293	8,353
Asset retirement obligations (<i>Note (a)</i>)	56,372	45,090
Interest payable	65,784	34,060
Cash retention	–	25,142
Salary and welfare payable (<i>Note (b)</i>)	79,515	94,463
Special oil levy	104,145	146,892
Withholding and other tax payable	123,289	99,071
Other payables	117,264	85,900
	<u>607,662</u>	<u>538,971</u>
Less: non-current portion of		
Asset retirement obligations	(56,372)	(45,090)
Withholding tax payable	(38,314)	(42,307)
Other payables	(50,738)	(35,260)
	<u>(145,424)</u>	<u>(122,657)</u>
Current	<u>462,238</u>	<u>416,314</u>

At December 31, 2012, included in the ‘other payables’ was an accrued expense amounting to RMB10.6 million which represented certain personnel cost, assistance fees and training fees payable to China Petroleum & Chemical Corporation (“Sinopec”) (“Sinopec Services”) for the period between 2006 and 2008, in relation to a PSC entered into between MIE and Sinopec. The related project was suspended at the end of 2004 and Sinopec notified the Company that it did not intend to fulfil its obligations under the PSC, including the provision of any Sinopec Services to MIE, in 2006. Based on the legal advice from our PRC counsel, the Company concluded that the Group was not required to fulfil its obligations, including obligations to pay for any Sinopec Services, as Sinopec failed to perform its obligations under the PSC. Therefore, the accrued expense was written back during 2013.

Notes:

(a) Movements of asset retirement obligations are as follows:

	As at December 31,	
	2013	2012
	RMB'000	RMB'000
At January 1,	45,090	21,876
Additional provision	10,327	21,269
Accretion expenses	2,034	1,970
Exchange differences	(1,079)	(25)
	<hr/>	<hr/>
At December 31,	56,372	45,090
	<hr/> <hr/>	<hr/> <hr/>

(b) At December 31, 2013, included in salary and welfare payable was stock appreciation rights liabilities of RMB30.5 million (2012: RMB50.5 million) both for the Group and the Company.

16. COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) The Group does not have any capital expenditure contracted for at the end of the reporting period.

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,	
	2013	2012
	RMB'000	RMB'000
Less than 1 year	13,530	5,044
Within 1–2 years	3,202	2,843
Within 2–5 years	320	1,853
	<hr/>	<hr/>
	17,052	9,740
	<hr/> <hr/>	<hr/> <hr/>

- (ii) 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,	
	2013	2012
	RMB'000	RMB'000
Less than 1 year	409,438	514,249
Within 1–2 years	434,868	412,856
Within 2–5 years	1,429,438	1,377,279
Over 5 years	5,388,564	5,955,974
	<u>7,662,308</u>	<u>8,260,358</u>

The minimum work program includes capital expenditure of RMB2,161 million (2012: RMB2,491 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.

- (iii) The Group has a commitment to provide funding if called by SGE in accordance with the 2014 SGE annual budget as approved by its board of directors up to US\$69.3 million (equivalent to RMB422.5 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, 2013, 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 information.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Overview

As stated by the Chairman in last year's Annual Report, the Group's core task in 2013 was to "continue to improve its technology, management system and human resources, and to optimize existing assets including expediting the development program of Emir-Oil and SGE projects so as to convert reserves and resources into cash flow".

Although oil and gas commodity prices were not as high as those in 2012 and global economic indicators were generally flat, the Group delivered solid execution of the work programs set out at the beginning of 2013 and generally achieved the production targets established for the year. Oil and gas gross (operated) production and net production increased compared to 2012 and it is worth underscoring that the average daily oil production of Emir-Oil in Kazakhstan for 2013 reached 4,320 barrels per day ("BOPD"), which is close to the high end of the range of our FY2013 guidance of 3,800–4,400 BOPD. In addition, our Sino Gas project ("SGE") in Shanxi Province, China realized its first gas sales by year end 2013. Based on the year end 2013 oil and gas reserves and resources estimates prepared by independent consultants, the Group's reserves and resources increased significantly, and the net present value ("NPV"), before tax and discounted at 10% of the Group's Proved + Probable ("2P") oil and gas reserves was determined to be a very substantial US\$3.5 billion.

The Group drilled 145 gross wells in 2013 (including 31 wells in SGE), which represents a decrease of 68.1% compared to 455 wells drilled in 2012. The decrease was mainly related to the strategic reduction in the number of wells drilled in the Daan, Moliqing and Miao 3 oil fields. As of December 31, 2013, the Group operated a total of 2,817 wells, of which, 2,773 are located in China, 39 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:

	FY2013	FY2012	% Change	FY2013 Guidance
Average Daily Operated Production (barrels of oil equivalent/day)	27,206	24,093	12.9%	
Average Daily Net Production (barrels of oil equivalent/day)	15,554	15,043	3.4%	
Average Daily Net Oil Production (barrels/day or “BOPD”)	14,673	14,297	2.6%	14,300~15,400
Average Daily Net Gas production (Mscf/day)	5,287	4,477	18.1%	4,300~5,100
Average realized oil price (USD/barrel)	97.06	108.10	(10.2%)	
Average realized gas price (USD/Mscf)	1.44	1.17	23.2%	
Total Wells Drilled	145	455	(68.1%)	148

