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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2014

FINANCIAL SUMMARY

	Unaudited Six-Month Period Ended June 30,	
	2014	2013
	RMB'000	RMB'000
Revenue	1,811,649	1,627,966
Profit from operations	476,682	506,153
EBITDA	993,954	959,488
Adjusted EBITDA	1,029,040	966,298
Profit for the period	31,262	165,839
Basic and diluted earnings per share (RMB per share)	0.014	0.064
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	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
Property, plant and equipment	7,229,956	7,160,160
Cash and cash equivalents	214,998	274,529
Total assets	9,875,623	9,302,546
Total equity	3,681,343	3,704,430
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OPERATING SUMMARY

Six-month period ended
June 30,
2014 **2013**

Properties Held by Subsidiaries

Sales volume

Crude oil (barrels)	3,056,221	2,616,671
China oilfields	2,063,028	1,975,162
Kazakhstan (Emir-Oil)	972,737	620,606
Export sales	769,239	526,588
Domestic sales	203,498	94,018
USA (Condor)	20,456	20,903
Gas (Mscf)	1,006,598	827,838
Kazakhstan (Emir-Oil)	965,746	815,059
USA (Condor)	40,853	12,779
Total (BOE) (<i>Note 1</i>)	3,223,987	2,754,644

Net production volume

Crude oil (barrels)	2,996,984	2,594,391
China oilfields	2,023,423	1,946,485
Kazakhstan (Emir-Oil)	953,699	625,247
USA (Condor)	19,862	22,659
Gas (Mscf)	1,113,483	922,302
Kazakhstan (Emir-Oil)	1,062,616	867,871
USA (Condor)	50,867	54,431
Total (BOE) (<i>Note 1</i>)	3,182,565	2,748,108

Average daily net production volume

Crude oil (barrels)	16,558	14,334
China oilfields	11,179	10,755
Kazakhstan (Emir-Oil)	5,269	3,454
USA (Condor)	110	125
Gas (Mscf)	6,152	5,096
Kazakhstan (Emir-Oil)	5,871	4,795
USA (Condor)	281	301

Note (1): Based on the conversion ratio of 1 barrel of oil to 6 Mscf of gas, only for reference purpose.

	Six-month period ended	
	June 30,	
	2014	2013
Average realized price		
Crude oil (USD per barrel of crude oil)	96.02	99.18
China oilfields	104.56	105.59
Kazakhstan (Emir-Oil)	78.04	79.10
Export sales	88.19	85.73
Domestic sales	39.71	41.98
USA (Condor)	89.26	90.15
Gas (USD per Mscf)	1.38	1.43
Kazakhstan (Emir-Oil)	1.15	1.35
USA (Condor)	6.77	6.54
Lifting costs (USD per barrel of crude oil) (Note2)	9.29	8.44
China oilfields	11.65	9.31
Kazakhstan (Emir-Oil)	4.39	5.71
Wells drilled during the period (Gross)	146	96
China oilfields	143	91
Successful	143	91
Dry	–	–
Kazakhstan (Emir-Oil)	3	5
Successful	3	5
Dry	–	–
USA (Condor)	–	–
Successful	–	–
Dry	–	–

Note (2): Lifting cost includes directly controllable costs to produce a barrel of oil. Other production costs such as safety fee, environment expenses, technical & research expenses and overhead have not been included above since they are not directly attributable to the production of a barrel of oil.

Six-month period ended
June 30,
2014 **2013**

Properties Held by Equity-accounted entities
(Group share) (Note 3)

Sales volume

Crude oil(barrels)	–	1,203
USA (White Hawk)	–	1,203
Gas(Mscf)	–	1,546
USA (White Hawk)	–	1,546

Net production volume

Crude oil(barrels)	–	1,211
USA (White Hawk)	–	1,211
Gas(Mscf)	–	2,244
USA (White Hawk)	–	2,244

Average daily net production volume

Crude oil(barrels)	–	6.69
USA (White Hawk)	–	6.69
Gas(Mscf)	–	12.4
USA (White Hawk)	–	12.4

Average realized price

Crude oil (USD per barrel of crude oil)	–	105.89
USA (White Hawk)	–	105.89
Gas (USD per Mscf)	–	6.12
USA (White Hawk)	–	6.12

Wells drilled during the period(Gross)

China, Shanxi (Sanjiaobei and Linxing)	15	13
Successful	15	13
Dry	–	–
USA (White Hawk)	–	–
Successful	–	–
Dry	–	–

Note (3): The Group divested the entire 50% interests in White Hawk Petroleum LLC in December 2013.

BUSINESS REVIEW AND PROSPECTS

During the first half of 2014 (“1H2014” or “Current Period”), the Group’s gross operated oil and gas production increased by 4.0% to 5.07 million barrels of oil equivalent (“BOE”) compared with the first half of 2013 (“1H2013” or “Prior Period”); our net oil and gas production increased by 15.8% to 3.18 million BOE, which exceeded the high end of 2014 annual production guidance as published in our 2013 annual report. During the Current Period, crude oil sales increased by 16.8% to 3.06 million barrels and gas sales increased by 21.6% to 1,007 million standard cubic feet (“MMscf”), which is equivalent to 28.5 million cubic meters. The Group’s average realized oil price and average realized gas price dropped 3.2% to USD96.02 per barrel, and 3.6% to USD1.38 per thousand standard cubic feet (“Mscf”), respectively. Realized sales revenue was up by 11.3% to RMB1,811.6 million from the Prior Period. Profit from operations decreased by 5.8% to RMB476.7 million. EBITDA increased by 3.6% to RMB994.0 million, whilst Adjusted EBITDA increased from RMB966.30 million to RMB1,029.0 million in the Current Period, representing a 6.5% increase. One-off finance expenses of approximately RMB120 million (USD19.5 million) for call premium in relation to the early redemption of the USD400 million 9.75% senior notes due 2016 (“2016 Notes”) and about RMB35 million unamortized expenses of the 2016 Notes were charged to Current Period profit and loss account. As a result of the redemption, the Group’s profit fell by 81.1% to RMB31.26 million during the Current Period.

The Group has achieved significant progress towards certain key operational objectives during the Current Period:

- Due largely to the significant growth of Emir-Oil LLC (“Emir-Oil”) production in Kazakhstan and the well performance for the base assets in China, the Group’s operated oil and gas production continued its growth. In particular, the Group’s net oil production achieved 16,558 BOPD during Current Period which exceeds the high end of the 2014 full-year production guidance (15,300~16,300 BOPD) that we provided at the beginning of the year.
- Emir-Oil has made significant progress towards the construction of its new central oil and gas processing facility (“CPF”). The Kazakhstan authorities have officially approved the construction of the CPF, which is the most critical approval required for the entire CPF construction process. The actual construction work is scheduled to commence during 2H2014 and be completed in 1H2015; accordingly, when it begins operation in 2015, the CPF will then debottleneck Emir-Oil’s production capacity.
- The existing ADEK exploration contract will expire in January 2015. Emir-Oil has been working towards the extension of the ADEK exploration contract since the beginning of 2014 and has made good progress. In the meantime, Emir-Oil is pressing ahead with key exploration work in the ADEK exploration contract area, including the interpretation of merged 3D seismic data covering the entire block and the drilling of exploration well Aidai-1.

