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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, 2012

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, 2012.

First of all, I am pleased to announce that the Company has successfully completed a number of acquisitions to build up a diversified assets portfolio since its listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in December 2010. Over the past two years, the Company acquired Emir-Oil, LLC (“Emir-Oil”), Pan-China Resources Ltd. (“PCR”) and 51% equity interest in Sino Gas & Energy Limited (“SGE”), as well as participating in two shale oil projects in the USA. We have now acquired a strategic combination of quality oil and gas assets in China, Kazakhstan and USA, providing a solid base for future growth.

Through these acquisitions, the Company is rapidly expanding its operations to overseas and has transitioned from a company concentrating on low-permeability crude oil production to an upstream oil and gas production company. The Company was a small-scale independent upstream oil company measured by production capacity when it was listed. The Company’s asset portfolio has been greatly enhanced since then through a series of acquisitions and by internal growth. The Company has grown to become a medium-scale independent international upstream oil and gas company, measured by reserve and resources. The asset portfolio with significant reserves and resources serves as a solid foundation supporting the long-term development of the Company and the building of attractive value to our shareholders.

Looking at the year of 2012, the Company achieved new records in key operation and financial metrics like gross production, net production, sales revenue and adjusted EBITDA. In 2012, gross production increased by 22.6% from 7.19 million of barrels of oil equivalent to

8.81 millions of barrels of oil equivalent, and net production increased by 33.0% from 4.13 million barrels of oil equivalent in 2011 to 5.50 million barrels of oil equivalent. Sales revenue increased 23.3% to RMB3,485.6 million. For the year ended December 31, 2011, the Company recorded a one-time non-cash gain arising from the acquisition of Emir-Oil of RMB460.3 million to comply with IFRS accounting standards. The profit before tax decreased by 40.2% to RMB837.0 million, but after excluding the one-time non-cash gain of RMB460.3 million for 2011, the profit before tax decreased by RMB102.4 million, or 10.9% . EBITDA decreased by 5.9% to RMB1,977.9 million. Adjusted EBITDA increased by 24.3% from RMB1,725.3 million to RMB2,144.4 million. The net profit decreased by 51.1% to RMB541.3 million, but after taking into consideration the adjustments for non-cash and non-recurring items used for calculating adjusted EBITDA, the net profit for 2012 was RMB707.7 million, a decreased of 3.0% from 2011's adjusted net profit of RMB729.7 million. Considering that the performance of 2012 was still in line with the management's expectation, the Board recommended the payment of a final dividend of HKD0.059 per share.

In the year of 2012, the global economy was still on a slow and rocky road to recovery and the once-galloping China economy was also slowing down. In addition, rising costs was another common problem for all the upstream oil and gas companies. In face of these situations, the Company continued to leverage its strengths on its solid base assets, low operation costs and efficient decision-making process to achieve high growth and to decrease its risk profile.

As a detailed review of 2012, highlights of our 2012 operating activities include:

- **Successful acquisition of SGE provides the Company with immediate access to China's unconventional gas market:** In July 2012, the Company acquired 51% equity interest in SGE, whose principal business activity is the exploration and development of unconventional gas in China pursuant to two production sharing contracts ("PSC"), namely Linxing and Sanjiaobei PSCs, both located on the eastern flank of the Ordos Basin. According to the independent technical consultant, RISC Operations Pty Ltd, as of January 1, 2013, the gross proved + probable + possible ("3P") reserve, contingent resources (2C, mid case) and the prospective resources (the best estimation) were 699 BCF, 2,223 BCF and 3,176 BCF respectively. We believe with more geophysics studies and more wells drilled, the unconventional gas reserve and resources would be further increased. The acquisition of SGE provides the Company with immediate access to the China unconventional gas market, which is believed to have vast potential. SGE has successfully explored and evaluated the two PSCs over the past few years and is now focused on moving to development of these two PSCs. With the extensive management expertise and regional experience the Company has to offer, SGE is well positioned to tap on the rapidly expanding unconventional gas market in China. As the Company transforms into an international oil and gas company, the development of gas will be a main profit driver for the Company. The unconventional gas assets held by SGE will become an asset of great importance to the Company.
- **Emir-Oil's development is speeding up and the production is increasing significantly, starting to unlock the value and potential of the assets:** By adding 8 wells to the 24 wells that had been drilled prior to when we took over Emir-Oil in September 2011, including 3 exploration wells and 5 development wells. Although the production target had been revised in the middle of 2012 due to the drilling and other works lagging behind in the first half of 2012, production of Emir-Oil still increased significantly compared to

the time when we took over its operation in 2011. In 2012, the average daily oil production for Emir-Oil was 2,787 barrels per day and the average daily gas production was 4,451 Mscf, which increased by 33.7% and 27.9% respectively from September 2011. By comparing the fourth quarter production of 2011 and 2012, (after we acquired Emir-Oil on September 30, 2011), the average daily production of Emir-Oil was 3,576 barrels per day in 4Q12, or 70.0% increase from that of 2,104 barrels per day in 4Q11.

- **The Northeast China projects as the “One Million Ton Class Oilfields” for the first time:** The total annual gross production of Northeast China projects (Daan, Moliqing and Miao 3) has surpassed a major milestone of one million tons of crude oil by reaching 1.01 million tons in 2012, making these assets “one million ton class oilfields”. The production of Daan, Moliqing and Miao 3 is even higher than the total production for some provincial oilfields in China. As core producing assets of the Company, the Northeast China projects will continue contributing strong and stable free cash flow to the Group for a number of years to allow the Company to fund its future growth.
- **Advanced horizontal drilling technology has been successfully applied to the Northeast China and US projects:** In 2012, we commenced horizontal drilling program both in the shale oil projects in USA and in the low permeability projects in Northeast China. Of the 8 horizontal wells we drilled as operator, 5 are in Northeast China and 3 already producing as completed horizontal multi-stage fractured wells. We drilled the remaining 3 horizontal wells in the USA’s Niobrara oil shale and all 3 wells were successfully completed and put on production in 2012 or early 2013. The successful application of horizontal drilling technology enables us to improve the recovery factor of the unconventional oilfields and in turn the profitability of these oilfields. We intend to leverage the technical experience we gained and duplicate similar success in Kazakhstan and unconventional gas projects for Linxing and Sanjiaobei.
- **Acquisition of PCR further improved the Company’s reserve portfolio and cash flow:** In December 2012, the Company acquired 100% equity interest of PCR. The principal business activity of PCR is to develop the Kongnan block within Dagang oil field under a PSC with PetroChina. The project has been in the commercial production phase since 2009. This producing asset contributes and will continue to contribute stable free cash flow to the Group. Despite the relevant small scale of the project, the acquisition is an important step for the Company to further improve its reserve portfolio and cash flow.

For 2013, the Company will 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.

In 2013, the Company expects to drill approximately 138 gross wells and generate a net production of oil between 14,300 BOPD and 15,400 BOPD and gas between 4,300 Mscf and 5,100 Mscf. It is expected that the net capital expenditure to be borne by the Company is about US\$309 million.

At the beginning of 2013, the Company achieved another key milestone in the bond market by issuing US\$200 million senior notes listed on the Singapore Exchange Securities Trading Limited. These notes, rated “B+” by Standard & Poor’s Ratings Services and “B” by Fitch, Inc., bear coupon at 6.875% and mature on February 6, 2018. The coupon rate is one of the lowest among all Chinese issuers with the same ratings, indicating confidence of the debt capital market in our strong credit.

In closing, I would like to extend my heartfelt thanks to the Board and all the staff for your hard work and dedication in 2012, and to our shareholders, bondholders and business partners for your trust and ongoing support.

Chairman
Zhang Ruilin

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,	
	<i>Notes</i>	2012	2011
		RMB'000	RMB'000
Revenue	4	<u>3,485,616</u>	<u>2,827,141</u>
Operating expenses			
Purchases, services and other		(278,679)	(185,494)
Geological and geophysical expense		(22,922)	–
Employee compensation costs	5	(269,546)	(197,052)
Depreciation, depletion and amortization		(861,367)	(542,002)
Distribution expenses		(33,483)	(31,472)
Administrative expenses		(117,382)	(90,297)
Taxes other than income taxes	6	(816,972)	(656,766)
Other income/(losses)	7	<u>39,547</u>	<u>(24,898)</u>
Total operating expenses		<u>(2,360,804)</u>	<u>(1,727,981)</u>
Profit from operations		<u>1,124,812</u>	<u>1,099,160</u>
Finance income	8	5,797	74,728
Finance costs	8	<u>(285,307)</u>	<u>(234,482)</u>
Finance costs — net	8	<u>(279,510)</u>	<u>(159,754)</u>
Gain arising from acquisition of Emir — Oil, LLC		–	460,345
Share of loss of jointly controlled entities	11	<u>(8,265)</u>	<u>–</u>
Profit before income tax		837,037	1,399,751
Income tax expense	9	<u>(295,765)</u>	<u>(293,909)</u>
Net profit for the year		<u>541,272</u>	<u>1,105,842</u>

		Year ended December 31,	
		2012	2011
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:			
Owners of the Company		543,966	1,106,072
Non-controlling interests		(2,694)	(230)
		<u>543,966</u>	<u>1,106,072</u>
Earnings per share, Basic			
(expressed in RMB per share)	<i>10</i>	0.21	0.42
		<u>0.21</u>	<u>0.42</u>
Earnings per share, Diluted			
(expressed in RMB per share)	<i>10</i>	0.20	0.42
		<u>0.20</u>	<u>0.42</u>
Dividends distributed during the year			
Dividends proposed after the balance sheet date	<i>17</i>	95,070	76,842
		126,665	94,435
		<u>126,665</u>	<u>94,435</u>
Net profit for the year		541,272	1,105,842
Other comprehensive income:			
Currency translation difference		(4,794)	(44,697)
		<u>(4,794)</u>	<u>(44,697)</u>
Other comprehensive income for the year, net of tax		(4,794)	(44,697)
		<u>(4,794)</u>	<u>(44,697)</u>
Total comprehensive income for the year		536,478	1,061,145
		<u>536,478</u>	<u>1,061,145</u>
Attributable to:			
Owners of the Company		539,172	1,061,375
Non-controlling interests		(2,694)	(230)
		<u>539,172</u>	<u>1,061,375</u>
Total comprehensive income for the year		536,478	1,061,145
		<u>536,478</u>	<u>1,061,145</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at December 31,	
		2012	2011
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		6,632,652	5,267,499
Intangible assets		603,898	584,322
Investments	11	185,602	3,966
Trade and other receivables	12	178,817	32,032
Restricted cash		9,687	7,530
		<u>7,610,656</u>	<u>5,895,349</u>
Current assets			
Inventories		52,616	51,837
Derivative financial instruments	13	418	9,151
Trade and other receivables	12	740,180	703,068
Pledged deposits	14	41,106	233,891
Cash and cash equivalents		467,164	533,029
		<u>1,301,484</u>	<u>1,530,976</u>
Total Assets		<u>8,912,140</u>	<u>7,426,325</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Ordinary shares	16	17,629	17,627
Share premium		836,374	835,709
Other reserves		203,107	102,083
Retained earnings			
— Proposed final dividend	17	126,665	94,435
— Others		2,279,598	1,909,295
		<u>3,463,373</u>	<u>2,959,149</u>
Equity attributable to owners of the Company		<u>3,463,373</u>	<u>2,959,149</u>
Non-controlling interests		<u>810</u>	<u>3,504</u>
Total Equity		<u>3,464,183</u>	<u>2,962,653</u>