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

Review on Operations by Segment

- ***China Operations***

(1) Jilin Province (Daan, Moliqing and Miao 3)

The production sharing contracts (PSCs) for the Daan, Moliqing and Miao 3 projects in Jilin Province, China were originally entered into by an Australian Company, Global Oil Corporation with China National Petroleum Corporation in late 1990s. As a result of economic conditions prevailing during that time period, the PSCs were transferred from the original contractor to another USA oil service Group, Microbes, Inc., and ultimately, in 2003, the Group’s current controlling shareholder acquired the projects from Microbes, Inc. (the abbreviation “MI” in our Group name comes from “Microbes, Inc.”). Through more than 10 years of hard work now invested in Northeast China, these oilfields have become our most important and mature assets contributing 76.6% of the Group’s total gross oil production in 2013, and 67.9% of the Groups’ 2013 turnover respectively.

During 2013, a total of 97 wells (including 4 horizontal wells) were drilled in the Daan, Moliqing and Miao 3 oilfields, and at the year end 2013, the total operated wells were 2,642. It is important to emphasize that even though the number of wells drilled in 2013 decreased by 77.5% compared with 431 wells drilled in 2012, gross oil production was affected only slightly, decreasing by just 1.9% to 20,142 BOPD. The net production attributed to the Group decreased by 19.6% to 9,234 BOPD compared to 2012, as a result of our strategic scale back in capital expenditures on these three PSCs by 63.7% from US\$239 million to US\$87 million, and due to the corresponding decrease in “cost recovery oil” allocated to the Group under the terms of the PSCs.

Pursuant to the Daan, Moliqing and Miao 3 PSCs, the “cost recovery oil” is allocated 80%:20% between foreign contractors and the Chinese contractor, whereas the “profit oil” (after costs are fully recovered) is allocated 48%:52%. Accordingly in simple terms for any month, the more development capital a foreign contractor invests, the more cost recovery oil it realizes, but correspondingly less profit oil. Note, however, that “profit oil” is the source of the project’s free cash flow available to the foreign contractor. Hence, the Group strategically scaled back capital expenditures in the Jilin oilfields in order to allocate additional free cash flow to our Emir-Oil and SGE projects for 2013, and as a result, revenue from cost recovery oil from the three Jilin PSCs was lowered to about US\$89.88 million from US\$261 million for 2012. This decrease in cost recovery oil was partially offset by the increase in revenue from profit oil to approximately US\$219 million from US\$152 million in 2012, translating into stronger free cash flow.

We continue to apply and refine our technological capabilities and operational management systems in order to extend the production plateau for these mature northeast China oil PSC assets and further improve their profitability. We continue drilling more horizontal wells to test the potential of this technology to improve production, recovery factor and reserves for low permeability oilfields like Daan, Moliqing and Miao 3. During 2013, we drilled 4 horizontal wells in Northeast China (1 at Daan and 3 at Moliqing), and we are achieving early production rates up to 3 to 6 times higher in these horizontal wells than in vertical wells. We are working hard to lower the cost of the horizontal wells, and at Daan, for example, we have cut about 30% of the cost, since our first horizontal well in 2012. Another technology that we are applying in the mature Northeast China oilfields is network fracturing, which comprises large-scale hydraulic fractures. This technique has the potential to improve production in older wells exhibiting declined production levels and in new wells located in field areas characterized by low reservoir quality. Trials in older wells at Daan have shown production improvements of up to 6 times, with these “big fractures” paying out in less than 6 months. As such, we are optimistic about extending the plateau of production on our Northeast China oilfields.

For 2013, the average realized oil price (i.e. Daqing oil price FOB at Dalian port) for our Northeast China projects decreased by about US\$9.26/barrel to US\$104.25/barrel, compared to 2012. The net sales volume decreased by 0.665 million barrels to 3.418 million barrels.

Direct Lifting costs in Northeast China projects increased by US\$1.79/barrel, or 20.8%, from US\$8.60/barrel for 2012 to US\$10.38/barrel for 2013 as a result of higher staff costs, materials, maintenance electricity and fuel costs. After including the Kongnan project described hereafter, the direct lifting costs of our four China oil projects for 2013 was US\$11.08/barrel.

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\$7.64/barrel, or 9.25%, from US\$82.64/barrel for 2012 to US\$75.00/barrel for 2013. The decrease in cash netback was primarily due to (1) the decrease of the average realized oil price partially offset by the decrease of special oil levy for the northeast China projects and (2) the increase of Direct Lifting cost. After including the Kongnan project described hereafter, the cash netback of our four China oil projects for 2013 was US\$74.22/barrel.

(2) Hebei Province (Kongnan)

In December 2012, the Group acquired Pan China Resources Limited (PCR) from the Ivanhoe Energy Group of Canada for cash consideration of US\$39.6 million. PCR operates the Kongnan project, a mature producing oil PSC in Hebei Province, China.