- In the Ordos Basin gas projects of Sino Gas & Energy Limited (“SGE”), a joint venture of the Group, the Chinese Reserve Report (“CRR”) for Linxing East has received official approval from the Chinese authorities, whilst the preparation of CRRs for Linxing West and Sanjiaobei are also underway and expected to be submitted by end of 2014. CRR approval represents the first critical milestone in the process of achieving commercial production in the Linxing and Sanjiaobei PSCs. Following CRR approval, the next key milestone will be the submission of the Overall Development Plan (“ODP”). SGE has already commenced preparation of the Linxing East ODP, which is expected to be finalized by the end of 1H2015 for further submission to China United Coalbed Methane Corporation Ltd and the relevant Chinese government authorities for approval.
- In respect of gas well testing, the first SGE horizontal well TB-1H, and new vertical wells TB-26 and TB-23 in Linxing block have all achieved encouraging test results. For horizontal well TB-1H, flow testing resulted in gas flow rate of 4.93 million cubic feet (approximately 140,000 cubic meters per day) per day with stable tubing head pressure of 2,008 psi (or 14MPa) during 80 hours of testing in two stages. For vertical wells TB-26 and TB-23, gas flow rates of 1.20 MMscf per day (approximately 34,000 cubic meters per day) with stable tubing head pressure of 1,740 psi (approximately 12MPa) and 2.00 MMscf per day (approximately 56,600 cubic meters per day) at stable pressure of 1,250 psi (approximately 8.62Mpa) were achieved respectively during testing.
- Meanwhile, as of June 30, 2014, the Group has completed full payment of the deferred subscription price of USD90 million to SGE pursuant to the terms of a Purchase and Subscription Agreement executed on June 25, 2012. Pursuant to the agreement between the Group and its joint venture partner, after the full payment has been made, SGE will be funded by the shareholders in proportion to their equity interests in SGE. The Group is pleased that our contributions into SGE have shown positive operational results and we believe both the Linxing and Sanjiaobei PSCs will continue to enhance significant shareholder value.
- The horizontal well technology we acquired in the US has been successfully applied across the Group’s various projects. Emir-Oil’s first horizontal well K-113 has been producing for nearly one year; its recent daily oil production continues to stay above 1,100 BOPD, with cumulative production of over 420,000 barrels of oil. Meanwhile, SGE’s first horizontal well TB-1H has achieved encouraging results, with much higher flow testing rates compared to nearby vertical wells. The Group will continue to apply the horizontal drilling technology and other new advanced technologies in order to realize better returns on investment.
- During Current Period, the Group successfully issued USD500 million 7.5% senior unsecured notes due 2019 which attracted strong demand from top-tier international institutional investors. This underscores our investors’ vote of confidence in the long term fundamentals of the Group’s business and financials. We have applied most of the proceeds from this new issue to refinance the USD400 million 2016 Notes as mentioned above and the rest for capital expenditures, working capital and general corporate purposes.

Although the Group recorded a material decrease in profit for the six months ended June 30, 2014, as compared with that for the six months ended June 30, 2013, largely due to a one-off finance cost attributed by the call premium for the early redemption of the USD400 million Senior Notes due 2016, our operations including oil and gas production, revenue, EBITDA and adjusted EBITDA for 1H2014 have all recorded improvement to various extents compared to the same period in 2013. This shows that the Group's financial position has remained healthy and stable. More importantly, Emir-Oil and SGE have recorded significant growth in production and encouraging gas testing results respectively, which are two positive indicators demonstrating that our operations continue to achieve steady progress towards the Group's overall strategic plan.

OUTLOOK FOR 2014

We have revised our full year 2014 guidance in terms of well count to 199 vertical wells and 6 horizontal wells. Included in these totals are 16 exploration and 4 appraisal wells. In the second half of 2014, 38 vertical wells and 6 horizontal wells remain to be drilled. For the six months ended June 30, 2014, the Group has incurred capital expenditure of USD125 million (equivalent to 42% of total revised full year budget on capital expenditure).

Our revised full year 2014 guidance is as follows:

	Number of Wells (Gross)	Net Investments (millions of USD)	Net Production	Comments
Group in Total	205	296	15,300-16,300 BOPD 5,500-5,900 MCFD	
China Oil Projects (Daan, Moliqing, Miao 3, Kongnan)	156	122	10,000-10,500 BOPD	<ul style="list-style-type: none"> • Re-aligned drilling program by reducing 9 vertical wells but added 2 horizontal wells to original drilling plan
China Gas Projects (SGE: Linxing, Sanjiaobei)	40	48	300 MCFD	<ul style="list-style-type: none"> • Deferred drilling of 19 development wells and accordingly reduced Capex spend by USD22 million
Kazakhstan (Emir-Oil)	9	125	5,200-5,600 BOPD 5,000-5,400 MCFD	<ul style="list-style-type: none"> • 4 development wells, including 2 horizontal wells and 2 vertical wells • 1 exploration well • 4 appraisal wells • Capex spend of CPF for FY2014 to be USD60 million

	Number of Wells (Gross)	Net Investments (millions of USD)	Net Production	Comments
USA (Condor)	-	1	100–200BOPD 200 MCFD	<ul style="list-style-type: none"> • The original plan to drill 2 horizontal wells was canceled • USD1 million for lease extensions

On August 20, 2014, the Company reached an agreement to sell Pan-China Resources Ltd. (“PCR”) to a wholly owned subsidiary of China Oil HBP Science and Technology Corporation Limited (“HBP”), an A-share listed company at USD90 million (subject to price adjustments). We expect the net potential gain on the disposal to be approximately USD31.8 million. More importantly, whilst PCR is a relatively non-core asset of the Group, representing only about 2.6% of the Group’s total net 2P reserves of barrels of oil equivalent as of December 31, 2013, we believe the divestment is a good proxy to the intrinsic value of the Group’s remaining assets.

For 2H2014, the Group will continue to pursue development of the two core assets, Emir-Oil and SGE. Construction of the new CPF of Emir-Oil is scheduled to commence during 2H2014, and the SGE project will focus on achieving pipeline gas sales by yearend. The National Development and Reform Committee of China recently announced positive news of an increase in non-residential gas prices by approximately 18.2% to RMB2.47/cubic meter (equivalent to USD11.29/Mcf) effective from September 1, 2014, a second price hike since June 2013. We are encouraged by the introduction of favorable government policies regarding natural gas and are committed to continue our efforts to effectively execute our work plan and achieve the Group’s strategic goals, thereby enhancing value for our shareholders.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended June 30,	
		2014	2013
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		1,811,649	1,627,966
Operating expenses:			
Depreciation, depletion and amortization		(538,549)	(463,601)
Taxes other than income taxes	7	(420,575)	(348,369)
Employee compensation costs		(108,724)	(95,189)
Purchases, services and others		(175,290)	(165,433)
Geological and geophysical expenses		(19,082)	(5,491)
Distribution expenses		(20,267)	(20,522)
General and administrative expenses		(62,601)	(42,955)
Other gains, net	8	10,121	19,747
Total operating expenses		(1,334,967)	(1,121,813)
Profit from operations		476,682	506,153
Finance income	9	3,981	3,230
Finance costs	9	(330,801)	(199,386)
Share of losses of investments accounted for using the equity method		(21,277)	(10,266)
Profit before income tax		128,585	299,731
Income tax expense	10	(97,323)	(133,892)
Profit for the period		31,262	165,839
Other comprehensive income/(loss):			
<i>Items that will not be reclassified to profit or loss</i>			
Currency translation differences		4,091	(15,369)
<i>Items that may be reclassified to profit or loss</i>			
Change in value of available-for-sale financial assets		(996)	–
Total comprehensive income for the period		34,357	150,470