		As at December 31,	
		2012	2011
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		45,090	21,876
Deferred income tax liabilities — net		260,135	213,447
Trade and other payables	<i>14</i>	209,434	110,358
Borrowings	<i>15</i>	3,327,894	2,463,004
Derivative financial instruments	<i>13</i>	67,839	85,157
		<u>3,910,392</u>	<u>2,893,842</u>
Current liabilities			
Trade and other payables	<i>14</i>	1,404,451	1,495,602
Current income tax liabilities		73,114	63,610
Borrowings	<i>15</i>	60,000	—
Derivative financial instruments	<i>13</i>	—	10,618
		<u>1,537,565</u>	<u>1,569,830</u>
Total Liabilities		<u>5,447,957</u>	<u>4,463,672</u>
Total Equity and Liabilities		<u>8,912,140</u>	<u>7,426,325</u>
Net current liabilities		<u>(236,081)</u>	<u>(38,854)</u>
Total assets less current liabilities		<u>7,374,575</u>	<u>5,856,495</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated by Far East Energy Limited (“FEEL”), a company incorporated in Hong Kong with limited liability on March 20, 2008. 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.

The Company and its subsidiaries’ (“the Group”) principal business is to engage in the development, production and sale of (1) oil through MI Energy Corporation’s (“MIE”) four Production Sharing Contracts (“PSC”) in China; (2) oil and gas through Emir-Oil, LLC’s (“Emir-Oil, LLC”) exploration contract and three production contracts in Kazakhstan; (3) shale oil and gas through Condor Energy Technology LLC’s (“Condor”) working interest in the Niobrara asset in the United States of America; and (4) oil through Pan-China Resources Ltd (“PCR”)’s Kongnan PSC block within Dagang oil field in Hebei province of China. The Group also has a jointly controlled entity engaged in the production and sale of shale oil and gas in the USA and a jointly controlled entity engaged in the exploration of unconventional gas in China as further explained below.

On May 23, 2012, the Group through its subsidiary MIE Jurassic Energy Corporation (“MIEJ”) acquired from Pacific Energy Development Corporation (“PEDCO”) for a consideration of US\$2 million a 50% interest in White Hawk Petroleum LLC (“White Hawk”), an LLC registered in Nevada, USA, which holds a 7.939% working interest and a 5.95425% net revenue interest covering 1,650.75 gross acres in the Leighton-Mandurah prospect deep contract area located in the State of Texas’ Eagle Ford shale formation. PEDCO has also granted to MIEJ two warrants, one for 500,000 shares of PEDCO common stock at US\$1.25 per share and another one for 500,000 shares of PEDCO common stock at US\$1.50 per share both exercisable within two years after the date of acquisition (“PEDCO warrants”).

On June 25, 2012, the Group entered into an agreement with Sino Gas and Energy Holdings Limited (“SGEH”) and Sino Gas and Energy Limited (“SGE”) to acquire 51% of the equity interest in SGE, an entity organized under the laws of Australia. The principal business activity of SGE is the exploration of unconventional gas in China pursuant to two PSCs, namely Linxing PSC and Sanjiaobei PSC, both of which are located on the eastern flank of the Ordos Basin. The aggregate amount of the consideration payable by the Company is US\$100 million comprising (a) US\$10 million for the purchase of certain existing SGE shares payable in cash at completion; and (b) US\$66,342,287 and US\$23,657,713 for the subscription of new shares of SGE and certain loan notes to SGE payable in cash progressively after completion, respectively. US\$10 million was paid on July 4, 2012 at completion, which was the date that SGE became a jointly controlled entity of the Group.

On November 21, 2012, the Company and Sunwing Energy Limited (“Sunwing”) entered into an agreement, pursuant to which the Company agreed to purchase and Sunwing agreed to sell all of the issued and outstanding shares of PCR. The acquisition was completed on December 14, 2012 at an adjusted purchase price of approximately US\$39.6 million, of which US\$4 million has been withheld and will be delivered within 180 days after the completion. The principal business activity of PCR is oil and gas development and production operations in the PRC. Pursuant to a production sharing contract with PetroChina, PCR holds 100% participating interest in the foreign contractor’s entitlement and obligations. The production sharing contract, originally signed in 1997 with a maximum term of 30 years, has been in the commercial production phase since 2009 and covers an area of 31.29 square kilometres named Kongnan block within Dagang oil field in Hebei province.

The financial statements are presented in Renminbi (“RMB”) unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on March 27, 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of MIE Holdings Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

(i) *Net current liabilities*

As at December 31, 2012, the Group has a deficiency in net current assets of RMB236,081,000 which was driven mainly by significant capital expansion program undertaken by the Company in 2012. The Group generated positive cash flow from operating activities of RMB1,147,721,000 for the year ended December 31, 2012 and expects to continue to generate positive cash flow in year 2013. It has also issued US\$200 million senior notes issued in February 2013 and secured a facility for a working capital loan of RMB60 million from a bank (Note 20).

After taking into consideration the positive operating cash flow and the availability of the US\$200 million senior notes issued in February 2013, and the working capital loan of RMB60 million above, the Board of Directors believe that the Company has sufficient cash to enable it to pay its debts as and when they fall due.

(ii) *Changes in accounting policy and disclosures*

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

The IASB has amended IAS 12, ‘Income taxes’, to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after January 1, 2012.

The adoption of the new standard did not have a material impact on the Group’s or Company’s financial statements.

(B) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following as set out below:

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). The amendments do not address which items are presented in OCI.

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, which are largely aligned between IFRSs and US GAAP, 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 or US GAAP.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

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. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

The Group is in the process of reviewing the impact of the above standards and do not expect these standards to have a material impact on the Group's or Company's financial statements at the current stage.

(b) Production sharing contracts (“PSCs”)

The Group’s development and production activities in China are conducted jointly with others through PSCs. These PSCs establish joint control over the development and production activities. The assets are not owned by a separate legal entity but are controlled by individual participants in the PSCs. Each participant is entitled to a predetermined share of the related output and bears an agreed share of the costs.

The consolidated financial statements reflect:

- (i) MIE and PCR’s assets used in jointly controlled operations;
- (ii) any liabilities that MIE and PCR have incurred;
- (iii) MIE and PCR’s share of any liabilities incurred jointly with the other PSC partners in relation to the joint production;
- (iv) any income from the sale or use of MIE and PCR’s share of the output of the production, together with its share of any expenses incurred in the production; and
- (v) any expenses that MIE and PCR have incurred in respect of their interests in the production.

(A) *Daan, Moliqing and Miao3 PSC*

MIE and Global Oil Corporation (“GOC”), hold a 90% interest and a 10% interest in the foreign participating interest in the PSCs for Daan, Moliqing and Miao3, respectively. Pursuant to the three PSCs with PetroChina, the annual gross production of the crude oil shall, after payment for value added tax and royalty, be firstly deemed as the cost recovery oil and shall be used for cost recovery in the following sequence:

- Payment in kind for the operating costs actually incurred by MIE and GOC (collectively “the foreign partners”) and PetroChina.
- The remainder of the cost recovery oil shall, after payment for the operating costs, be deemed as investment recovery oil. Such investment recovery oil shall be used for the simultaneous recovery of the pilot test costs and the development costs incurred by foreign partners and the predevelopment costs spent by PetroChina in proportion of 20% by PetroChina and 80% by foreign partners. The unrecovered costs of the parties shall be carried forward to and recovered from the investment recovery oil in succeeding calendar years until being fully recovered.
- After all pilot test costs and development costs incurred up to that time have been recovered, the remainder of the gross production of crude oil for that period is referred to as profit oil and shall be allocated in proportion of PetroChina 52% and foreign partners 48%.
- The operating costs so incurred after the date of commencement of commercial production shall be paid respectively by PetroChina and foreign partners in accordance with the proportion of oil allocated to each party.

GOC is entitled to a 10% share of the foreign partners’ interest in property, plant and equipment, income and expenses. The Group received income and paid expenses on behalf of GOC. These are recorded in the relevant accounts with GOC.

(B) Kongnan PSC

PCR holds 100% foreign participating interest in the Kongnan PSC. Pursuant to the PSC with PetroChina, the annual gross production of the crude oil shall, after payment for value added tax and royalty, be firstly deemed as the cost recovery oil and shall be used for cost recovery in the following sequence:

- Payment in kind for the operating costs actually incurred by PCR and PetroChina.
- The remainder of the cost recovery oil shall, after payment for the operating costs, be deemed as investment recovery oil. Such investment recovery oil shall be used for the simultaneous recovery of the pilot test costs and the development costs incurred by foreign partners and the predevelopment costs spent by PetroChina in proportion of 18% by PetroChina and 82% by PCR. The unrecovered costs of the parties shall be carried forward to and recovered from the investment recovery oil in succeeding calendar years until being fully recovered.
- After all pilot test costs and development costs incurred up to that time have been recovered, the remainder of the gross production of crude oil for that period is referred to as profit oil and shall be allocated in proportion of PetroChina 51% and PCR 49%.
- The operating costs so incurred after the date of commencement of commercial production shall be paid respectively by PetroChina and PCR in accordance with the proportion of oil allocated to each party.

(c) Exploration and evaluation assets and oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support 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 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.

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.

(d) Revenue recognition

Revenues are recognized only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and where the amount of revenue and the costs incurred or to be incurred in respect of the transactions can be measured reliably and probable economic benefit will flow to the Group.

In China, revenues are recognized upon delivery of crude oil that are allocated to MIE under PSC (Note 2(b)).

For the year ended December 31, 2012 and 2011, PetroChina had taken more oil than its entitlement (over lifted) and hence MIE is deemed to have sold the over lift to PetroChina.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors (Note 4).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's consolidated financial statements.