During 2013, 5 wells were drilled in the Kongnan project and at year end 2013, PCR operated a total of 73 wells. The average daily gross oil (operated) production and the average net oil production from Kongnan attributed to the Group were 1,623 BOPD and 974 BOPD, respectively. The average realized CINTA oil price was US\$105.32/barrel for the Kongnan project in 2013, the net sales volume was 0.353 million barrels, and we are pleased with the stable production and cash flow from this project.

(3) Shanxi Province (Linxing, Sanjiaobei)

In July 2012, the Group, through its subsidiary Asia Gas & Energy Limited (Asia Gas) acquired 51% shares of Sino Gas & Energy Limited (SGE) from an ASX-listed company, Sino Gas & Energy Holdings Limited (ASX ticker:SEH). SGE operates two unconventional gas production sharing contract (PSC) projects in China's Ordos Basin, the Linxing project and the Sanjiaobei project. In December 2013, certain independent investors subscribed new shares in Asia Gas for about US\$8 million and the Group retained 43% effective interest in SGE as year end 2013. The Group accounts for investments in SGE using equity accounting method under IFRS.

SGE achieved two significant milestones during 2013 in moving towards its goal of commercial production. One milestone was the CRR (Chinese Reserve Report) for the Linxing East project, which passed the review of the relevant government authorities in November 2013, and has been submitted for final approval by the relevant government authorities. The other key milestone was SGE's first gas sales, which was in the form of compressed natural gas ("CNG"). In late December 2013, the first truck of CNG from the Linxing project was successfully transported to its off-taker via road. Although small in volume and commercially insignificant, these CNG gas sales represent a key early step in the commercial development of the project.

During 2013, a total of 31 wells (30 vertical wells and 1 horizontal well) were drilled in the Linxing and Sanjiaobei projects, and as of 2013 year end, a cumulative total of 58 wells have been drilled in this area, of which, 43 were drilled in the 1.5 years since the Group joined the SGE project. Fracture stimulation and flow tests were conducted on 50 gas reservoir zones, and a total 1,235 km 2D seismic data were acquired, processed and interpreted.

SGE's successful work program has led to significant increases in the project's reserves and resources. According to our independent consultant's review of year end 2013 reserves and resources for the Linxing and Sanjiaobei projects, the gross Proved + Probable (2P) Reserves, 2C Contingent Resources and Best Estimate Prospective Resources increased by 227%, 32% and 25% to 1.0 trillion cubic feet (TCF) (or 28 BCM), 2.7 TCF (75.5 BCM) and 4.0 TCF (112.6 BCM), respectively. The 2P Reserves, 2C Contingent Resources and Best Estimate Prospective Resources attributed to the Group increased by 211%, 30% and 16% to 302.6 billion cubic feet (BCF) (or 8.6 BCM), 884BCF (25 BCM) and 1,065 BCF (30.2 BCM), respectively.

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

In September 2011, the Group acquired Emir-Oil, LLC (Emir-Oil) from the US-listed company BMB Munai, Inc. for approximately US\$160 million cash consideration. Emir-Oil operates four production contracts and one exploration contract in Mangystau Province, western Kazakhstan.

Since the Group took over Emir-Oil, it has grown into a higher producing with substantial operation within our portfolio. The daily oil production for Emir-Oil in September 2011, when we acquired the project, was around 2,000 BOPD. For 2013, Emir-Oil produced an average of 4,320 BOPD, and in September, daily production reached a peak of 6,000 BOPD. Also, we have significantly reduced the project's lifting costs and this, together with the rapid production and revenue growth, has greatly improved the profitability and future potential of Emir-Oil.

For 2013, total of 10 new wells (8 development wells and 2 appraisal wells) were drilled in Emir-Oil, and as of year end 2013, a total of 39 wells have been drilled in the Emir-Oil project. A particular production highlight for Emir-Oil and the Group was our first horizontal well in Kazakhstan, Kariman-113 (“K-113”), which has showed very strong performance since being put into production in late August. The well’s average daily production in 2013 was 1,336 BOPD. With a lateral length of 580m and oil flow without acid stimulation, producing at 1,500 to 1830 BOPD over the first 45 days, K-113’s early production is about 3 to 6 times the early production from a typical vertical well in the Kariman block, indicating the potential for excellent economic return from horizontal drilling in the Emir-Oil project.

The overall average realized oil price for Emir-Oil was US\$79.64/barrel for FY2013, a decrease of US\$6.27/barrel or 7.3%, compared to US\$85.91/barrel for FY2012. The average realized export oil price (after deducting export sales discount of US\$20.76/barrel) and domestic oil price were US\$87.80/barrel and US\$41.57/barrel respectively, compared to US\$90.10 barrel (export) and US\$50.65/barrel (domestic) realized for 2012. The export and domestic oil sales volume were 1.284 million barrels and 0.276 million barrels respectively, and the total sales volume increased by 0.384 million barrels for 2013 to 1.600 million barrels.

For 2013, the average gas production was 4,966 Mcf/day, an increase of 11.9% compared to 4,439 Mcf/day in 2012. The average realized gas price was US\$1.34/Mcf, an increase of 14.4% compared to US\$1.17/Mcf in 2012.