		Unaudited	
		Six months ended June 30,	
		2014	2013
	<i>Notes</i>	RMB'000	RMB'000
Profit for the period attributable to:			
Owners of the Company		36,978	168,129
Non-controlling interests		(5,716)	(2,290)
		<u>31,262</u>	<u>165,839</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		40,073	152,760
Non-controlling interests		(5,716)	(2,290)
		<u>34,357</u>	<u>150,470</u>
Earnings per share for profit attributable to owners of the Company for the period (expressed in RMB per share)			
Basic	<i>11</i>	0.014	0.064
Diluted	<i>11</i>	0.014	0.064
		<u>0.014</u>	<u>0.064</u>
Dividends	<i>4</i>	<u>–</u>	<u>–</u>

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited June 30, 2014 RMB'000	Audited December 31, 2013 RMB'000
	<i>Notes</i>		
Assets			
Non-current assets			
Property, plant and equipment		7,229,956	7,160,160
Intangible assets		540,712	544,469
Investments accounted for using the equity method		523,346	273,348
Deferred income tax assets		38,176	40,783
Available-for-sale financial assets		18,650	50,422
Financial assets at fair value through profit or loss		27,376	–
Prepayments, deposits and other receivables	12	53,273	34,941
Restricted bank deposits		11,188	11,884
		8,442,677	8,116,007
Current assets			
Inventories		44,522	44,835
Financial assets at fair value through profit or loss		6,184	7,791
Prepayments, deposits and other receivables	12	622,299	549,188
Trade receivables	13	526,114	273,125
Restricted bank deposits		18,829	37,071
Cash and cash equivalents		214,998	274,529
		1,432,946	1,186,539
Total assets		9,875,623	9,302,546
Equity			
Equity attributable to owners of the Company			
Ordinary shares		17,638	17,638
Share premium		838,496	838,496
Other reserves		248,369	241,766
Retained earnings		2,539,133	2,563,107
		3,643,636	3,661,007
Non-controlling interests		37,707	43,423
Total equity		3,681,343	3,704,430

		Unaudited	Audited
		June 30,	December 31,
		2014	2013
	<i>Notes</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Borrowings	<i>16</i>	4,179,786	3,589,503
Deferred income tax liabilities		260,478	261,472
Trade and notes payable	<i>14</i>	192,287	46,113
Provisions, accruals and other liabilities	<i>15</i>	152,119	145,424
		<u>4,784,670</u>	<u>4,042,512</u>
Current liabilities			
Trade and notes payable	<i>14</i>	881,771	1,022,424
Provisions, accruals and other liabilities	<i>15</i>	398,027	462,238
Current income tax liabilities		69,812	10,942
Borrowings	<i>16</i>	60,000	60,000
		<u>1,409,610</u>	<u>1,555,604</u>
Total liabilities		<u>6,194,280</u>	<u>5,598,116</u>
Total equity and liabilities		<u>9,875,623</u>	<u>9,302,546</u>
Net current assets/(liabilities)		<u>23,336</u>	<u>(369,065)</u>
Total assets less current liabilities		<u>8,466,013</u>	<u>7,746,942</u>

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited	
		Six months ended June 30,	
		2014	2013
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities			
Cash generated from operations	17	769,803	969,919
Interest paid		(167,150)	(131,829)
Income tax paid		(56,582)	(146,115)
		<u>546,071</u>	<u>691,975</u>
Net cash generated from operating activities			
Cash flows from investing activities			
Purchases of property, plant and equipment		(687,935)	(972,627)
Capital contribution to/acquisition of investments accounted for using the equity method		(269,375)	(43,298)
Loans to investments accounted for using the equity method		(4,782)	–
Decrease in restricted bank deposits		18,938	41,006
Interest received		2,065	3,230
		<u>(941,089)</u>	<u>(971,689)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from borrowings		65,000	60,000
Proceeds from issue of senior notes payable, net of issuance costs		2,991,522	1,229,212
Repayments of senior notes		(2,465,600)	–
Payment of premium related to the repayments of senior notes		(120,198)	–
Repayments of borrowings		(65,000)	(938,612)
Dividends paid		(60,952)	(124,365)
Payment for settlement of share options		(10,385)	–
Payment for shares purchased under Share Award Scheme		–	(50,240)
Dividends on treasury shares		970	1,976
Payment of loan arrangement and other fees		(14,281)	(25,339)
Proceeds from contingent consideration receivable		4,389	–
		<u>325,465</u>	<u>152,632</u>
Net cash generated from financing activities			
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		274,529	467,164
Exchange gains/(losses) on cash and cash equivalents		10,022	(19,958)
		<u>214,998</u>	<u>320,124</u>
Cash and cash equivalents at end of the period			

Notes:

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Maples Corporate Services Limited, P.O. Box 309 Ugland House, Grand Cayman KY1-1104, Cayman Islands.

The Company’s shares are listed on the Stock Exchange of Hong Kong Limited (“Stock Exchange”).

The condensed interim consolidated financial information is presented in Chinese Renminbi (“RMB”) unless otherwise stated. This condensed interim consolidated financial information has been approved for issue by the board of directors (“Board of Directors”) on August 21, 2014.

This condensed interim consolidated financial information has not been audited.

2. BASIS OF PREPARATION

This condensed interim consolidated financial information for the six months ended June 30, 2014 has been prepared in accordance with International Accounting Standards (“IAS”) 34, ‘Interim financial reporting’. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standard Board (“IASB”).

3. SIGNIFICANT ACCOUNTING POLICIES

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

- (a) Income taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.
- (b) New and amended standards adopted by the Group:

The Group adopted the following new standard and amendment to standards that are mandatory for the first time for the financial year beginning January 1, 2014:

- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities
- IAS 36 (Amendment), 'Impairment of assets'
- IAS 32 (Amendment), 'Financial instruments: Presentation'
- IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'
- IAS 19 (Amendment), 'employee benefits'
- IFRIC 21, 'Levies'

The adoption of these new standards and amendments did not have a material impact on the Group's financial statements.

Other amendments to IFRS effective for the financial year ending December 31, 2014 are not expected to have a material impact on the Group.

4. DIVIDENDS

The Company's Board of Directors did not recommend the payment of an interim dividend for the six months ended June 30, 2014 (2013: nil).

A dividend of HKD0.029 per share in respect of the year ended December 31, 2013, amounting to a total dividend of HKD77 million (equivalent to RMB61 million) was approved at the annual general meeting on May 16, 2014 and was paid in June 2014.

5. ESTIMATE

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2013.

6. 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 Company Limited ("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.