(a) 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.

(b) 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.

(c) Estimation of asset retirement obligations

Provisions are recognized for the future decommissioning and restoration of oil and gas properties that will cease operation during commercial ownership by the Group. The amounts of the provision recognized are the present values of the estimated future expenditures that the Group is expected to incur. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic lives of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the Group over the remaining economic lives of the oil and gas properties.

4 SEGMENT INFORMATION

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

The Board of Directors considers the business performance of the Group from a geographic perspective being China, Kazakhstan and USA.

The China 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: Daan, Moliqing, Miao 3 and Kongnan. The Kazakhstan segment derives its revenue from the sale of oil and gas. The USA segment derives its revenue from the sale of shale oil and gas.

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, 2012 is as follows:

	China <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	USA <i>RMB'000</i>	Others* <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>2,924,726</u>	<u>557,113</u>	<u>3,777</u>	<u>–</u>	<u>3,485,616</u>
Revenue	<u>2,924,726</u>	<u>557,113</u>	<u>3,777</u>	<u>–</u>	<u>3,485,616</u>
Purchases, services and other	(203,792)	(72,841)	(2,046)	–	(278,679)
Geological and geophysical expense	–	(18,729)	(4,193)	–	(22,922)
Employee compensation costs	(182,246)	(47,433)	–	(39,867)	(269,546)
Depreciation, depletion and amortization	(741,487)	(115,849)	(3,814)	(217)	(861,367)
Distribution expenses	(33,483)	–	–	–	(33,483)
Administrative expenses	(63,368)	(5,572)	(6,599)	(41,843)	(117,382)
Taxes other than income taxes (Note 6)	(540,296)	(227,355)	–	(49,321)	(816,972)
Other income	<u>695</u>	<u>–</u>	<u>–</u>	<u>38,852</u>	<u>39,547</u>
Profit/(loss) from operations	<u>1,160,749</u>	<u>69,334</u>	<u>(12,875)</u>	<u>(92,396)</u>	<u>1,124,812</u>
Finance income	2,974	2,763	56	4	5,797
Finance costs	(22,514)	(2,018)	(121)	(260,654)	(285,307)
Share of (loss)/gain of jointly controlled entities	(9,330)	–	1,065	–	(8,265)
Income tax expense	<u>(268,026)</u>	<u>(27,739)</u>	<u>–</u>	<u>–</u>	<u>(295,765)</u>
Net profit/(loss) for the year	<u>863,853</u>	<u>42,340</u>	<u>(11,875)</u>	<u>(353,046)</u>	<u>541,272</u>
Total assets	<u><u>6,335,592</u></u>	<u><u>2,325,320</u></u>	<u><u>134,560</u></u>	<u><u>109,722</u></u>	<u><u>8,905,194</u></u>
Total assets includes:					
Property, plant and equipment	4,922,437	1,642,950	65,901	1,364	6,632,652
Intangible assets	62,773	517,949	16,648	–	597,370
Investments	–	–	–	185,602	185,602
Additions to non-current assets	<u>1,598,886</u>	<u>307,096</u>	<u>67,723</u>	<u>–</u>	<u>1,973,705</u>
Total liabilities	<u><u>1,303,597</u></u>	<u><u>473,352</u></u>	<u><u>34,293</u></u>	<u><u>175,954</u></u>	<u><u>1,987,196</u></u>

The segment information provided to the Board of Directors for the reportable segments for the year ended December 31, 2011 is as follows:

	China <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	USA <i>RMB'000</i>	Others* <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>2,723,671</u>	<u>103,470</u>	<u>–</u>	<u>–</u>	<u>2,827,141</u>
Revenue	<u>2,723,671</u>	<u>103,470</u>	<u>–</u>	<u>–</u>	<u>2,827,141</u>
Purchases, services and other	(167,912)	(17,582)	–	–	(185,494)
Employee compensation costs	(121,391)	(15,561)	–	(60,100)	(197,052)
Depreciation, depletion and amortization	(513,834)	(28,103)	–	(65)	(542,002)
Distribution expenses	(31,472)	–	–	–	(31,472)
Administrative expenses	(54,319)	(3,343)	(1,208)	(31,427)	(90,297)
Taxes other than income taxes (Note 6)	(609,193)	(47,573)	–	–	(656,766)
Other (loss)/income	<u>(15,237)</u>	<u>1,200</u>	<u>–</u>	<u>(10,861)</u>	<u>(24,898)</u>
Profit/(loss) from operations	<u>1,210,313</u>	<u>(7,492)</u>	<u>(1,208)</u>	<u>(102,453)</u>	<u>1,099,160</u>
Finance income	72,174	–	–	2,554	74,728
Finance cost	(69,024)	–	–	(165,458)	(234,482)
Gain arising from acquisition of Emir-Oil, LLC	–	–	–	460,345	460,345
Income tax expense	<u>(296,075)</u>	<u>2,166</u>	<u>–</u>	<u>–</u>	<u>(293,909)</u>
Net profit/(loss) for the year	<u>917,388</u>	<u>(5,326)</u>	<u>(1,208)</u>	<u>194,988</u>	<u>1,105,842</u>
Total assets	<u><u>5,239,096</u></u>	<u><u>2,078,556</u></u>	<u><u>20,593</u></u>	<u><u>78,929</u></u>	<u><u>7,417,174</u></u>
Total assets includes:					
Property, plant and equipment	3,850,626	1,415,288	–	1,585	5,267,499
Intangible assets	6,275	559,377	18,670	–	584,322
Additions to non-current assets	<u>1,347,546</u>	<u>74,254</u>	<u>–</u>	<u>1,648</u>	<u>1,423,448</u>
Total liabilities	<u><u>1,331,285</u></u>	<u><u>354,077</u></u>	<u><u>18,066</u></u>	<u><u>168,978</u></u>	<u><u>1,872,406</u></u>

* Others include costs incurred which are not directly attributable to oil and gas operations in China, Kazakhstan and USA.

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 are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The derivative financial instruments related to oil hedge options held by the Group and goodwill arising from acquisition are not considered to be segment assets.

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Segment assets for reportable segments	8,795,472	7,338,245
Other segments assets	<u>109,722</u>	<u>78,929</u>
	8,905,194	7,417,174
Unallocated:		
Current derivative financial instruments (<i>Note 13</i>)	418	9,151
Goodwill arising from PCR acquisition (<i>Note 19</i>)	<u>6,528</u>	<u>–</u>
Total assets per consolidated statement of financial position	<u><u>8,912,140</u></u>	<u><u>7,426,325</u></u>

The amounts provided to the Board of Directors with respect to total liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the segment.

The Group's derivative financial instruments and interest-bearing liabilities are not considered to be segment liabilities.

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Segment liabilities for reportable segments	1,811,242	1,703,428
Other segments liabilities	<u>175,954</u>	<u>168,978</u>
	1,987,196	1,872,406
Unallocated:		
Current derivatives financial instrument premium (<i>Note 14</i>)	5,028	25,644
Non-current derivatives financial instrument premium (<i>Note 14</i>)	–	6,843
Current derivative financial instruments (<i>Note 13</i>)	–	10,618
Non-current derivative financial instruments (<i>Note 13</i>)	67,839	85,157
Current borrowings (<i>Note 15</i>)	60,000	–
Non-current borrowings (<i>Note 15</i>)	<u>3,327,894</u>	<u>2,463,004</u>
Total liabilities per consolidated statement of financial position	<u><u>5,447,957</u></u>	<u><u>4,463,672</u></u>

Breakdown of the revenue is as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Analysis of revenue by segment		
Sale of crude oil in China	2,924,726	2,723,671
Sale of oil and gas in Kazakhstan	557,113	103,470
Sale of oil and gas in USA	<u>3,777</u>	<u>–</u>
	<u><u>3,485,616</u></u>	<u><u>2,827,141</u></u>

Revenues in China of approximately RMB2,924,726,000 (2011: RMB2,723,671,000) are derived from a single external customer, PetroChina. Revenues in Kazakhstan of approximately RMB511,637,000 (2011: RMB96,760,000) are derived from Titan Oil.

5 EMPLOYEE COMPENSATION COSTS

	Year ended December 31,	
	2012	2011
	RMB'000	RMB'000
Wages, salaries and allowances	147,839	165,209
Housing subsidies	3,143	1,811
Share options granted	66,644	5,414
Stock appreciation rights granted	19,422	12,628
Pension costs	14,961	6,850
Welfare and other expenses	17,537	5,140
	<u>269,546</u>	<u>197,052</u>

6 TAXES OTHER THAN INCOME TAXES

	Year ended December 31,	
	2012	2011
	RMB'000	RMB'000
China		
Special oil levy	524,391	595,368
Urban construction tax and education surcharge	15,611	13,825
Others	294	–
	<u>540,296</u>	<u>609,193</u>
Kazakhstan		
Mineral extraction tax	34,984	6,699
Rent export tax	135,150	25,458
Rent export duty expenditures	29,876	5,527
Property tax	24,420	7,549
Social liability expense	2,925	2,340
	<u>227,355</u>	<u>47,573</u>
Others		
Withholding tax	49,321	–
	<u>816,972</u>	<u>656,766</u>

7 OTHER INCOME/(LOSSES)

	Year ended December 31,	
	2012	2011
	RMB'000	RMB'000
Gain/(loss) on oil put option (<i>Note 13(a)</i>)	1,487	(32,137)
Gain from changes of fair value of option to ACAP (<i>Note 13(c)</i>)	17,317	–
Option to Essentia	(5,341)	–
Consulting service income(<i>i</i>)	17,499	–
Others	8,585	7,239
	<u>39,547</u>	<u>(24,898)</u>

- (i) On July 1, 2012, the Group entered into a management and operating agreement with Asia Sixth Energy Resources Limited (“Asia Sixth”). According to the agreement, the Group provides management, operating and technical support to Aral Petroleum Capital LLP, a non-wholly owned subsidiary of Asia Sixth, regarding production of hydrocarbons for Eastern Zhagbulak field in Aktyubinsk Oblast in Kazakhstan.