Emir-Oil has made significant progress towards the construction of its new oil and gas processing station CPF. In January 2014, the bidding with respect to the skid-mounted oil and gas processing equipment was completed. Bidding for construction engineering will commence immediately after the preliminary design report for the CPF project has been approved by the Kazakhstan government. Construction of the project is expected to commence 2Q to 3Q 2014, and the CPF is scheduled for completion around 1Q 2015. The new facility will have capacity to process 12,000 BOPD and 21 MMCFGPD, which is about double the oil processing capacity of the present facility (6,458 BOPD) and about 4 times the gas processing capacity of the present facility (5 MMCFGPD). The CPF and associated pipelines will help to “de-bottleneck” oil and gas production for Emir-Oil and allow production from eight wells which are currently shut-in due to the capacity limitations of the present processing facility. We expect production to ramp up quickly after completion of the CPF.

The direct lifting cost for Emir-Oil substantially decreased by US\$2.15/barrel, or 29.3%, from US\$7.32/barrel for 2012 to US\$5.18/barrel for 2013. The decrease in lifting cost was primarily due to the ramp up of production.

The cash netback for the domestic oil sales of Emir-Oil decreased by US\$5.64/barrel, or 15.00%, from US\$37.61/barrel for 2012 to US\$31.97/barrel for 2013. The decrease in cash netback for domestic oil sales was primarily due to the decrease of the average domestic realized oil price.

The cash netback for the export sales oil of Emir-Oil decreased slightly by US\$0.46/barrel, or 1.05%, from US\$43.88/barrel for 2012 to US\$43.42/barrel for 2013.

Due the above factors, the weighted average cash netback for Emir-Oil decreased by US\$1.43/barrel, or 3.34%, from US\$42.80/barrel for 2012 to US\$41.37/barrel for 2013.

- ***USA Operations (Condor and White Hawk)***

In December, 2013, the Group successfully divested its entire 50% interests in White Hawk Petroleum LLC (“White Hawk”), which has a 7.94% working interest in a Texas Eagle Ford shale oil asset, for total consideration of US\$2.60 million. Currently, the only remaining asset of the Group in the US is the Niobrara shale oil project (with associated shale gas) in Colorado, which is held through our 80% owned subsidiary, Condor Energy Technology LLC (“Condor”).

For 2013, a total of 2 horizontal wells were drilled in the Niobrara project and the total number of completed wells for the project was increased to 5 as of year-end 2013. As we have successfully attained valuable experience in drilling and completing these 5 horizontal wells, our drilling costs are consistently being reduced and the return on investment has improved correspondingly. Moreover, the horizontal drilling technology acquired through Condor is expected to further enhance the Group’s other assets, as exemplified by the success of the Emir-Oil K-113 horizontal well in Kazakhstan.

For 2013, Condor’s average daily net oil and gas production was 145 BOPD and 321 Mcf/day, respectively, and the average realized oil and gas price were US\$90.30/barrel and US\$6.02/Mcf, respectively. From 4Q 2013, the Condor project has achieved stable sales income and positive operating cash flow.

Review of Reserves and Resources

Based on the year end 2013 oil and gas reserves and resources estimates prepared by independent engineering consultants and summarized below, the Group’s reserves and resources have increased significantly since year end 2012. Reserves and resources represent the real value of an exploration and production Company, and we believe that our reserves and resources will provide a solid foundation to support the long-term development of the Group and greatly enhance value to our shareholders. In particular, we are pleased to point out that the net present value of our assets is quite positive, based on the year end 2013 reserves and resources estimates.

Below are the highlights of the oil and gas reserves and resources review results for the Group at year end 2013:

1. Based on the year end 2013 reserves estimates prepared by the independent consultants, the net present value, before tax and discounted at 10% (“NPV 10”), of the Group’s Proved + Probable (“2P”) oil and gas reserves is approximately US\$3.5 billion.
2. The Group’s total Proved (“1P”) oil and gas reserves increased 33.7% to 83.22 million barrels of oil equivalents (“BOE”, where 1 BOE = 6,000 cubic feet gas), while total 2P oil and gas reserves increased 34.3% to 192.60 million BOE, and total Proved + Probable + Possible (“3P”) oil and gas reserves increased 29.2% to 290.60 million BOE.
3. The Group’s reserves comprise mostly oil. At year end 2013, on a BOE basis, our reserves were 65%, 65% and 63% oil for 1P, 2P and 3P, respectively.
4. Gas has become a significant part of our reserves and of the Group’s value as well. The Group’s 1P, 2P and 3P gas reserves at year end 2013 were 174 billion cubic feet (“BCF”), 399 BCF and 640 BCF, respectively, which correspond to 29 million BOE, 66 million BOE and 107 million BOE, respectively. The Group’s gas reserves increased by 109 BCF, 221 BCF and 303 BCF for 1P, 2P and 3P, respectively. With these increases, the Group’s 1P, 2P and 3P gas reserves increased by 169%, 125% and 90%, respectively. The increases are attributable in large part to increases of 101 BCF, 205 BCF and 292 BCF for 1P, 2P and 3P, respectively in our Sino Gas & Energy properties located in China’s Ordos Basin.
5. The Group’s 1P oil reserves increased 5% to 54.18 million barrels, while 2P oil reserves increased 11% to 126.10 million barrels and 3P oil reserves increased 9% to 184.00 million barrels. New drilling at the Emir-Oil properties in Kazakhstan contributed significantly to increases in 1P, 2P and 3P oil reserves by 6.4 million barrels (+24%), 13.2 million barrels (+18%) and 15.6 million barrels (+14%), respectively.
6. During 2013, we added 20.96 million net BOE and produced 5.69 net million BOE, on this basis, the Group’s “reserve replacement ratio” for 2013 (ratio of: 1P Reserves added in 2013/production in 2013) is 370%, which indicates another aspect of the Group’s potential value.
7. The Group’s Prospective and Contingent Resources represent significant reserve growth potential for future years. At year end 2013, our net, un-risked, best-estimate Prospective Resources are 205.6 million barrels of oil and 1,064.7 BCF of gas, which corresponds to overall oil and gas un-risked, best-estimate Prospective Resources of 383 million BOE. Our mid-case, 2C, Contingent Resources are 9.2 million barrels of oil and 886 BCF of gas, which corresponds to overall oil and gas 2C Contingent Resources of 156.9 million BOE. For oil, these resources are mostly in three northeast China oilfields and Emir-Oil, and for gas, they are predominately in Sino Gas & Energy Ordos Basin properties.