The segment information provided to the Board of Directors for the reportable segments for the six months ended June 30, 2014 is as follows:

	PRC RMB'000	Kazakhstan RMB'000	USA RMB'000	Corporate and other segments RMB'000	Total RMB'000
Segment revenue	1,325,539	473,195	12,915	–	1,811,649
Operating expenses:					
Depreciation, depletion and amortization	(467,403)	(55,789)	(15,170)	(187)	(538,549)
Taxes other than income taxes (Note 7)	(224,733)	(188,341)	(276)	(7,225)	(420,575)
Employee compensation costs	(53,449)	(23,258)	–	(32,017)	(108,724)
Purchases, services and others	(118,671)	(47,058)	(9,561)	–	(175,290)
Geological and geophysical expenses	–	(19,082)	–	–	(19,082)
Distribution expenses	(16,048)	(4,219)	–	–	(20,267)
General and administrative expenses	(24,104)	(14,159)	(4,173)	(20,165)	(62,601)
Other gains/(losses), net	12,039	–	(408)	(1,510)	10,121
Total operating expenses	(892,369)	(351,906)	(29,588)	(61,104)	(1,334,967)
Profit/(loss) from operations	433,170	121,289	(16,673)	(61,104)	476,682
Finance income	135	883	1,880	1,083	3,981
Finance costs	(23,486)	32,763	(845)	(339,233)	(330,801)
Share of losses of investments accounted for using the equity method	–	–	–	(21,277)	(21,277)
Profit before income tax	409,819	154,935	(15,638)	(420,531)	128,585
Income tax (expense)/benefit	(102,313)	4,990	–	–	(97,323)
Profit/(loss) for the period	307,506	159,925	(15,638)	(420,531)	31,262

6. SEGMENT INFORMATION (Continued)

For the six months ended June 30, 2013:

	PRC RMB'000	Kazakhstan RMB'000	USA RMB'000	Corporate and other segments RMB'000	Total RMB'000
Segment revenue	<u>1,302,806</u>	<u>312,892</u>	<u>12,268</u>	<u>–</u>	<u>1,627,966</u>
Operating expenses:					
Depreciation, depletion and amortization	(402,455)	(48,895)	(12,143)	(108)	(463,601)
Taxes other than income taxes (Note 7)	(224,458)	(123,911)	–	–	(348,369)
Employee compensation costs	(48,449)	(23,191)	–	(23,549)	(95,189)
Purchases, services and others	(108,777)	(51,194)	(5,462)	–	(165,433)
Geological and geophysical expenses	–	(5,438)	(53)	–	(5,491)
Distribution expenses	(17,056)	(3,466)	–	–	(20,522)
General and administrative expenses	(19,168)	(5,563)	(3,877)	(14,347)	(42,955)
Other gains, net	<u>11,441</u>	<u>–</u>	<u>–</u>	<u>8,306</u>	<u>19,747</u>
Total operating expenses	<u>(808,922)</u>	<u>(261,658)</u>	<u>(21,535)</u>	<u>(29,698)</u>	<u>(1,121,813)</u>
Profit/(loss) from operations	493,884	51,234	(9,267)	(29,698)	506,153
Finance income	210	1,245	1,713	62	3,230
Finance costs	(31,937)	(3,439)	(452)	(163,558)	(199,386)
Share of losses of investments accounted for using the equity method	<u>(10,263)</u>	<u>–</u>	<u>(3)</u>	<u>–</u>	<u>(10,266)</u>
Profit before income tax	451,894	49,040	(8,009)	(193,194)	299,731
Income tax expense	<u>(118,247)</u>	<u>(15,645)</u>	<u>–</u>	<u>–</u>	<u>(133,892)</u>
Profit/(loss) for the period	<u><u>333,647</u></u>	<u><u>33,395</u></u>	<u><u>(8,009)</u></u>	<u><u>(193,194)</u></u>	<u><u>165,839</u></u>

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

The revenue reported to the Board of Directors is measured consistently with that in the condensed Interim consolidated statement of comprehensive income.

There has been no material change in total assets or total liabilities from the amounts disclosed in the last annual financial statements.

7. TAXES OTHER THAN INCOME TAXES

	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
PRC		
Special oil levy	217,307	217,011
Others	7,426	7,447
	<u>224,733</u>	<u>224,458</u>
Kazakhstan		
Mineral extraction tax	24,806	16,867
Rent export tax	108,420	76,160
Rent export duty expenditures	43,068	20,159
Property tax	12,047	10,157
Others	–	568
	<u>188,341</u>	<u>123,911</u>
USA		
Severance tax	276	–
Corporate		
Withholding tax (<i>Note</i>)	7,225	–
	<u>420,575</u>	<u>348,369</u>

Note: For the six months ended June 30, 2014, all (2013: all) withholding tax is related to interest expense arising from the intra-group loans.

8. OTHER GAINS, NET

	Six months ended June 30,	
	2014 RMB'000	2013 RMB'000
Loss on oil put option	(1,510)	–
Service income	–	8,305
Fair value gains on financial assets	7,573	5,039
Others	4,058	6,403
	<u>10,121</u>	<u>19,747</u>

9. FINANCIAL COSTS — NET

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Finance income		
Interest income on deposits	<u>3,981</u>	<u>3,230</u>
Finance costs		
Interest expense at coupon rates/bank rates	(175,283)	(165,862)
Amortization of discounts (<i>Note 15 and 16</i>)	(12,349)	(14,594)
Premium and unwinding of unamortized costs from early redemption of borrowings (<i>Note</i>)	(154,903)	(38,675)
Other fees	<u>(10,926)</u>	<u>(5,902)</u>
	<u>(353,461)</u>	<u>(225,033)</u>
Exchange gains, net	<u>22,660</u>	<u>25,647</u>
	<u>(330,801)</u>	<u>(199,386)</u>
Finance costs — net	<u><u>(326,820)</u></u>	<u><u>(196,156)</u></u>

Note:

For the six months ended June 30, 2014, premium and unwinding of unamortized costs from early redemption of borrowings includes the premium amounting to RMB120.2 million (2013: RMB25.2 million) and unamortized costs written off amounting to RMB34.7 million (2013: RMB13.5 million) in relation to the early redemption of 2016 Notes (Note 16) (2013: early repayment of China Minsheng Bank loan).

10. INCOME TAX EXPENSE

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Current income tax — overseas	94,827	120,704
Deferred income tax	<u>2,496</u>	<u>13,188</u>
	<u><u>97,323</u></u>	<u><u>133,892</u></u>

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

Income tax expense is recognized based on management's estimate of the annual income tax rate applicable to the respective group entities expected for the full financial year. The estimated income tax rates applicable to the group entities (excluding group companies that are currently tax exempted) for the year ending December 31, 2014 varies from 20% to 35% (2013: 20% to 35%).

11. 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 outstanding during the six-month period.

	Six months ended June 30,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to owners of the Company (RMB'000)	<u>36,978</u>	<u>168,129</u>
Weighted average number of ordinary shares (thousands)	<u>2,607,226</u>	<u>2,624,629</u>
Earnings per share, Basic (RMB per share)	<u>0.014</u>	<u>0.064</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.

	Six months ended June 30,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to owners of the Company used to determine diluted earnings per share	<u>36,978</u>	<u>168,129</u>
Weighted average number of ordinary shares outstanding (thousands)		
	2,607,226	2,624,629
Adjustments for:		
— Share options (thousands)	<u>5,274</u>	<u>9,125</u>
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	<u>2,612,500</u>	<u>2,633,754</u>
Earnings per share, Diluted (RMB per share)	<u>0.014</u>	<u>0.064</u>

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At June 30, 2014, prepayments, deposits and other receivables are summarized as follows:

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
Amounts due from related parties	302,378	270,606
Advances to employees	7,459	6,569
Deposits	58,452	57,921
Loans, interests and other receivables	153,025	151,202
Advances to suppliers	70,103	28,898
	591,417	515,196
Less: provision for impairment of advances to suppliers	(2,126)	(2,106)
	589,291	513,090
Value-added-tax recoverable	49,157	62,114
Prepayments	37,124	8,925
	675,572	584,129
Current	622,299	549,188
Non-current	53,273	34,941
	675,572	584,129

At June 30, 2014, except for USD6,170,000 (equivalent to RMB37,963,000) (December 31, 2013: USD6,170,000 (equivalent to RMB37,618,000)) receivable from Pacific Energy Development Corporation bears an interest rate of 10% (December 31, 2013: 10%) per annum and is due on August 31, 2014, all prepayment, deposits and other receivables are unsecured, interest-free and have no fixed term of repayment.

13. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	As at	
	June 30, 2014 RMB'000	December 31, 2013 RMB'000
0–30 days	333,175	273,094
31–180 days	192,939	31
	<u>526,114</u>	<u>273,125</u>

The Group's trade receivables have credit terms of between 30 days to 180 days.

At June 30, 2014, there are no significant past due trade receivables which are impaired (December 31, 2013: nil).

At June 30, 2014, trade receivables amounting to RMB53,036,000 (December 31, 2013: nil) was pledged for bank loans (Note 16).

14. TRADE AND NOTES PAYABLE

The aging analysis of the trade and notes payable is as follows:

	As at	
	June 30, 2014 RMB'000	December 31, 2013 RMB'000
< 6 months	688,314	656,530
6 months–1 year	194,060	232,232
1–2 years	150,117	144,342
2–3 years	30,970	28,853
> 3 years	10,597	6,580
	<u>1,074,058</u>	<u>1,068,537</u>

15. PROVISIONS, ACCRUALS AND OTHER LIABILITIES

	As at	
	June 30, 2014 RMB'000	December 31, 2013 RMB'000
Amount due to related parties	336	61,293
Asset retirement obligations (<i>Note</i>)	57,854	56,372
Interest payable	75,121	65,784
Salary and welfare payable	43,828	79,515
Special oil levy	139,643	104,145
Withholding and other tax payable	104,439	123,289
Other payables	128,925	117,264
	<u>550,146</u>	<u>607,662</u>
Less: non-current portion of		
Asset retirement obligations	(57,854)	(56,372)
Withholding tax payable	(33,239)	(38,314)
Other payables	(61,026)	(50,738)
	<u>(152,119)</u>	<u>(145,424)</u>
Current	<u>398,027</u>	<u>462,238</u>

Note:

Movements of asset retirement obligations are as follows:

	<i>RMB'000</i>
At January 1, 2014	56,372
Additional provision	8,126
Amortization of discounts	1,787
Exchange differences	(8,431)
	<u>57,854</u>
At June 30, 2014	57,854

16. BORROWINGS

	As at	
	June 30,	December 31,
	2014	2013
	RMB'000	RMB'000
Non-current		
— senior notes payable (<i>Note</i>)	4,179,786	3,589,503
Current		
— unsecured bank loans	55,000	60,000
— secured bank loans	5,000	—
	60,000	60,000
	4,239,786	3,649,503

Note:

			As at	
	Coupon rate	Due date	June 30,	December 31,
			2014	2013
			RMB'000	RMB'000
2016 Notes	9.75%	May 12, 2016	—	2,399,658
2018 Notes	6.875%	February 6, 2018	1,192,777	1,189,845
2019 Notes	7.5%	April 25, 2019	2,987,009	—
			4,179,786	3,589,503

On April 25, 2014, the Company issued USD500 million (equivalent to RMB3,076.4 million) senior notes due in April 2019 (the “2019 Notes”). The 2019 Notes bear coupon rate of 7.50% per annum, payable semi-annually in arrears on April 25 and October 25 annually. The net proceeds, after deduction of discounts, fees, commissions and other expenses, amounted to approximately USD485.0 million (equivalent to RMB2,986.1 million). The proceeds are used to (i) to redeem in full the USD400 million (equivalent to RMB2,461.1 million) 9.75% senior notes due 2016 issued by the Company on May 12, 2011 and fund the related redemption costs, including a call premium of USD19.5 million (equivalent to RMB120.2 million) and (ii) the remaining balance for capital expenditures, working capital and general corporate purposes.

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

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

16. BORROWINGS (Continued)

Note: (Continued)

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

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

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

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

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

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

16. BORROWINGS (Continued)

Movements in borrowings during the six months ended June 30, 2014 are analyzed as follows:

	Bank borrowings RMB'000	Senior Notes RMB'000	Total RMB'000
Carrying amounts as at January 1, 2014	60,000	3,589,503	3,649,503
Issuance of Senior Notes	–	2,986,093	2,986,093
Redemption of Senior Notes	–	(2,401,308)	(2,401,308)
Drawdown of bank borrowing	65,000	–	65,000
Repayments of bank borrowing	(65,000)	–	(65,000)
Professional fees paid in connection with the modification of Senior Notes	–	(11,144)	(11,144)
Amortization of discounts	–	10,562	10,562
Exchange differences	–	6,080	6,080
	<u>60,000</u>	<u>4,179,786</u>	<u>4,239,786</u>
Carrying amounts as at June 30, 2014	<u>60,000</u>	<u>4,179,786</u>	<u>4,239,786</u>

17. CASH GENERATED FROM OPERATING ACTIVITIES

	Six months ended June 30,	
	2014	2013
	RMB'000	RMB'000
Profit before income tax	128,585	299,731
Adjustments for:		
Depreciation, depletion and amortization	538,549	463,601
Interest expenses — net	349,480	221,430
Exchange gains	(22,660)	(25,647)
Gains from changes in fair value of financial assets at fair value through profit or loss	(6,063)	–
Value of employee services under stock option schemes	12,923	14,133
Share of losses of investments accounted for using the equity method	21,277	10,266
Others	–	502
Changes in working capital:		
Inventories	313	(3,912)
Trade and other receivables	(291,904)	50,968
Trade and other payables	39,303	(61,153)
Cash generated from operations	<u>769,803</u>	<u>969,919</u>

18. COMMITMENTS AND CONTINGENCIES

(a) Commitments

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

	As at June 30, 2014 RMB'000	December 31, 2013 RMB'000
Authorized by the board of directors but not contracted for	644,745	2,117,619
Contracted but not provided for	197,308	4,258
	<u>842,053</u>	<u>2,121,877</u>

(ii) Operating lease commitments

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

	As at June 30, 2014 RMB'000	December 31, 2013 RMB'000
<1 year	14,008	13,530
1–2 year	3,223	3,202
2–5 year	1,418	320
	<u>18,649</u>	<u>17,052</u>

(iii) The Group has a commitment to provide funding if called by Sino Gas and Energy Limited (“SGE”), a joint venture of the Group, in accordance with the 2014 SGE annual budget as approved by its board of directors up to USD69.3 million (equivalent to RMB422.5 million). For the six months ended June 30, 2014, USD43.9 million (equivalent to RMB269.4 million) has been funded to SGE.

18. COMMITMENTS AND CONTINGENCIES (Continued)

(b) Contingencies

On August 28, 2000, MI Energy Corporation (“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 June 30, 2014, the directors of the Company did not anticipate that any material liabilities will arise from the contingent liabilities other than those provided for in the financial statements.