8 FINANCE COSTS — NET

	Year ended December 31,	
	2012	2011
	RMB'000	RMB'000
Finance income		
Interest income from savings accounts	5,797	4,066
Exchange gain	–	70,662
Total finance income	<u>5,797</u>	<u>74,728</u>
Finance costs		
Interest expenses	279,534	223,003
Accretion expenses of asset retirement obligations	1,970	1,276
Bank charges	1,496	10,200
Exchange loss	2,307	3
Total finance costs	<u>285,307</u>	<u>234,482</u>
Finance costs — net	<u>279,510</u>	<u>159,754</u>

9 INCOME TAX EXPENSE

	Year ended December 31,	
	2012	2011
	RMB'000	RMB'000
Current income tax — overseas	276,887	280,526
Deferred income tax	18,878	13,383
	<u>295,765</u>	<u>293,909</u>

Hong Kong profits tax has not been provided for as the Group did not have estimated assessable profit subject to profits tax in Hong Kong during the years ended December 31, 2012 and 2011. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

	Year ended December 31,	
	2012	2011
	RMB'000	<i>RMB'000</i>
Profit before income tax	837,037	1,399,751
Tax calculated at domestic tax rates applicable to profits in the respective countries	248,467	301,022
Tax effects of		
Income not subject to tax	(2,621)	(17,898)
Expenses not deductible for tax purposes	28,134	10,788
Prior year tax filling adjustments	–	659
Additional-deduction for research and development expenses	(819)	(662)
Re-measurement of deferred tax due to change in the Kazakhstan tax rate	28,294	–
Tax loss adjustment	(5,690)	–
	<u>295,765</u>	<u>293,909</u>
Tax charge	<u>295,765</u>	<u>293,909</u>

The weighted average effective tax rate was 35% for 2012. The weighted average effective tax rate was 21% for 2011, but after adjusting for one-time fair value non-cash gain arising from acquisition of Emir-Oil, LLC of RMB460,345,000, the effective tax rate was 31%.

10 EARNINGS PER SHARE

(a) Basic

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

	Year ended December 31,	
	2012	2011
	RMB'000	<i>RMB'000</i>
Net profit attributable to owners of the Company	<u>543,966</u>	<u>1,106,072</u>
Weighted average number of ordinary shares (<i>thousands</i>)	<u>2,644,812</u>	<u>2,643,681</u>
Earnings per share, Basic (<i>RMB per share</i>) (i)	<u>0.21</u>	<u>0.42</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 number of ordinary shares calculated as 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 later of, beginning of the relevant year or date of issuance.

	Year ended December 31,	
	2012 RMB'000	2011 RMB'000
Net profit attributable to owners of the Company	<u>543,966</u>	<u>1,106,072</u>
Weighted average number of ordinary shares (<i>thousands</i>)	2,644,812	2,643,681
Adjustments for:		
— Share options (<i>thousands</i>)	<u>10,592</u>	<u>15,483</u>
Weighted average number of diluted potential ordinary shares for diluted earnings per share (<i>thousands</i>)	<u>2,655,404</u>	<u>2,659,164</u>
Earnings per share, Diluted (<i>RMB per share</i>) (i)	<u>0.20</u>	<u>0.42</u>

- (i) Included in net profit attributable to owners of the Company for the year ended December 31, 2011 is a one-time fair value non-cash gain arising from the acquisition of Emir-Oil, LLC of RMB460,345,000. If this one-time fair value non-cash gain was excluded, the basic and diluted earnings per share for the year ended December 31, 2011 would be RMB0.24 per share.

11 INVESTMENTS

	Group As at December 31, 2012 RMB'000
Beginning of the year (a)	3,966
Additions (b)	189,972
Share of results of jointly controlled entities (c)	(8,265)
Exchange differences	<u>(71)</u>
End of the year	<u>185,602</u>
	Company As at December 31, 2011 and 2012 RMB'000
Preferred stock in PEDCO (a)	<u>3,966</u>

- (a) In October 2011, the Company paid US\$3,000,000 to acquire: (i) 31.25% working interest in Niobara formation in Colorado, United States through its subsidiary, Condor, from PEDCO; and (ii) 4,000,000 shares of restricted convertible preferred stock in PEDCO with a par value of US\$0.75 per share. The beginning balance represents the initial value of the convertible preferred stock of approximately RMB3,966,000.
- (b) Additions to investments comprise:
- (i) On May 23, 2012, the Group acquired from PEDCO for a consideration of US\$2,000,000: (i) a 50% capital interest in White Hawk, a jointly controlled entity, which holds a 7.939% working interest and a 5.95425% net revenue interest in the Eagle Ford shale formation in Texas, United States, (ii) a warrant to acquire 500,000 common shares in PEDCO at US\$1.25 per share, and (iii) a warrant to acquire 500,000 common shares in PEDCO at US\$1.50 per share (both warrants exercisable within two years after date of acquisition) (Note 13).
- (ii) On June 25, 2012, the Group entered into an agreement with SGEH to acquire 51% interest in SGE for an aggregate consideration of US\$100 million comprising (a) US\$10 million for the purchase of certain existing SGE shares payable in cash at completion; and (b) US\$66,342,287 and US\$23,657,713 for the subscription of new shares of SGE and certain loan notes to SGE payable in cash progressively after completion. US\$10 million was paid on July 4, 2012 at completion, which was the date that SGE became a jointly controlled entity of the Group. During the year, the Group has already provided funding totalling US\$16.5 million in relation to the subscription of new shares of SGE and certain loan notes to SGE. The Group has commitment to provide funding if called by SGE in accordance with the 2013 annual budget as approved by the Board of Directors of up to US\$72.11 million.
- (c) The Group's share of the results in these jointly controlled entities and their aggregated assets and liabilities for the year ended December 31, 2012 are shown below:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	% Interest held
		RMB'000	RMB'000	RMB'000	RMB'000	
White Hawk	USA	14,921	2,103	1,724	1,065	50%
SGE	Australia	229,991	51,962	-	(9,330)	51%

White Hawk and SGE are private companies and there is no quoted market price available for their shares.

There are no contingent liabilities related to the Group's interest in the jointly controlled entities.

12 TRADE AND OTHER RECEIVABLES

(a) Summary of trade and other receivables

	As at December 31,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets		
Current		
Trade receivables from PetroChina	223,701	166,204
Trade receivable from other third parties	66,261	44,399
Other receivables due from related parties		
— PetroChina	63,288	37,993
— Global Oil Corporation	67,939	142,500
— White Hawk	2,096	—
Advances to employees	7,068	5,937
Unbilled receivables from PetroChina	148,086	134,710
Guaranteed deposit on behalf of Group companies	59,712	—
Consulting service income receivable	20,465	—
Receivable from PEDCO	15,967	—
Other receivables — others	10,469	4,409
	<u>685,052</u>	<u>536,152</u>
Non-current		
Amounts due from related party		
— Global Oil Corporation	125,549	—
— SGE	2,766	—
	<u>813,367</u>	<u>536,152</u>
Non-financial assets		
Current		
Advances to suppliers — others	38,950	45,717
Less: provision for impairment of advances to suppliers — others	—	(1,123)
Advances to suppliers — others — net	38,950	44,594
Refundable deposit	—	80,000
Advances to suppliers — related party	—	31,718
Prepayments to third parties	16,178	9,657
Other deferred assets	—	947
	<u>55,128</u>	<u>166,916</u>

	As at December 31,	
	2012	2011
	RMB'000	<i>RMB'000</i>
Non-current		
Advances to suppliers — others	2,468	—
Less: provision for impairment of advances to suppliers — others	<u>(2,171)</u>	<u>—</u>
Advances to suppliers — others — net	297	—
Prepayments to third parties	15,882	12,063
Long term VAT recoverable	<u>34,323</u>	<u>19,969</u>
	<u>105,630</u>	<u>198,948</u>
Total	<u>918,997</u>	<u>735,100</u>
Total current	740,180	703,068
Total non-current	<u>178,817</u>	<u>32,032</u>
Total	<u><u>918,997</u></u>	<u><u>735,100</u></u>

(b) **The fair values of trade and other receivables financial assets are as follows:**

	As at December 31,	
	2012	2011
	RMB'000	<i>RMB'000</i>
Trade receivables from PetroChina	223,701	166,204
Trade receivable from other third parties	66,261	44,399
Unbilled receivables from PetroChina	148,086	134,710
Other receivables due from related parties	261,638	160,524
Guaranteed deposit on behalf of Group companies	<u>59,712</u>	<u>—</u>
	759,398	505,837
Other receivables — third parties	<u>53,969</u>	<u>30,315</u>
	<u><u>813,367</u></u>	<u><u>536,152</u></u>

(c) **The aging analysis of trade receivables were as follows:**

	As at December 31,	
	2012	2011
	RMB'000	<i>RMB'000</i>
0–30 days	228,452	197,123
31–180 days	61,478	13,441
over 180 days	<u>32</u>	<u>39</u>
	<u><u>289,962</u></u>	<u><u>210,603</u></u>

As of December 31, 2012 and 2011, there were no trade receivables past due which are impaired.

- (d) The carrying amounts of trade and other receivables are denominated in the following currencies:

	As at December 31,	
	2012	2011
	RMB'000	RMB'000
Renminbi	640,320	364,887
United States Dollars	253,674	348,019
Kazakhstan Tenge	25,003	22,194
	<u>918,997</u>	<u>735,100</u>

- (e) Movements in the provision for impairment of advance to suppliers are as follows:

	As at December 31,	
	2012	2011
	RMB'000	RMB'000
At January 1	1,123	–
Provision for impairment of advance to suppliers	1,052	1,123
Exchange difference	(4)	–
	<u>2,171</u>	<u>1,123</u>

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above. The Group does not hold any collateral as security.

- (f) The Group's trade receivables have credit terms of between 30 days to 60 days.

13 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,	
	2012	2011
	RMB'000	RMB'000
Assets		
Oil hedge options (a)	–	9,151
PEDCO warrants (b)	418	–
	<u>418</u>	<u>9,151</u>
Current portion	<u>418</u>	<u>9,151</u>

	As at December 31,	
	2012	2011
	RMB'000	RMB'000
Liabilities		
Current		
Oil hedge options (a)	–	10,618
	<u>–</u>	<u>10,618</u>
Non-current		
Option to ACAP (c)	67,839	85,157
	<u>67,839</u>	<u>85,157</u>

(a) **Oil hedge options**

- (i) In October 2010, the Group entered into the following oil hedge options with Merrill Lynch Commodities, Inc (“MLCI”) for the years ended December 31, 2011 and 2012:

Contract Period	Monthly Notional Quantity (barrel)	Annual Notional Quantity (barrel)	MIE sold put option at strike price (WTI price per barrel)	MIE bought put option at strike price (WTI price per barrel)
Year ended December 31, 2011	150,000	1,800,000	US\$55.00	US\$70.00
Year ended December 31, 2012	100,000	1,200,000	US\$55.00	US\$70.00

The premium of US\$8.74 million (RMB57.86 million) for the above option was payable over 8 instalments on a quarterly basis from April 2011 (Note 14). All of the oil hedge options with MLCI have expired at December 31, 2012.