2014 Guidance

Based on the Companies current plans and expectations, we summarize our target number of gross wells net investment and net production for the year 2014 (subject to reasonable assumptions) as follows:

Group in Total	Numbers of Wells (Gross)	Net Investments (millions of US\$)	Net Production	Comments
	232	350	15,300–16,300 BOPD 6,400–7,400 MCFD	
China Oil Projects (Daan, Molqing, Miao 3, Kongnan)	163	125	10,000–10,500 BOPD	<ul style="list-style-type: none"> • Strategic Capex re-allocation to SGE and Emir-Oil while maintaining China Oilfields production • All are development wells
China Gas Projects (SGE: Linxing, Sanjiaobei)	59	70	1,000–1,500 MCFD	<ul style="list-style-type: none"> • Based on 51% of US\$137M SGE budget approved by the Board in Jan 2014, including US\$3M seismic expenses not capitalized by the Group • Including 14 exploration wells and 45 development wells
Kazakhstan (Emir-Oil)	8	148	5,200–5,600 BOPD 5,000–5,400 MCFD	<ul style="list-style-type: none"> • Capex for Central Processing Station: US\$82m • Including 1 exploration well, 5 appraisal wells and 2 development wells • Exclude seismic expenses of US\$6m, which is not capitalized by the Group
USA (Condor)	2	7	100–200 BOPD 400–500 MCFD	<ul style="list-style-type: none"> • Including 1 exploration well and 1 development well

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 RMB232.5 million, or 6.7%, from RMB3,485.6 million for 2012 to RMB3,253.1 million for 2013. This decrease was primarily due to the decrease of realized oil price, from US\$108.10 per barrel of year 2012 to US\$97.06 per barrel in 2013. In addition, as we realize our crude oil sales in USD and our financial statements are presented in RMB, the strong appreciation in RMB to USD during 2013 may mean that sales revenue is not entirely captured when converted/presented in RMB in our financial statements. Had we used the same USD/RMB average exchange rate of 6.3108 in 2012 and applied to 2013, our total sales revenue, EBITDA and Net profits would have been increased by RMB58.2 million, RMB58.2 million, and RMB16.6 million respectively. Our total net sales volume of crude oil was 5.38 million barrels for 2013, compared to 5.09 million barrels for 2012.

The Group's revenue from rendering of services is RMB2.9 million for 2013.

- ***China***

As a result, our China oil fields realized revenue from oil sales of RMB2,440.9 million, decreased from RMB2,924.7 million for 2012. Our China total net sales volume was 3.77 million barrels for 2013, compared to 4.08 million barrels for 2012. The decrease was mainly due to drop in cost recovery oil (partially offset by increase in profit oil). In addition, the average realized oil price was US\$104.35 per barrel for 2013, compared to US\$113.51 per barrel for 2012.

- ***Kazakhstan***

In 2013, Emir-Oil realized revenue of RMB782.6 million. In 2012, revenue contributed by Emir-Oil was RMB557.1 million.

- (a) *Crude oil sales*

In 2013, Emir-Oil realized revenue from crude oil sales of RMB768.9 million. Emir-Oil exported 82.3% 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\$79.64 per barrel for 2013. The average realized oil price for 2013 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. Revenue from export sales of oil accounted for 90.8% of Emir-Oil's total oil revenue. Emir-Oil's total oil sales volume was 1,559,808 barrels, comprising 1,284,287 barrels from export sales and 275,520 barrels from domestic sales.

During 2012, Emir-Oil realized revenue from oil sales of RMB545.8 million. Emir-Oil exported 89.4% 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\$85.91 per barrel. The average realized oil price was US\$90.10 per barrel from export sales (after transportation and marketing commissions of US\$20.69 per barrel) and US\$50.65 per barrel from domestic sales. Revenue from export sales of oil accounted for 93.7% of Emir-Oil's total oil revenue. Emir-Oil's oil sales volume was 1,006,680 barrels for 2012, comprising of 899,797 barrels from export sales and 106,883 barrels from domestic sales.