19. SUBSEQUENT EVENT

On August 20, 2014, the Company entered into an agreement with a wholly owned subsidiary of China Oil HBP Science & Technology Corporation Limited (“HBP”), a limited liability company incorporated in PRC and listed on the Shenzhen Stock Exchange, pursuant to which the Company will sell all equity interest in Pan-China Resources Ltd. (“PCR”) for a cash consideration of USD90 million (equivalent to RMB554.2 million)(subject to adjustment). Based on management’s preliminary assessment, the disposal will result in a gain of approximately USD31.8 million (equivalent to RMB195.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operating Results

Six-Month Period Ended June 30, 2014 Compared to Six-Month Period Ended June 30, 2013

Revenue. Our revenue increased by RMB183.6 million, or 11.3%, from RMB1,628.0 million for the six-month period ended June 30, 2013 to RMB1,811.6 million for the six-month period ended June 30, 2014.

This increase was due to the increase of the Group's overall sales volumes although the crude oil prices have decreased over the same period. Average realized oil price was USD96.02 per barrel for the six-month period ended June 30, 2014, compared to USD99.18 per barrel for the six-month period ended June 30, 2013. The Group's total crude oil sales volume was 3.06 million barrels for the six-month period ended June 30, 2014, compared to 2.62 million barrels for the six-month period ended June 30, 2013. The increase in sales volume is consistent with the trend in the Group's production volume.

- **China**

During the six-month period ended June 30, 2014, our China oil fields realized revenue of RMB1,325.5 million. The average realized oil price was USD104.56 per barrel for the six-month period ended June 30, 2014, compared to USD105.59 per barrel for the six-month period ended June 30, 2013. Our sales volume was 2.06 million barrels for the six-month period ended June 30, 2014, compared to 1.98 million barrels for the six-month period ended June 30, 2013.

- **Kazakhstan**

During the six-month period ended June 30, 2014, Emir-Oil realized revenue from oil sales of RMB466.4 million, compared to RMB306.0 million during the six-month period ended June 30, 2013. The increase in revenue was primarily due to increasing of sales volumes, which increased from 620,606 barrels for the six-month period ended June 30, 2013 (comprising 526,588 barrels from export sales and 94,018 barrels from domestic sales) to 972,737 barrels for the six-month period ended June 30, 2014 (comprising 769,239 barrels from export sales and 203,498 barrels from domestic sales).

The average realized oil price for the six-month period ended June 30, 2014 was USD88.19 per barrel from export sales (after transportation and marketing commissions of USD20.99 per barrel) and USD39.71 per barrel from domestic sales. The average realized oil price for the six-month period ended June 30, 2013 was USD85.73 per barrel from export sales (after transportation and marketing commissions of USD20.51 per barrel) and USD41.98 per barrel from domestic sales.

During the six-month period ended June 30, 2014, Emir-Oil realized revenue from gas sales of RMB6.8 million with a realized gas price of USD1.15 per Mscf and total gas sales volume of 965,746 Mscf. During the six-month period ended June 30, 2013, Emir-Oil realized revenue from gas sales of RMB6.9 million with a realized gas price of USD1.35 per Mscf and total gas sales volume of 815,059 Mscf.

- **USA**

During the six-month period ended June 30, 2014, our USA oil fields realized revenue from crude oil sales of RMB11.2 million. The average realized oil price was USD89.26 per barrel for the six-month period ended June 30, 2014. Our sales volume was 20,456 barrels for the six-month period ended June 30, 2014. In the six-month period ended June 30, 2013, our USA oil fields realized revenue from crude oil sales of RMB11.7 million. The average realized oil price was USD90.15 per barrel for the six-month period ended June 30, 2013. Our sales volume was 20,903 barrels for the six-month period ended June 30, 2013.

During the six-month period ended June 30, 2014, USA operation realized revenue from gas sales of RMB1.7 million with a realized gas price of USD6.77 per Mscf and total gas sales volume of 40,853 Mscf. During the six-month period ended June 30, 2013, USA operation realized revenue from gas sales of RMB0.5 million with a realized gas price of USD6.54 per Mscf and total gas sales volume of 12,779 Mscf.

Operating expenses. The Group's operating expenses increased by RMB213.2 million, or 19.0%, from RMB1,121.8 million for the six-month period ended June 30, 2013 to RMB1,335.0 million for the six-month period ended June 30, 2014, primarily due to an increase in depreciation, depletion, amortization, taxes other than income taxes and distribution and administrative expenses .

For the six months ended June 30, 2014, the operating expenses for our China, Kazakhstan and USA operations amounted to RMB892.4 million, RMB351.9 million and RMB29.6 million respectively.

- *Depreciation, depletion and amortization.* The Group's depreciation, depletion and amortization increased by RMB74.9 million, or 16.2%, from RMB463.6 million for the six-month period ended June 30, 2013 to RMB538.5 million for the six-month period ended June 30, 2014. The increase in depreciation, depletion and amortization was mainly due to: (i) higher unit of production rate as a result of the adjustment in proved and probable developed producing reserves in China oilfields as per the 2013 year end reserve report by third party consultant; and (ii) the increase in sales volumes in 2014.

- *Taxes other than income taxes.* The Group's taxes other than income taxes increased by RMB72.2 million, or 20.7% from RMB348.4 million for the six-month period ended June 30, 2013 to RMB420.6 million for the six-month period ended June 30, 2014. The following table summarizes taxes other than income taxes for the six month period ended June 30, 2014 and 2013:

	Six-Month Period Ended	
	June 30,	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
PRC		
Special oil levy	217,307	217,011
Others	7,426	7,447
	<u>224,733</u>	<u>224,458</u>
Kazakhstan		
Mineral extraction tax	24,806	16,867
Rent export tax	108,420	76,160
Rent export duty expenditures	43,068	20,159
Property tax	12,047	10,157
Others	–	568
	<u>188,341</u>	<u>123,911</u>
USA		
Severance tax	276	–
	<u>7,225</u>	<u>–</u>
Corporate		
Withholding tax	7,225	–
	<u>420,575</u>	<u>348,369</u>

During the six months ended June 30, 2014, Emir-Oil's taxes other than income taxes amounted to RMB188.3 million which increased by RMB64.4 million, or 52.0% compared to that RMB123.9 million during the six months ended June 30, 2013. This increase in taxes other than income taxes for our Kazakhstan operation was primarily due to: i) the increase in sales volumes; and(ii) rent export duty expenditure increased from USD60 per metric ton to USD80 per metric ton with effect from March 2014.

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

Rent Export Tax

Rent export tax is payable on export oil and is calculated based on world prices for crude oil. Rent Export Tax rate depends on export price for crude oil and can be 0% if export price is less than USD40 per barrel or up to 32% if export price is higher than USD190 per barrel.

Mineral Extraction Tax (“MET”)

MET is payable at a rate of 5% for export oil and 2.5% on 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 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%.

Rent Export Duty Expenditure

Rent export duty expenditure is payable on export oil and calculated as USD40 per metric tonne or USD5.35 per barrel multiplied by volume of export oil sales. From April 14, 2013, this duty increased to USD60 per metric tonne. From March 12, 2014, this duty increased to USD80 per metric tonne.