- (ii) In October 2011, the Group entered into three separate oil hedge options with the following banks at monthly notional quantity of 60,000 barrel each for year ended December 31, 2012 (or total notional quantity of 720,000 barrels per annum) at zero premium:

Counterparty	The Company bought put option at strike price (IPE Brent price per barrel)	The Company sold call option at strike price (IPE Brent price per barrel)	The Company bought call option at strike price (IPE Brent price per barrel)
JPMorgan Chase Bank. N.A.	US\$60.00	US\$131.00	US\$170.00
Deutsche Bank AG	US\$60.00	US\$131.50	US\$170.00
Standard Bank Plc	US\$60.00	US\$146.00	US\$186.00

All of the oil hedge options with the above three banks have expired at December 31, 2012.

(b) **PEDCO warrants**

In relation to the Group’s acquisition of a 50% capital interest in White Hawk, the Company also obtained a warrant to acquire 500,000 common shares in PEDCO at US\$1.25 per share and a warrant to acquire 500,000 common shares in PEDCO at US\$1.50 per share (both warrants exercisable within two years after date of acquisition) (Note 11). The initial fair value of these PEDCO warrants was approximately RMB418,000.

(c) **Option to ACAP**

The Company has granted Acap Limited (“ACAP”), which is providing general consulting services to the Company in relation to the acquisition of Emir-Oil, LLC, a right to co-invest with the Company or its associates for up to 9.9% of the assets acquired in the acquisition, on the same terms and conditions under the Purchase Agreement within 36 months from the closing of the transaction. The change in fair value of the option to ACAP is recognized in the consolidated statement of comprehensive income.

14 TRADE AND OTHER PAYABLES

(a) Summary of trade and other payables

	As at December 31,	
	2012	2011
	RMB'000	RMB'000
Financial liabilities		
Current		
Trade payables	782,611	687,392
Amount due to related parties	8,353	–
Notes payable (i)	205,526	233,891
Interest payable	34,060	33,689
Derivatives financial instrument premium payable (<i>Note 13</i>)	5,028	25,644
Cash retention (<i>Note 19</i>)	25,142	–
Other payables	45,612	–
	<u>1,106,332</u>	<u>980,616</u>
Non-current		
Derivatives financial instrument premium payable (<i>Note 13</i>)	–	6,843
Trade payables	149,974	103,166
Payable to PEDCO	17,153	–
	<u>1,273,459</u>	<u>1,090,625</u>
Non-financial liabilities		
Current		
Salary and welfare payable (ii)	94,463	108,234
Capital lease liability	439	1,102
Other tax payable	56,325	51,448
Special oil levy	146,892	348,960
Other payables	–	5,242
	<u>298,119</u>	<u>514,986</u>
Non-current		
Capital lease liability	–	349
Withholding tax payable	42,307	–
	<u>340,426</u>	<u>515,335</u>
Total	<u><u>1,613,885</u></u>	<u><u>1,605,960</u></u>
Total current	<u>1,404,451</u>	1,495,602
Total non-current	<u>209,434</u>	110,358
Total	<u><u>1,613,885</u></u>	<u><u>1,605,960</u></u>

- (i) As at December 31, 2012, MIE has a total of 2 effective notes payables agreements with China Construction Bank (“CCB”) amounting to RMB205,526,000 with a term of six months from the date of issuance (“Notes Payables”). The Notes Payables are secured by pledged deposits amounting to RMB41,106,000 which are interest bearing. Under this arrangement, MIE would enter into a notes payables agreement with CCB. Pursuant to the agreement, MIE will issue Notes Payables backed by CCB to certain of its suppliers/service providers to settle equivalent amounts of trade payables. CCB takes on the responsibility of settling the trade payables with the supplier/service provider. Upon maturity of the Notes Payables, MIE will pay CCB for the full amount of the Notes Payables and the pledged deposits will be released by CCB and transferred back to MIE.
- (ii) Stock appreciation rights liabilities of RMB50,517,000 (2011: RMB33,512,000) has been included in salaries and welfare payable for the year ended December 31, 2012.
- (b) At December 31, 2012 and 2011, the ageing analysis of the trade and other payables is as follows:

	As at December 31,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
<6 months	1,134,405	1,299,650
6 months–1 year	341,326	160,788
1–2 years	92,208	123,733
2–3 years	29,868	2,954
>3 years	16,078	18,835
Total	<u>1,613,885</u>	<u>1,605,960</u>

- (c) The carrying amounts of trade and other payables are denominated in the following currencies:

	As at December 31,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Renminbi	1,157,314	1,329,941
United States Dollars	220,638	41,808
Kazakhstan Tenge	235,933	234,211
Total	<u>1,613,885</u>	<u>1,605,960</u>

The carrying amounts of trade and other payables approximate their fair values.

15 BORROWINGS

(a) Summary of borrowings

	Group		Company	
	As at December 31,		As at December 31,	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings				
Non-current (i)	860,161	–	–	–
Current (ii)	60,000	–	–	–
Total bank borrowings	920,161	–	–	–
Senior notes				
Non-current (iii)	2,467,733	2,463,004	2,467,733	2,463,004
Total borrowings	3,387,894	2,463,004	2,467,733	2,463,004
Total current	60,000	–	–	–
Total non-current	3,327,894	2,463,004	2,467,733	2,463,004
Total borrowings	3,387,894	2,463,004	2,467,733	2,463,004

(i) Loan from China Minsheng Bank

On June 18, 2012, MIE obtained a US\$80 million term loan facility from China Minsheng Banking Corporation Limited head office and China Minsheng Banking Corporation Limited Hong Kong Branch (“Minsheng Bank”). The loan has a term of 35 months and bears an interest rate of LIBOR plus 5% per annum, subsequently reduced to LIBOR plus 4.5% in September 2012. The loan is unsecured and guaranteed by the Company. As of December 31, 2012 MIE had drawn down the full amount under the loan.

On December 24, 2012, MIE obtained a US\$100 million term loan from Minsheng Bank. The loan has a term of 35 months and bears an interest rate of LIBOR plus 3.5% per annum. MIE has agreed to secure part of the loan with a charge over MIE’s bank accounts at Minsheng Bank and a pledge of MIE’s entitlement under the Moliqing PSC. As of December 31, 2012, MIE had drawn down US\$60 million under the loan.

Both the US\$80 million loan and US\$60 million loan was repaid subsequent to December 31, 2012 (Note 20).

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

On July 11, 2012, MIE entered into a new RMB60 million 6 months working capital loan agreement with CCB commencing from July 11, 2012. The interest rate is the base rate as published by the People’s Bank of China plus an additional 15% of the base rate. The loan is secured by a pledge on MIE’s oil proceeds from its Moliqing and Miao 3 projects. The loan from CCB was fully repaid on January 11, 2013 (Note 20).

(iii) *Senior Notes*

On May 12, 2011, the Company issued US\$400 million 9.75% senior notes (the “2016 Notes”) due 2016. The 2016 Notes bear coupon rate of 9.75% per annum, payable semi-annually in arrears on May 12 and November 12 of each year, commencing on November 12, 2011. The net proceeds of the issuance of the 2016 Notes, after deduction of underwriting fees, discounts and commissions and other expenses payable in connection with the issuance of the 2016 Notes, amounted to approximately US\$390 million. A portion of the proceeds from the issuance of the Notes was used to repay in full MIE’s US\$200 million credit facility with CITIC Bank. The remaining proceeds were used to finance the Company’s acquisition of Emir-Oil, LLC from BMB Munai, Inc. and for working capital and general corporate purposes. The 2016 Notes were listed on the Singapore Exchange Securities Trading Limited on May 13, 2011.

The 2016 Notes are general obligation of the Company and 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.

The 2016 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 and issue preferred stock, make investment.

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

Period	Redemption Price
2014	104.8750%
2015	102.4375%

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

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

Subsequent to December 31, 2012, the Company further issued senior notes (Note 20).

(b) The 2016 Notes included in the consolidated statement of financial position were calculated as follow:

	Group		Company	
	As at December 31,		As at December 31,	
	2012	2011	2012	2011
	RMB'000	<i>RMB'000</i>	RMB'000	<i>RMB'000</i>
Carrying amount as at January 1,	2,463,004	–	2,463,004	–
Issue of the 2016 Notes	–	2,528,955	–	2,528,955
Amortization of the 2016 Notes	10,840	5,782	10,840	5,782
Exchange difference	(6,111)	(71,733)	(6,111)	(71,733)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Carrying amount of the 2016 Notes as at December 31,	<u>2,467,733</u>	<u>2,463,004</u>	<u>2,467,733</u>	<u>2,463,004</u>

(c) The effective interest rates at the dates of the consolidated statements of financial position are as follows:

	Group		Company	
	As at December 31,		As at December 31,	
	2012	2011	2012	2011
Effective interest rates on US\$80 million Minsheng loan	9.05%	–	–	–
Effective interest rates on US\$100 million Minsheng loan	9.61%	–	–	–
Effective interest rates on CCB loan	6.44%	–	–	–
Effective interest rates on the 2016 Notes	<u>10.91%</u>	<u>10.91%</u>	<u>10.91%</u>	<u>10.91%</u>

(d) 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, 2012 are as follows:

	Group	
	As at December 31,	
	2012	2011
	RMB'000	<i>RMB'000</i>
<1 year	60,000	–
1–2 years	357,321	–
2–5 years	502,840	–
	<u> </u>	<u> </u>
Total borrowings	<u>920,161</u>	<u>–</u>

The 2016 Notes which bear a fixed interest rate of 9.75% is not subject to interest rate changes.

The fair value of the current and non-current portions of borrowings approximates their carrying amounts.

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	As at December 31,		As at December 31,	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Renminbi	60,000	–	–	–
United States Dollars	3,327,894	2,463,004	2,467,733	2,463,004
	3,387,894	2,463,004	2,467,733	2,463,004

16 SHARE CAPITAL

	As at December 31,	
	2012	2011
	<i>'000</i>	<i>'000</i>
Authorized ordinary shares:		
Ordinary shares of US\$0.001 per share	100,000,000	100,000,000
	As at December 31,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid:		
Ordinary shares	17,629	17,627

As at December 31, 2012 and 2011, the total number of authorized shares is 100,000,000,000 ordinary shares with a par value of US\$0.001 each. Each share has one vote.