(b) *Gas sales*

In 2013, Emir-Oil realized revenue from gas sales of RMB13.8 million with average realized gas price of US\$1.34 per Mscf and total gas sales volume of 1,661,583 Mscf, whilst revenue realized from gas sales in 2012 was RMB11.3 million with average realized gas price of US\$1.17 per Mscf and total gas sales volume 1,526,434 Mscf.

Operating expenses

The Group's operating expenses increased by RMB26.1 million or 1.1%, from RMB2,360.8 million for 2012 to RMB2,386.9 million for 2013, primarily due to an increase in purchases, services and other expenses, depreciation, depletion and amortization, partially offset by a decrease in taxes other than income taxes and employee compensation costs.

China's operating expenses for 2013 amounted to RMB1,601.9 million, a decrease of RMB162.1 million or 9.2% from RMB1,764.0 million for 2012, primarily due to the decrease of windfall taxes caused by lower realized oil price and lower sales volumes in China.

Emir-Oil's operating expenses for 2013 amounted to RMB636.5 million, increased from RMB487.8 million in 2012. The increase was caused by the significant ramp up of both production and sales volumes in Kazakhstan for 2013.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB91.5 million, or 32.8%, from RMB278.7 million for 2012 to RMB370.2 million for 2013. The increase in purchase, service and other expenses was primarily due to: (i) the acquisition of PCR in December 2012, and accordingly the results for 2013 included PCR's full year of such expenses, amounting to approximately RMB40.1 million; and (ii) significant ramp up in production volume of crude oil in Kazakhstan, by 54.6% year-to-year.
- *Geological and geophysical expenses.* The Group adopts "successful efforts method" and under this method, exploration costs including geological and geophysical expenses (other than direct exploration well drilling costs) are charged to profit and loss account in the period of incurrence. During 2013, the Group incurred geological and geophysical expenses in Kazakhstan and USA of about RMB4.7 million and RMB0.05 million, respectively, compared to RMB18.7 million in Kazakhstan and RMB4.2 million in USA for 2012.

- *Depreciation, depletion and amortization.* The Group's depreciation, depletion and amortization increased by RMB43.6 million, or 5.1%, from RMB861.4 million for 2012 to RMB905.0 million for 2013. The increase in depreciation, depletion and amortization was mainly due to the acquisition of PCR in December 2012, and accordingly the results for 2013 included PCR's full year of depreciation, depletion and amortization, amounting to RMB57.4 million.
- *Taxes other than income taxes.* The Group's taxes other than income taxes decreased by RMB76.4 million, or 9.4%, from RMB817.0 million for 2012 to RMB740.6 million for 2013. The following table summarizes taxes other than income taxes for the years ended December 31, 2013 and December 31, 2012:

	Year ended December 31,	
	2013	2012
	RMB'000	RMB'000
PRC		
Special oil levy	399,323	524,391
Urban construction tax and education surtax	13,473	15,611
Others	398	294
	<u>413,194</u>	<u>540,296</u>
Kazakhstan		
Rent export tax	185,696	135,150
Mineral extraction tax	45,329	34,984
Export duty	56,973	29,876
Property tax	31,452	24,420
Social liability expense	–	2,925
	<u>319,450</u>	<u>227,355</u>
USA		
Withholding tax	386	–
Corporate		
Withholding tax	7,598	49,321
	<u>740,628</u>	<u>816,972</u>

The decrease in taxes other than income taxes for our China operations was mainly due to the decrease in average realized oil price from US\$113.51 per barrel for year 2012 to US\$104.35 per barrel for 2013, which resulted in lower unit Special Oil Levy (windfall tax) and lower crude oil production and sales volume in 2013. 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 decrease in Special Oil Levy in China operation was partially offset by the increases in Rent Export Tax and Export Duty expenditures of our Kazakhstan operation, which were mainly caused by: (1) the significant increase in export sales volumes of Emir-Oil; and (2) Export Duty increase from US\$40 per metric ton to US\$60 per metric ton, with effect from April 2013.

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

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 12, 2013 to March 31, 2014, this duty was increased to US\$60 per metric ton, and it was recently announced that it will be increased to US\$80 per metric ton as of April 1, 2014.

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 withholding tax paid or payable on interest charged on intercompany loans.

- *Employee compensation costs.* The Group’s employee compensation costs decreased by RMB41.7 million, or 15.5%, from RMB269.5 million for 2012 to RMB227.8 million for 2013. The drop in employee compensation costs was primarily due to share-based compensation expenses and value, including option and SAR, which decreased by approximately RMB76.5 million, and which is partially offset by inclusion of PCR’s full year of employee compensation costs for 2013, amounting to RMB12.3 million.