Property Tax

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

Withholding Tax

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

- *Employee compensation costs.* The Group’s employee compensation costs increased by RMB13.5 million, or 14.2%, from RMB95.2 million for the six-month period ended June 30, 2013 to RMB108.7 million for the six-month period ended June 30, 2014. The increase in employee compensation costs was primarily due to (i) The total compensation cost for the six months period ended June 30, 2013 is offset by more significant decrease in the fair value for share appreciation rights for that period compared to the Current Period; and (ii) the group hired more management personnel due to the expansion of the operation in the six-month period ended June 30, 2014.
- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB9.9 million, or 6.0%, from RMB165.4 million for the six-month period ended June 30, 2013 to RMB175.3 million for the six-month period ended June 30, 2014. The increase in purchase, services and other expenses was primarily due to the increase of sales volume.

- *Distribution and administrative expenses.* The Group's distribution and administrative expenses increased by RMB19.4 million, or 30.6%, from RMB63.5 million for the six-month period ended June 30, 2013 to RMB82.9 million for the six-month period ended June 30, 2014. The increase in distribution and administrative expenses was primarily due to: (i) Emir incurred more education services and donation; and (ii) more business travel expenses and consulting fees due to the business expansion.
- *Other gains, net.* The Group had other income of RMB10.1 million for the six-month period ended June 30, 2014, compared to other income of RMB19.7 million for the six-month period ended June 30, 2013. Other income for the six-month period ended June 30, 2014 arose primarily from fair value gains on financial assets at fair value through profit or loss.

Profit from operations. The Group's profit from operations decreased by RMB29.5 million, or 5.8%, from RMB506.2 million for the six-month period ended June 30, 2013 to RMB476.7 million for the six-month period ended June 30, 2014. This change was primarily due to an increase in operating expenses.

During the six months ended June 30, 2014, the China operations and Kazakhstan operations generated profit from operations of RMB433.2 million and RMB121.3 million, respectively. However loss from our USA operation was RMB16.7 million.

Finance costs, net. The Group's finance cost, net, increased by RMB130.6 million, or 66.6%, from RMB196.2 million for the six-month period ended June 30, 2013 to RMB326.8 million for the six-month period ended June 30, 2014. This was mainly due to one-off finance costs: (i) RMB120.2 million call premium for the early redemption of the USD400 million 9.75% senior notes due 2016 ("2016 Notes"); and (ii) RMB35.2 million unamortized expenses of the 2016 Notes charged to finance cost as a result of the redemption. Finance income is RMB4.0 million for the six-month period ended June 30, 2014 compared to RMB3.2 million for the six-month period ended June 30, 2013.

Profit before income tax. The Group's profit before income tax decreased by RMB171.1 million, or 57.1%, from RMB299.7 million for the six-month period ended June 30, 2013 to RMB128.6 million for the six-month period ended June 30, 2014. This decrease was primarily due to the cumulative effects of the above factors.

During the six months ended June 30, 2014, the China, Kazakhstan and USA operations generated profit before income tax of RMB409.8 million, RMB154.9 million and a loss before income tax of RMB15.6 million, respectively.

Income tax expense. The Group had income tax expense of RMB97.3 million for the six-month period ended June 30, 2014, compared to income tax expense of RMB133.9 million for the six-month period ended June 30, 2013. This change was primarily due to a decrease in our taxable income for our China operation and a tax credit for our Kazakhstan operation. The effective tax rate for the six months ended June 30, 2014 is 76% compared to an effective tax rate for the six months period ended June 30, 2013 of 45%. The increase in effective tax rate is mainly due to non-deductible one-off finance expense related to the 2016 Notes, share of loss of SGE, and other expenses incurred by non-operating group companies of the Group.

Profit for the period. As a result of the foregoing, our profit decreased by RMB134.5 million, or 81.1% from RMB165.8 million for the six-month period ended June 30, 2013 to RMB31.3 million for the six-month period ended June 30, 2014.

EBITDA AND ADJUSTED EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to profit for the period, our most directly comparable financial performance calculated and presented in accordance with IFRS. EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude non-cash and non-recurring items such as share-based compensation expense, gain/loss from changes in fair value of financial assets, write-off of inventory, loss on disposal of property, plant and equipment, geological and geophysical expense, withholding tax aroused from intercompany loan and any other non-cash or non-recurring income/expenses.

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, cash flow 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 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 profit for each period indicated.

	Six-Month Period Ended	
	June 30,	
	2014	2013
	RMB'000	RMB'000
Profit for the period	31,262	165,839
Income tax expenses	97,323	133,892
Finance income	(3,981)	(3,230)
Finance cost	330,801	199,386
Depreciation, depletion and amortization	538,549	463,601
	<u>993,954</u>	<u>959,488</u>
EBITDA		
Share-based compensation expenses	5,711	816
Impairment of inventory	–	477
Gains from changes in fair value of financial assets at fair value through profit or loss	(6,063)	–
Loss on disposal of property, plant and equipment	–	26
Geological and geophysical expense		
— Emir-Oil	19,082	5,438
— USA(condor)	–	53
— Share of SGE	9,131	–
Withholding tax aroused from intercompany loan	7,225	–
	<u>1,029,040</u>	<u>966,298</u>
Adjusted EBITDA		

The Group's EBITDA increased by approximately RMB34.5 million, or 3.6%, from approximately RMB959.5 million for the six-month ended June 30, 2013 to approximately RMB994.0 million for the six-month ended June 30, 2014. The increase was primarily due to the increase in realized oil price and sales volume.

The Group's adjusted EBITDA increased by approximately RMB62.7 million, or 6.5%, from approximately RMB966.3 million for the six-month ended June 30, 2013 to approximately RMB1,029.0 million for the six-month ended June 30, 2014. The increase in adjusted EBITDA was also primarily due to the increase in realized oil price and sales volume.

The Group's EBITDA and Adjusted EBITDA by operating segment for the six months ended June 30, 2014 are out below:

	Six-Month Period Ended June 30, 2014				Total RMB'000
	PRC RMB'000	Kazakhstan RMB'000	USA RMB'000	Corporate RMB'000	
Profit for the period	307,506	159,925	(15,638)	(420,531)	31,262
Income tax expenses/(benefit)	102,313	(4,990)	-	-	97,323
Finance income	(135)	(883)	(1,880)	(1,083)	(3,981)
Finance cost	23,486	(32,763)	845	339,233	330,801
Depreciation, depletion and amortization	467,403	55,789	15,170	187	538,549
EBITDA	900,573	177,078	(1,503)	(82,194)	993,954
Share-based compensation expenses	283	(51)	-	5,479	5,711
Impairment of inventory	-	-	-	-	-
Gains from changes in fair value of financial assets at fair value through profit or loss	(7,981)	-	408	1,510	(6,063)
Geological and geophysical expense					
— Emir	-	19,082	-	-	19,082
— Share of SGE	-	-	-	9,131	9,131
Withholding tax aroused from intercompany loan	-	-	-	7,225	7,225
Adjusted EBITDA	892,875	196,109	(1,095)	(58,849)	1,029,040

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of cash during the six-month period ended June 30, 2014 were cash flow from operating activities and cash flow from financing activities. We used cash primarily to fund capital spending program.

In the first half of 2014, we had net cash generated from operating activities of RMB546.1 million, net cash used in investing activities of RMB941.1 million and net cash generated from financing activities of RMB325.5 million and a translation gain of foreign currency of RMB10.0 million, resulting in a net decrease in cash and cash equivalent of RMB59.5 million compared to the cash balance of RMB274.5 million as of December 31, 2013.