Issued and fully paid ordinary shares

The details of the issued and fully paid ordinary share capital of the Company for the relevant periods are as follow:

	As at December 31,	
	2012	2011
	RMB'000	RMB'000
Issued and fully paid:		
At January 1, 2011		
2,641,334,000 ordinary shares at US\$0.001 each		17,588
At April 28, 2011		
Issue of 800,000 ordinary shares at US\$0.001 each for exercise of employee stock option		5
At June 9, 2011		
Issue of 900,800 ordinary shares at US\$0.001 each for exercise of employee stock option		6
At August 22, 2011		
Issue of 3,030,904 ordinary shares at US\$0.001 each for exercise of employee stock option		19
At November 4, 2011		
Issue of 1,330,104 ordinary shares at US\$0.001 each for exercise of employee stock option		9
		<u>39</u>
At December 31, 2011		
2,647,395,808 ordinary shares at US\$0.001 each		<u>17,627</u>
At January 1, 2012		
2,647,395,808 ordinary shares at US\$0.001 each	<u>17,627</u>	
At March 6, 2012		
Issue of 444,985 ordinary shares at US\$0.001 each for exercise of employee stock option		2
		<u>2</u>
At December 31, 2012		
2,647,840,793 ordinary shares at US\$0.001 each	<u>17,629</u>	

The above movements have been reflected in the consolidated statements of changes in equity.

17 EQUITY DISTRIBUTIONS

The dividend in respect of the year ended December 31, 2011 of HK\$0.044 per share, amounting to a total dividend of HK\$116,505,000 (RMB95,070,000) was approved at the annual general meeting on May 18, 2012 and was paid on June 15, 2012.

A dividend in respect of the year ended December 31, 2012 of HK\$0.059 per share, amounting to a total dividend of HK\$156,223,000 (RMB126,665,000), is to be proposed at the annual general meeting in May 2013. These financial statements do not reflect this dividend payable.

	2012		2011	
	<i>HK\$'000</i>	<i>RMB'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>
Proposed final dividend of HK\$0.059 (2011: HK\$0.044) per ordinary share	<u>156,223</u>	<u>126,665</u>	<u>116,485</u>	<u>94,435</u>

18 COMMITMENTS AND CONTINGENCIES

(a) Commitments

- (i) The Group does not have any capital expenditure contracted for at the date of the consolidated statement of financial position.

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,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	5,044	4,687
Within 1–2 years	2,843	3,507
Within 2–5 years	<u>1,853</u>	<u>4,304</u>
	<u>9,740</u>	<u>12,498</u>

Lease expenses for the year ended December 31, 2012 relates to office and car rental of RMB13,216,000 (2011: RMB12,565,000).

- (ii) According to the production contracts for 3 blocks in Kazakhstan, the Group is obligated to perform minimum work program during the life of the production contracts.

	As at December 31,	
	2012	2011
	RMB'000	RMB'000
Less than 1 year	514,249	440,808
Within 1–2 years	412,856	420,509
Within 2–5 years	1,377,279	1,294,990
Over 5 years	5,955,974	6,470,097
	<u>8,260,358</u>	<u>8,626,404</u>

- (iii) The Group has commitment to provide funding if called by SGE in accordance with the 2013 annual budget as approved by the Board of Directors of up to US\$72.11 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. In 2000, MIE began the trial-development phase of its operations at Luojiayi 64 block at Shengli 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 Shengli. 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 US\$2 million under the PSC. MIE believes its investment in the project at Luojiayi 64 block 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.

19 BUSINESS COMBINATION

On November 21, 2012, the Company and Sunwing entered into an agreement pursuant to which the Company agreed to purchase and Sunwing agreed to sell all of the issued and outstanding shares in PCR.

The acquisition has been completed on December 14, 2012 for an adjusted purchase price of approximately US\$39.6 million, of which US\$4 million has been withheld and will be delivered within 180 days after the closing. The Company assumed controlled of PCR on December 31, 2012.

The Group pursues exploration, development and production opportunities in the PRC and internationally, both independently and in partnership with other major and independent oil companies. The acquisition allows the Company to leverage its position in the PRC to better develop and more efficiently produce under another production sharing contract with PetroChina. Pursuant to a production sharing contract with PetroChina, PCR holds 100% participating interest in the foreign contractor's entitlement and obligations. The production sharing contract, originally signed in 1997 with a maximum term of 30 years, has been in the commercial production phase since 2009 and covers an area of 31.29 square kilometres named Kongnan block within Dagang oil field in Hebei province. PCR can conduct oil development and production operations in the contracted area and share in the production of crude oil with PetroChina after the successful development of oil reserves.

The following table summarizes the consideration paid for PCR, using the fair value of assets acquired and liabilities assumed at the date the Group assumed control.

	<i>RMB'000</i>
Consideration at December 31, 2012	
Cash paid at completion	223,559
Cash retention amount to be paid in 180 days after closing (<i>Note 14</i>)	<u>25,142</u>
Total consideration	<u>248,701</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	9,239
Property, plant and equipment	217,957
Intangible assets	57,197
Trade and other receivables	23,835
Trade and other payables	(38,907)
Current income tax liabilities	(897)
Deferred tax liabilities	<u>(26,251)</u>
Total identifiable net assets	<u>242,173</u>
Goodwill arising from acquisition of PCR	<u><u>6,528</u></u>
Cash consideration paid	223,559
Cash and cash equivalents of PCR at date of acquisition	<u>(9,239)</u>
Acquisition of PCR, net of cash acquired	<u><u>214,320</u></u>

Acquisition-related costs of RMB23,602,000 have been charged to administrative expenses in the consolidated income statement for the year ended December 31, 2012.

Had PCR been consolidated from January 1, 2012, the consolidated income statement would show pro-forma revenue of RMB3,708,760,000 and pro-forma net profit of RMB574,384,000. The consolidated revenue and profit, assuming PCR has been consolidated from January 1, 2012, have included additional amortization of mining rights and oil and gas properties recognized on acquisition.

20 EVENTS AFTER THE BALANCE SHEET DATE

Issue of US\$200 million senior notes

On February 6, 2013, the Company issued US\$200 million 6.875% 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 of each year, commencing on August 6, 2013. The net proceeds of the issuance of the 2018 Notes, after deduction of discounts, fees, commissions and other expenses payable in connection with the issuance of the 2018 Notes, amounted to approximately US\$195 million. A substantial portion of the proceeds from the issuance of the Notes was used to repay all of MIE’s existing indebtedness to Minsheng Bank. The remaining proceeds will be used for capital expenditures, working capital and general corporate purposes of the Group. The 2018 Notes were listed on the Singapore Exchange Securities Trading Limited on February 7, 2013.

The 2018 Notes are general obligation of the Company and senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the 2018 Notes.

The 2018 Notes and the guarantees provided by certain subsidiaries will limit the ability of the Company and certain of its subsidiaries to, among other things (and subject to certain qualifications and exceptions), incur additional indebtedness, issue preferred stock and make investment.

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

Period	Redemption Price
2016	103.4375%
2017	101.7188%

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

Repayment of RMB60 million loan from CCB and new loan of RMB60 million from CCB

On January 11, 2013, MIE repaid to CCB the RMB60 million 6 month working capital loan entered into with CCB in July 11, 2012 (Note 15). On January 25, 2013, MIE entered into a facility agreement for a new RMB60 million working capital loan for 6 months commencing on January 25, 2013. 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 Gobi Energy Limited and Riyadh Energy Limited.

Repayment of US\$80 million loan and US\$60 million loan from Minsheng Bank

On March 19, 2013, MIE repaid the US\$80 million loan and US\$60 million loan from Minsheng Bank.

Emir oilfield production licence in Kazakhstan

In March 2013, the Group signed its fourth production contract with the Ministry of Oil and Gas of the Republic of Kazakhstan for Emir oilfield, covering an area of 3.53 square kilometers with a term of 17 years. The minimum commitment of the Group is approximately US\$25 million under the work program for the term of the production contract.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

During 2012 the Company continued to leverage its strengths to achieve high growth and to decrease risk. We increased crude oil production from 4.06 million barrels to 5.23 million barrels mainly through drilling on core properties in Northeast China and drilling of new wells plus workover of old wells on the Emir-Oil properties acquired in 2011. Annual growth rates for our Northeast China properties and Emir-Oil were 8.4% and 32.5%, respectively.

The face of the Group is starting to change as we diversify our asset portfolio, our geographical distribution and advance our technology. On the asset portfolio, we acquired 51% of SGE and with it, significant gas reserves and resources in China's Ordos Basin, where in the second half of 2012 we conducted significant exploration work, continuing the process of upgrading these resources into reserves and soon, into production. We finished out the year in 2012 by acquiring PCR and its Dagang PSC, so we now operate in three separate petroleum basins in China. On the geographical diversification, our Emir-Oil properties in Kazakhstan are gaining in importance to our original three Northeast China properties, through their higher rate of production growth and by recent discoveries of new reserves. Drilling three horizontal wells as an operator in the Niobrara oil shale play is also adding to our leasehold positions in the USA. We are also advancing our technology base by drilling and completing with multi-stage fracturing 3 horizontal wells in the USA and 4 in China — moving up the learning curve of successfully applying this industry-changing technology to our existing properties and using it to expand our future growth opportunities in China and internationally. The acquisition and drilling activities in the year have added significantly to our reserves and resources and thereby to our future growth potential. The Company's risk profile has also been decreased by the multifaceted diversification. All these changes have transformed the Company from a Northeast China, tight-oil development company into a true international exploration and production, independent oil and gas company.

The Acquisitions

The Company completed three acquisitions in 2012:

- In July 2012, the Company acquired 51% equity interest in SGE, whose principal business activity is the exploration and development of unconventional gas in China pursuant to two PSCs, namely Linxing and Sanjiaobei PSCs, both located on the eastern flank of the Ordos Basin. The consideration of the acquisition is US\$100 million with US\$10 million paid at completion and the balance payable progressively after completion to fund exploration, delineation drilling, preparation of Chinese reserve reports and related overall development plans of both PSCs. With the two PSCs of great potential, the acquisition provides a clear path for the Company to immediately participate in China's unconventional gas market, aligning the Company for more effective future participation in the rapidly expanding exploration and development of China unconventional gas resources. During the second half of 2012, exploration success continued as we drilled 12 wells in these two PSCs' contract area, adding to the 13 wells drilled previously. Combined with successful completion of the 270 km seismic program, SGE is well positioned to move these projects from final exploration phase into development and production phase.