- *Distribution expenses.* The Group's distribution expenses (primarily pipeline expenses) decreased by RMB2.2 million, or 6.6%, from RMB33.5 million for 2012 to RMB31.3 million for 2013. The decrease in such pipeline expenses was due to reduction in sales volumes in our China operation.
- *General and administrative expenses.* The Group's general and administrative expenses decreased by RMB14.9 million, or 12.7% from RMB117.4 million for 2012 to RMB102.5 million for 2013. The decrease was primarily due to: (i) less expense incurred in our Kazakhstan and China operations due to more stringent cost control measures taken during 2013; (ii) as compared to 2012, due to our scale back in investments in our three oilfields in Northeast China, less cost recovery oil was allocated to foreign contractor (of which foreign contractor receives 80%), and accordingly we bore less administrative expenses for these three oilfields in the 2013; and (iii) the above is partially offset by inclusion of PCR's full year general and administrative expenses amounting to RMB13.8 million in 2013.
- *Other (losses)/income.* The Group incurred "other losses" of RMB4.6 million for 2013, compared to other income of RMB39.5 million for 2012. Other losses for the current year includes mainly a non-cash, unrealized loss of RMB7.63 million from changes in fair value of oil hedge options for our 2014 production, indemnity provision for Emir-oil's traffic accident of RMB23.1 million, which is offset by gain on disposal of available-for-sale financial assets by 5.5 million and consulting fee income of RMB14.1 million.

Profit from operations

The Group's profit from operations decreased by RMB255.6 million, or 22.7%, from RMB1,124.8 million for 2012 to RMB869.2 million for 2013. This decrease was primarily due to the decrease in oil price realized, net sales revenue, and increase in purchase, service and others costs, and partially offset by the decreases in taxes other than income taxes, and employee compensation costs.

Finance income/(costs), net

The Group's net finance cost increased by RMB66.1 million, or 23.6%, from RMB279.5 million for 2012 to RMB345.6 million for 2013. This increase was primarily due to: (i) the US\$200 million 5-year senior notes issued in February 2013 with 6.875% annual coupon rate to repay the US\$60 million and US\$80 million Minsheng bank loans, resulting in a write-off of unamortized transaction costs and early payment fee of RMB44.8 million; (ii) incremental interests expense on US\$200 million 5-year senior notes since February 2013 of approximately RMB81.4 million; and (iii) offset to the above by foreign exchange gains in 2013 of about RMB50.3 million due to the appreciation of the Renminbi against US dollar in respect to certain of our inter-companies loans. Finance income in 2013 was RMB6.4 million, compared to RMB5.8 million for 2012.

Share of loss of investments accounted for using the equity method

In 2013, the Group acquired a 51% interest in SGE and 50% interest in White Hawk in 2012, which was subsequently disposed in 2013. Both investments were accounted for as joint ventures by the Group and our share of loss of these entities increased from RMB8.3 million in 2012 to RMB68.8 million in 2013. This is mainly due to the increase in share of loss of our investment in SGE, as a result of increases in geological, geophysical and other exploration expenses (mainly seismic expenditures). These expenses are accounted for using “successful efforts 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 RMB382.1 million, or 45.7%, from RMB837.0 million for 2012 to RMB454.9 million for 2013. This decrease was primarily due to the cumulative effects of the above factors.

Income tax expense

The Group had income tax expense of RMB175.1 million for 2013, compared to income tax expense of RMB295.8 million for 2012. The weighted average effective tax rate for 2013 is 38%, compared to 35% in 2012.

Net profit for the year

As a result of the foregoing, our net profit for the year decreased by RMB261.5 million, or 48.3%, from RMB541.3 million for 2012 to RMB279.8 million for 2013.

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 geological and geophysical expenses, 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 receivables, impairment of inventory, loss on disposal of property, plant and equipment and intangible assets, fair value changes of options granted and any other non-recurring items such as acquisition expenses and accident indemnity.

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, 2013 and December 31, 2012:

	Year Ended December 31,	
	2013	2012
	RMB'000	RMB'000
Net profit for the year	279,784	541,272
Income tax expenses	175,083	295,765
Finance income	(6,431)	(5,797)
Finance cost	351,984	285,307
Depreciation, depletion and amortization	905,032	861,367
	<u>1,705,452</u>	<u>1,977,914</u>
EBITDA		
Share-based compensation expenses	9,584	86,066
Impairment of inventory	–	1,430
Loss/(gain) on oil hedge options	7,626	(1,487)
Loss on disposal of property, plant and equipment	–	862
Impairment of receivables, advances	–	1,052
Gain from changes in fair value of option	–	(17,317)
Option granted to Essentia	–	5,341
Other acquisition expenses	–	18,261
Geological and geophysical expense		
— Emir Oil	4,721	22,922
— Share of SGE	44,339	–
Emir accident indemnity	23,055	–
Withholding tax arised from intercompany loan	7,984	49,321
	<u>1,802,761</u>	<u>2,144,365</u>
Adjusted EBITDA		

The Group's EBITDA decreased by approximately RMB272.4 million, or 13.8%, from approximately RMB1,977.9 million for 2012 to approximately RMB1,705.5 million for 2013. The decrease in EBITDA was also primarily due to the decrease in realized oil price.