At June 30, 2014, the Group has committed unutilized banking facilities amounting to RMB719.4 million.

Cash generated from operating activities

Net cash generated from operating activities was RMB546.1 million in the six-month period ended June 30, 2014. In the first half of 2014, our net cash generated in operating activities included profit before income tax of RMB128.6 million adjusted for, among other things, depreciation, depletion and amortization of RMB538.5 million, net interest expenses of RMB349.5 million, employee share option expense of RMB12.9 million, an unrealized foreign exchange gain of RMB22.7 million, gain from changes of fair value of financial assets of RMB6.1 million and share of loss from investments accounted for using the equity method of RMB21.3 million. The cash movements from changes in working capital in the six month period ended June 30, 2014 included an increase in trade and other receivables of RMB291.9 million, an increase in trade and other payables of RMB39.3 million and a decrease in inventories of RMB0.3 million and interest paid of RMB167.1 million and income tax paid of RMB56.5 million.

Net cash generated from operating activities was RMB692.0 million in the six-month period ended June 30, 2013. In the first half of 2013, our net cash generated in operating activities included profit before income tax of RMB299.7 million adjusted for, among other things, depreciation, depletion and amortization of RMB463.6 million, net interest expenses of RMB221.4 million, employee share option expense of RMB14.1 million, an unrealized foreign exchange gain of RMB25.6 million and share of loss from investments accounted for using the equity method of RMB10.3 million. The cash movements from changes in working capital in the six month period ended June 30, 2013 included a decrease in trade and other receivables of RMB51.0 million, a decrease in trade and other payables of RMB61.2 million and an increase in inventories of RMB3.9 million and interest paid of RMB131.8 million and income tax paid of RMB146.1 million.

Cash used in investing activities

Net cash used in investing activities in the six-month period ended June 30, 2014 amounted to RMB941.1 million, mainly as a result of purchases of property, plant and equipment of RMB687.9 million, capital contribution to/acquisition of investments accounted for using the equity method of RMB269.4 million, loans to investments accounted for using the equity method of RMB4.8 million, offset by a decrease in restricted bank deposits of RMB18.9 million and interest received of RMB2.1 million.

Net cash used in investing activities in the six-month period ended June 30, 2013 amounted to RMB971.7 million, mainly as a result of purchases of property, plant and equipment of RMB972.6 million, and capital contribution to/acquisition of investments accounted for using the equity method of RMB43.3 million, offset by a decrease in restricted bank deposits of RMB41.0 million and interest received of RMB3.2 million.

Cash generated from financing activities

Net cash generated from financing activities in the six-month period ended June 30, 2014 amounted to RMB325.5 million due to: (i) proceeds from the issue of the 2019 Notes of RMB2,991.5 million in April 2014, (ii) proceeds from short-term working capital loan from China Construction Bank (“CCB”) of RMB65 million, (iii) proceeds from contingent consideration receivable of RMB4.4 million and (iv) dividends on treasury shares of RMB1.0 million, offset by: (i) 2013 final cash dividend of RMB61.0 million paid in June 2014, (ii) RMB2,465.6 million used for the repayment of the 2016 Notes in May 2014 and the repayment of RMB65 million short-term working capital loan from CCB, (iii) RMB120.2 million used for the payment of premium related to the repayments of the 2016 Notes, (iv) RMB10.4 million used for the payment for settlement of share options and (v) RMB14.2 million used for the payment of loan arrangement fees and other fees.

Net cash generated from financing activities in the six-month period ended June 30, 2013 amounted to RMB152.6 million due to: (i) proceeds from the issue of the 2018 Notes of RMB1,229.2 million in February 2013, (ii) proceeds from short-term working capital loan from CCB of RMB60 million and (iii) dividends on treasury shares of RMB2.0 million, offset by: (i) 2012 final cash dividend of RMB124.4 million paid in June 2013, (ii) RMB938.6 million used for the repayment of the USD80 million and USD60 million loan from China Minsheng Bank in March 2013 and the repayment of RMB60 million short-term working capital loan from CCB, (iii) RMB25.3 million used for the payment of loan arrangement fee and others bank loan related expenses, and (iv) RMB50.3 million payment for shares purchased for the purpose of Share Award Scheme.

Our gearing ratio, which is defined as total borrowings less cash and cash equivalents (“Net Borrowings”) divided by the sum of Net Borrowings and total equity, increased from 47.7% as at December 31, 2013 to 52.2% as at June 30, 2014 due to the newly issued 2019 Note.

Our Total Borrowings to EBITDA ratio, which is defined as total borrowings divided by EBITDA decreased from 2.14 as at December 31, 2013 to 2.13 (annualized) as at June 30, 2014.

Our Total Borrowings to Adjusted EBITDA ratio, which is defined as total borrowings divided by Adjusted EBITDA increased from 2.02 as at December 31, 2013 to 2.06 (annualized) as at June 30, 2014.

Market Risks

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

Oil price risk

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

Currency risk

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

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

Employees

As at June 30, 2014, the Company had 2,541 employees, with 2,170 based in China, 367 based in Kazakhstan and 4 based in USA. There have been no material changes to the information disclosed in the Annual Report 2013 in respect of the remuneration of employees, remuneration policies and staff development.

Contingencies

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

SHARE OPTION SCHEME

Cancellation of Vested Options

On September 20, 2011, the Company granted, pursuant to the share option scheme adopted by the Company on November 27, 2010 (the "Scheme"), share options to certain employees of the Company, entitling the option holders to subscribe for an aggregate of 112,048,000 ordinary shares of the Company of USD0.001 each at the exercise price of HK\$2.254 per Share ("2011 Grant"). The share options for an aggregate of 4,841,200 Shares subsequently lapsed pursuant to the terms of the Scheme and the relevant option agreements.

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

Grant of New Options

On March 21, 2014, the Company granted share options pursuant to the Scheme to 151 eligible participants comprising certain directors, substantial shareholders and employees of the Company to subscribe for an aggregate of 97,280,000 Shares. These options have an exercise price of HKD1.40 per share and a term of 10 years from the grant date, and will vest over the next three or four years.

DIVIDEND

The Board has resolved that no interim dividend will be paid for the six months ended June 30, 2014.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters, including reviewing the unaudited interim results. The interim financial information of the Group for the six months period ended June 30, 2014 are unaudited, but has been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the entity” (“ISRE 2410”) issued by the International Auditing and Assurance Standards Board (“IAASB”).

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

Save as disclosed otherwise in this announcement, neither the Company nor any of its subsidiaries purchased, disposed of or redeemed any of the Company’s listed securities for the six months ended June 30, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the period from January 1, 2014 to June 30, 2014, except for Code Provisions A.2.1 and E.1.2 as explained below.

Code Provision A.2.1

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

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

Code Provision E.1.2

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the six months ended June 30, 2014. In addition, no incident of non-compliance of the Model Code by the employees was noted by the Company.

MISCELLANEOUS

The Directors are of the opinion that there have been no material changes to the information published in its annual report for the year ended December 31, 2013, other than those disclosed in this interim results announcement.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The electronic version of this interim results announcement is published on the websites of the Company (<http://www.mienergy.com>), Hong Kong Exchange and Clearing Limited (www.hkexnews.hk) and Singapore Exchange Securities and Trading Limited (www.sgx.com). An interim report for the six months ended June 30, 2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the said websites in due course.

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

Hong Kong, August 21, 2014

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