- The acquisition of all of the issued and outstanding of PCR shares from Sunwing Energy Limited was completed on December 14, 2012 for an adjusted purchase price of approximately US\$39.6 million. The principal business activity of PCR is oil development and production operations in China. Pursuant to a PSC with PetroChina, PCR holds 100% participating interest in the foreign contractor's entitlement and obligations. The PSC, originally signed in 1997 with a maximum term of 30 years, has been in the commercial production phase since 2009, currently covering an area of 31.29 square kilometers named Kongnan block within Dagang oil field in Hebei Province. As of December 31, 2012, the estimated net proved ("1P") and proved + probable ("2P") reserve for PCR were 1.50 million barrels and 2.04 million barrels respectively. The average daily production for 2012 was 854 barrels per day. Through this acquisition, the Group has obtained ongoing stable cash flow directly from the producing assets held by PCR.
- In May 2012, the Company, through its wholly owned subsidiary MIE Jurassic Energy Corporation, acquired 50% capital interest in White Hawk Petroleum, LLC ("White Hawk") from Pacific Energy Development Corporation ("PEDCO") for US\$2 million. White Hawk is a newly formed Nevada LLC whose assets consist of a minority, non-operated interest in the Leighton — Mandurah Prospect Deep Contract Area in the Eagle Ford Shale oil trend, McMullen County, Texas. White Hawk has a 7.939% working interest and a 5.95425% net revenue interest covering 1,330.75 gross acres and including three existing producing wells. Undeveloped acreage has room for 14 additional wells based on eighty-acre spacing. The acquisition will improve the Company's operating and technical expertise in regard to horizontal drilling and completions by participating in another of the USA's most active gas/oil shale plays.

Operations Activities

The Company drilled 455 gross wells in 2012, including its first exploration well and first horizontal well. All 18 explorations wells are either put on production, being tested or to be tested. Out of these 18 explorations wells, 12 were drilled by SGE in the Ordos Basin in China, 3 were drilled by Emir-Oil in the Mangistau Basin in Kazakhstan, and 3 by Condor Energy Technology LLC ("Condor") in the Niobrara oil shale. There were no dry holes drilled in 2012, which marks a great success of our exploration activities.

We commenced horizontal drilling both in the USA and China in 2012. The Company operated 8 horizontal wells and participated in a successfully completed USA Eagle ford horizontal well through White Hawk. Of the 8 horizontal wells we drilled as an operator, 5 are in northeast China and 3 are already producing as completed horizontal multi-stage fractured wells. We drilled the remaining 3 horizontal wells in the USA's Niobrara oil shale and all three wells were successfully completed and on production in 2012 or early 2013. We successful completed 431 development wells, 5 in Kazakhstan and 426 in Northeast China. Our 2012 drilling program demonstrates our effective management and experienced technical ability to move the Group forward quickly into different petroleum basins in different countries, keeping in mind our commitment to take advantage of low-cost, low-risk opportunities.

At 2012 yearend, the Group's already significant reserves and resource base had improved considerably due to our active acquisition and drilling activities, with 1P, 2P and 3P oil reserves of 51, 114 and 169 million barrels, respectively and corresponding gas reserves of 65, 177 and 337 billion cubic feet. For 1P and 2P, 54% and 35% of the oil is classified as proved developed producing, respectively, and for gas the corresponding percentages are 13% and 7%. These percentages indicate potential to increase production though developing the remainder of the identified reserves. We do take note of the drop in 1P oil reserves estimate by 12 million barrels in Northeast China in response to production and performance adjustments. We also note that the adjustment does not include production or reserves that will be brought by the horizontal drilling now being tested and optimized in Northeast China. With this adjustment the reserve consultant's 2P, 2013 production projection is now nearly the same as our own plan for 2013. Also, these Northeast China projects will continue to be a significant source of cash for our expansion into other basins in 2013. On a 2P and 3P basis, our successful exploration and development wells in Kazakhstan and USA, combined with our acquisitions, more than offset production.

In summary the change from 2011 to 2012 for oil for 1P, 2P and 3P was down 9.5 million barrels or 16%, up 3.0 million barrels or 3% and up 29.9 million barrels or 22%, respectively. For gas 1P, 2P and 3P all increased by 35 billion cubic feet or 121%, 114 billion cubic feet or 180% and 244 billion cubic feet or 261%. The significant growth in gas reserves is primarily due to our recent SGE acquisition.

The Company has additional potential to grow significantly through upgrading its large volumes of prospective and contingent resources. Our independent reserve consultants estimated that at yearend 2012 our total prospective, best estimate, un-risked resources for oil and gas were 206 million barrels and 922 billion cubic feet. It is estimated that our 2C, mid-case contingent resources were 43 million barrels and 686 billion cubic feet. The portions of oil prospective and contingent resources due to 2011 and 2012 acquisitions are 90% and 80%, respectively. Gas prospective and contingent resources are 100% attributable to the acquisitions made in 2011 and 2012.

Highlights of our operations activities in 2012 include:

- The total annual gross production of Northeast China projects (Daan, Moliqing and Miao 3) has surpassed a major milestone of one million tons of crude oil by reaching 1.01 million tons (7.5 million barrels) in 2012, making these projects one million ton class oilfields.
- The Northeast China projects, our most important producing assets, contributed roughly 80% of the oil production, sales revenue and operation cash flow for the Group. We continue to improve our technologies such as horizontal drilling and our management expertise to enhance the project performance. We are confident that horizontal drilling has the potential to significantly improve production, recovery factor and reserves for low permeability oilfields like Daan, Moliqing and Miao 3.

- We are seeing the benefits and potential of our 2011 acquisition of Emir-Oil:
 - By adding 8 wells to the 24 wells that had been drilled prior to when we took over in September 2011, including 3 exploration wells and 5 development wells. Good production rates are being realized by new development wells Kariman-118 and Kariman-119, 1 exploration well has been production tested successfully, and the testing for 2 other exploration wells with good logs and shows is underway.
 - By a new production contract as in March 2013, when the Ministry of Oil and Gas of Kazakhstan (“MOG”) awarded a production contract for the Emir oilfield. According to the independent technical consultant, the estimated contingent oil and gas resources of Emir oilfield were 34 million barrels and 5.1 billion cubic feet respectively as of December 31, 2012.
 - By obtaining MOG’s approval to extend Emir-Oil’s exploration contract for another two years to January 9, 2015, allowing more time to continue appraising the 808 square kilometers exploration contract area and to explore more of the opportunities already identified on in the exploration contract area and included in the 185 million barrels of prospective resources in the yearend 2012 resources report.
 - By increasing oil production significantly compared to the production rate when we took over Emir-Oil in 2011. The average daily oil and gas production was 2,787 barrels per day and 4.4 MMscf per day respectively in 2012, increased by 32.7% and 29.4% compared to those rates in September 2011.
- As of December 31, 2012, we operated 2,610 gross productive wells comprising 2,580 wells in China and 30 wells in Kazakhstan and 1 well in the USA.

In China, we sell our oil to PetroChina at Daqing price and CINTA price; in Kazakhstan, we export 89.4% of our oil at the Brent price. Since the beginning of this year, Brent has been trading at US\$106.23 to US\$119.03 per barrel and Daqing has been trading at US\$103.61 to US\$117.54 per barrel. The Company believes that the trend for strong oil price will continue in 2013.

The aggregate average realized oil price for the Company was US\$108.10 per barrel for the year ended December 31, 2012, compared to US\$108.80 per barrel for the year ended December 31, 2011. For our China oilfields, the average realized oil price was US\$113.51 per barrel for the year ended December 31, 2012, compared to US\$109.99 per barrel for the year ended December 31, 2011. For Kazakhstan our average realized oil price was US\$85.91 per barrel for the year ended December 31, 2012, compared to US\$84.38 for the three months ended December 31, 2011 that we controlled Emir-Oil, both after taking into consideration the transportation and marketing discount and domestic sales.

Lifting cost was US\$8.35 per barrel for the year ended December 31, 2012, of which lifting cost was US\$8.60 per barrel for our China oilfields and US\$7.32 per barrels for our Kazakhstan oilfields respectively.

Considering that the performance of 2012 was still in line with the management’s expectation, the Board recommended the payment of a final dividend of HKD0.059 per share.

For 2013 the Company will 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 reserve and resources into cash flow.

2013 Guidance

Based on the Company's current plans and expectations, we summarize our target number of gross wells, net investment and net production for the year 2013 (subject to reasonable assumptions) as follows:

	Number of Wells (Gross)	Net Investment (millions of US\$)	Net Production	Comments
MIE in Total	138	309	14,300–15,400 BOPD 4,300–5,100 Mcfd	Assumed the Brent oil price is US\$110/barrels
NE China (Daan, Moliqing, Miao 3)	95	98	9,300–9,800 BOPD	Includes more horizontal wells, will control costs carefully, key area with good, stable, long-term free cash flow. 3% decrease in gross production due to lower wells drilled, and 17% decrease in net production due to lower investment means less cost recovery oil and more profit share oil (lower effective net interest), but more free cash generated.
Kazakhstan (Emir-Oil)	11	125	3,800–4,400 BOPD 4,200–4,800 Msfd	Start to build central oil & gas collection facility and with it, the process capacity for oil will be increased from current level of 6,480 BOPD to 12,000 BOPD, for gas from 5.25 MMscf per day to 21 MMscf per day. And the bottleneck to ram up Emir-Oil's production will be removed.
NW China (SGE: Sanjiaobei and Linxing)	25	65	100–300 Mcfd	Gas sales estimated to begin 4Q13, preparing the China Reserve Report on Linxing East and Sanjiaobei and estimate to finalize in late 2013.
USA (Condor and White Hawk)	5	10	300 BOPD	2 on Condor, 3 on White Hawk (non-operated).
North China (PCR: Dagang)	2	11	900 BOPD	

FINANCIAL RESULTS

Revenue

The Group's revenue increased by RMB658.5 million, or 23.3 %, from RMB2,827.1 million for the year ended December 31, 2011 to RMB3,485.6 million for the year ended December 31, 2012. This increase was primarily due to the increase in our sales volume mainly contributed by our Kazakhstan oilfields.

The average realized oil price was US\$108.10 per barrel for the year ended December 31, 2012, compared to US\$108.80 per barrel for the year ended December 31, 2011. Our sales volume of crude oil was 5.09 million barrels for the year ended December 31, 2012, compared to 4.03 million barrels for the year ended December 31, 2011.

- *China*

In 2012, our China oilfields realized revenue of RMB 2,924.7 million. The average realized oil price was US\$113.51 per barrel for the year ended December 31, 2012, compared to US\$109.99 per barrel for the year ended December 31, 2011. Our China sales volume was 4.08 million barrels for the year ended December 31, 2012, compared to 3.84 million barrels for the year ended December 31, 2011. Since the acquisition of PCR was not completed until December 14, 2012, the results of PCR have not been included in the Group's results for the year ended December 31, 2012.