The Group's adjusted EBITDA decreased by approximately RMB341.6 million, or 15.9%, from approximately RMB2,144.4 million for 2012 to approximately RMB1,802.8 million for 2013. 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, 2013				
	China <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	USA <i>RMB'000</i>	Corporate and others <i>RMB'000</i>	Total <i>RMB'000</i>
Net profit/(loss) for the year	630,722	168,875	(9,753)	(510,060)	279,784
Income tax expenses/(benefit)	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	1,623,704	248,000	8,803	(175,055)	1,705,452
Share-based compensation expenses	5,901	(483)	-	4,166	9,584
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	1,629,605	275,240	9,242	(111,326)	1,802,761

	Year Ended December 31, 2012				
	China <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	USA <i>RMB'000</i>	Corporate and others <i>RMB'000</i>	Total <i>RMB'000</i>
Net profit for the year	863,853	42,340	(11,875)	(353,046)	541,272
Income tax expenses	268,026	27,739	–	–	295,765
Finance income	(2,974)	(2,763)	(56)	(4)	(5,797)
Finance cost	22,514	2,018	121	260,654	285,307
Depreciation, depletion and amortization	741,487	115,849	3,814	217	861,367
EBITDA	1,892,906	185,183	(7,996)	(92,179)	1,977,914
Share-based compensation expenses	72,861	3,861	–	9,344	86,066
Impairment of inventory	–	1,430	–	–	1,430
Loss/(gain) on oil hedge options	9,148	–	–	(10,635)	(1,487)
Loss on disposal of property, plant and equipment	–	862	–	–	862
Impairment of receivables, advances	–	1,052	–	–	1,052
Gain from changes of fair value of option	–	–	–	(17,317)	(17,317)
Option granted to Essentia	–	–	–	5,341	5,341
Other acquisition expenses	–	–	–	18,261	18,261
Geological and geophysical expense	–	18,729	4,193	–	22,922
Withholding tax on intercompany loans	–	–	–	49,321	49,321
Adjusted EBITDA	1,974,915	211,117	(3,803)	(37,864)	2,144,365

EMPLOYEES

As at December 31, 2013, the Group had 2,588 employees, with 2,213 based in China (Mainland and Hong Kong) and 371 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.

SHARE AWARD SCHEME

To supplement the 2009 Stock Incentive Compensation Plan (the “Plan”) in respect the operation of the share appreciation rights, the board of the Company resolved to adopt a share award scheme (“Share Award Scheme”) on May 30, 2012 (“Adoption Date”), pursuant to which the Company granted to selected grantees who are persons holding SARs under the Plan, such number of Awarded Shares as is equal to the number of outstanding notional shares to which the SAR of the selected grantees relates.

According to the Share Award Scheme, shares of up to 44,415,800 of the Company will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the benefit of the selected grantees pending the exercise of the SARs. Upon exercise of the SAR by the selected grantees, the trustee will sell the Awarded Shares to which the SAR so exercised relates and pay the selected grantees in satisfaction of the Company's payment obligations in relation to the SAR under the Plan. Unless early terminated by the board of the Company, the Share Award Scheme shall continue in full force and effect from the Adoption Date until the date when all the SARs are exercised, terminated or expired.

The trustee has acquired 44,414,000 Award Shares through purchases from the market at an aggregate consideration of HK\$78,053,660 (including transaction costs). During the year ended December 31 2013, the trustee sold 2,349,000 Awarded Shares upon exercise of SARs so exercised by certain grantees.

DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.029 (2012: HK\$0.059) per share in respect of 2013 to shareholders whose names appear on the register of members of the Company on Monday, May 26, 2014. The proposed final dividend will be paid on or about Thursday, June 5, 2014, following approval at the Annual General Meeting to be held on or around Friday, May 16, 2014.

Any amount of dividends we pay will be at the discretion of the Board of Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that the Board of Directors considers relevant. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Group's consolidated financial statements for the year ended December 31, 2013 including the accounting policies adopted by the Group and has discussed the internal controls and financial reporting matters of the Group.

PURCHASE, DISPOSAL OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed in the paragraph headed "Share Award Scheme", neither the Company nor any of its subsidiaries purchased, disposed of or redeemed any of the Company's listed securities during the year ended December 31, 2013.

CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

With effect from March 31, 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the “Branch Share Registrar”), will change its address from 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong to Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled on or around Friday, May 16, 2014. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, May 13, 2014 to Friday, May 16, 2014, 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 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong (this address will be changed to Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong with effect from March 31, 2014), for registration not later than 4:30 p.m. on Monday, May 12, 2014.

The proposed final dividend is subject to the approval of the shareholders of the Company at the Annual General Meeting. The record date for entitlement to the proposed final dividend is Monday, May 26, 2014. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, May 22, 2014 to Monday, May 26, 2014, both days inclusive, a period during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, 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 the above address, for registration not later than 4:30 p.m. on Wednesday, May 21, 2014.

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, 2013, except for Code Provision A.2.1 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.

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, 2013. 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, 2013 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 16, 2014. 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 21, 2014

As at the date of this announcement, the Board comprises (1) the executive directors namely Mr. Zhang Ruilin, Mr. Zhao Jiangwei, Mr. Andrew Sherwood Harper and Mr. Tao Tak Yin Dexter; (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.