- *Kazakhstan*

In 2012, Emir-Oil realized revenue of RMB557.1 million. In the year ended December 31, 2011 we controlled Emir-Oil only for three months, therefore revenue contributed by Emir-Oil was only RMB103.5 million.

- (a) *Crude oil sales*

In 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 for the year ended December 31, 2012. The average realized oil price for the year ended December 31, 2012 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. The increase in domestic realized oil price of US\$50.65 per barrel in 2012 compared to US\$31.02 per barrel in 2011 is because we started to sell to PetroChina Kazakhstan in 2012 using our relationships with China's state-owned oil companies. Revenue from export sales of oil accounted for 93.7% of Emir-Oil's total oil revenue during the twelve months ended December 31, 2012. Emir-Oil's oil sales volume was 1,006,680 barrels for the twelve months ended December 31, 2012, comprising 899,797 barrels from export sales and 106,883 barrels from domestic sales.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil realized revenue from oil sales of RMB100.3 million. Emir-Oil exported 90% 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\$84.38 per barrel. The average realized oil price was US\$90.01 per barrel from export sales (after transportation and marketing commissions of US\$20.22 per barrel) and US\$31.02 per barrel from domestic sales. Revenue from export sales of oil accounted for 96% of Emir-Oil's total oil revenue. Emir-Oil's oil sales volume was 187,912 barrels, comprising 169,984 barrels from export sales and 17,928 barrels from domestic sales.

(b) *Gas sales*

In 2012, Emir-Oil realized revenue from gas sales of RMB11.3 million with a realized gas price of US\$1.17 per Mscf and a gas sales volume 1,526,434 Mscf. During the three months ended December 31, 2011, Emir-Oil realized revenue from gas sales of RMB3.2 million with a realized gas price of US\$1.15 per Mscf and a gas sales volume 439,670 Mscf.

Operating expenses

The Group's operating expenses increased by RMB632.8 million, or 36.6%, from RMB1,728.0 million for the year ended December 31, 2011 to RMB2,360.8 million for the year ended December 31, 2012, primarily due to inclusion of full 12 months of operating expenses from our Kazakhstan oilfields, increase in depreciation, deletion and amortization in China as a result of the increase in sales volume and the fluctuation in reserves, higher employee compensation costs in China, and higher taxes other than income taxes in Kazakhstan which was offset by a decrease in taxes other than income taxes in China.

China's operating expenses for the year ended December 31, 2012 amounted to RMB1,764.0 million, an increase of RMB250.6 million or 16.6% over operating expenses of RMB1,513.4 million for the year ended December 31, 2011.

Emir-Oil's operating expenses for the year ended December 31, 2012 amounted to RMB487.8 million. For the three months ended December 31, 2011, Emir-Oil's operating expenses amounted to RMB111.0 million since we completed the acquisition of Emir-Oil on September 30, 2011.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB93.2 million, or 50.2%, from RMB185.5 million for the year ended December 31, 2011 to RMB278.7 million for the year ended December 31, 2012. The increase in purchase, service and other expenses was primarily due to: (i) inclusion of full 12 months of Emir-Oil's purchases, services and other expenses amounting to RMB72.8 million, (but for the year ended December 31, 2011, during the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's purchases, services and other expenses only amounted to RMB17.6 million); (ii) sales volume for our China oilfields increased from 3.84 million barrels for the year ended December 31, 2011 to 4.08 million barrels for the year ended December 31, 2012; (iii) increase in electricity expense due to more productive wells and higher unit electricity fee for our China oilfields; (iv) we incurred higher research fees for our China oilfields in 2012; and (v) increase in number

of older productive wells for our China oilfields resulting in the increase in down hole operating costs, repair and maintenance costs, logging & well testing fee and safety fee expenses. For China oilfields excluding kongnan block of PCR, we operated 2,001 productive wells as at December 31, 2011 and 2,470 productive wells as at December 31, 2012 (numbers include producers and injectors, but exclude shut in wells).

- *Geological and geophysical expenses.* During the year ended December 31, 2012, the Group incurred geological and geophysical expenses in Kazakhstan and USA of RMB18.7 million and RMB4.2 million, respectively, in relation to their exploration and development wells. In the past, the Group did not have any exploration wells.
- *Employee compensation costs.* The Group's employee compensation costs increased by RMB72.4 million, or 36.7%, from RMB197.1 million for the year ended December 31, 2011 to RMB269.5 million for the year ended December 31, 2012. The increase in employee compensation costs was primarily due to: (i) share-based compensation cost increased from RMB18.0 million for the year ended December 31, 2011 to RMB86.1 million for the year ended December 31, 2012 mainly due to the share options we granted in September 2011; (ii) inclusion of full 12 months of Emir-Oil's employee compensation costs amounting to RMB47.4 million (but for the year ended December 31, 2011, during the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's employee compensation costs only amounted to RMB15.6 million).
- *Depreciation, depletion and amortization.* The Group's depreciation, depletion and amortization increased by RMB319.4 million, or 58.9%, from RMB542.0 million for the year ended December 31, 2011 to RMB861.4 million for the year ended December 31, 2012. The increase in depreciation, depletion and amortization was mainly due to (i) higher unit of production rate caused by the 14.0% reduction in proved and probable developed producing reserves in China oilfields. The Group calculates depreciation, depletion and amortization of its oil and gas production based on proved and probable developed producing reserves; (ii) inclusion of full 12 months of Emir-Oil's depreciation, depletion and amortization amounting to RMB115.8 million (but for the year ended December 31, 2011, during the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's depreciation, depletion and amortization amounted to RMB28.1 million); and (iii) the increase in sales volume in 2012.

Included in depreciation, depletion and amortization expense of RMB861.4 million for the year ended December 31, 2012 is RMB40.2 million of depreciation, depletion and amortization expense in relation to the amortization of intangible mining rights. In the year ended December 31, 2011, the Group had to recognize a one-time fair value non-cash gain arising from the acquisition of Emir-Oil, LLC of RMB460.3 million which is mainly caused by recognition of an intangible asset being mining rights with a fair value of RMB577.3 million for the acquisition in order to comply with IFRS accounting standards. This intangible asset is depreciated using units-of-production method based on proved and probable developed producing reserves. Given that this amortization expense of RMB40.2 million is required because we had to write-up intangible assets by the fair value of RMB577.3 million during the acquisition of Emir-Oil in 2011 to comply with IFRS accounting standards, and such amortization expense is not related to operations of oil and gas properties, therefore this amortization expense should not be considered as a cost of operations.

- *Distribution and administrative expenses.* The Group's distribution and administrative expenses increased by RMB29.1 million, or 23.9%, from RMB121.8 million for the year ended December 31, 2011 to RMB150.9 million for the year ended December 31, 2012. The increase in distribution and administrative expenses was primarily due to: (i) we acquired PCR in 2012 and incurred professional fee and other related expenses of RMB18.3 million which were recorded in administrative expenses; (ii) inclusion of 12 months of administrative expenses amounting to RMB6.6 million for Condor's operation in USA (but for the year ended December 31, 2011, Condor's administrative expenses only amounted to RMB1.2 million since the acquisition was completed in October 2011); (iii) the Group incurred more business travel expenses due to the business expansion.

During the year ended December 31, 2012, Emir-Oil's administrative expenses amounted to RMB5.6million.

- *Taxes other than income taxes.* The Group's taxes other than income taxes increased by RMB160.2 million, or 24.4%, from RMB656.8 million for the year ended December 31, 2011 to RMB817.0 million for the year ended December 31, 2012. The following table summarizes taxes other than income taxes for the years ended December 31, 2012 and December 31, 2011:

	Year ended December 31,	
	2012	2011
	RMB'000	RMB'000
China		
Special oil levy	524,391	595,368
Urban construction tax and education surtax	15,611	13,825
Others	294	–
	<u>540,296</u>	<u>609,193</u>
Kazakhstan		
Rent export tax	135,150	25,458
Mineral extraction tax	34,984	6,699
Rent export duty expenditures	29,876	5,527
Property tax	24,420	7,549
Social liability expense	2,925	2,340
	<u>227,355</u>	<u>47,573</u>
Others		
Withholding tax	49,321	–
	<u>49,321</u>	<u>–</u>
	<u>816,972</u>	<u>656,766</u>

The increase in taxes other than income taxes is mainly due to the increase from Kazakhstan operation. For the year ended December 31, 2012, inclusion of full 12 months of Emir-Oil's operation resulted in taxes other than income taxes amounting to RMB227.4 million (but for the year ended December 31, 2011, during the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's taxes other than income taxes amounted to RMB47.6 million). We need to pay rent export tax, mineral extraction tax, rent export duty expenditure and property tax in our Kazakhstan operation given that Kazakhstan operation does not require a PSC structure to share oil produced with state-owned oil and gas companies or the government (unlike our operations in China).

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% 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 US\$40 per metric tonne or US\$5.35 per barrel multiplied by volume of export oil sales.

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.

Others

Withholding tax represents accrual of withholding tax on interest charged on intercompany loans. However, there is no set period for payment of interest between Group companies which will trigger the payments of withholding tax.

The increase in the Group's taxes other than income taxes is partially offset by the decrease in special oil levy for the China operation. Although China's average realized oil price increased from US\$109.99 per barrel for the year ended December 31, 2011 to US\$113.51 per barrel for the year ended December 31, 2012 and sales volume increased from 3.84 million barrels for the year ended December 31, 2011 to 4.08 million barrels for the year ended December 31, 2012, China's taxes other than income taxes decreased in 2012 because the Ministry of Finance of the People's Republic of China issued a notice regarding the increase of the threshold of the special oil levy from US\$40 to US\$55 per barrel (Cai Qi 2011 No.480) paid by crude oil producers with effect from November 2011.

- *Other (losses) income.* The Group had other income of RMB39.5 million for the year ended December 31, 2012, compared to other losses of RMB24.9 million for the year ended December 31, 2011. Other income for the year ended December 31, 2012 arose primarily due to the non-cash unrealized gain of RMB17.3 million from changes in fair value of option granted by the Company to Acap Limited and consulting fee income of RMB17.5 million. Other losses for the year ended December 31, 2011 arose primarily from a non-cash unrealized loss of RMB32.2 million from changes in fair value of the oil hedge options. At December 31, 2012, all the oil hedge options expired.

Profit from operations

The Group's profit from operations increased by RMB25.6 million, or 2.3%, from RMB1,099.2 million for the year ended December 31, 2011 to RMB1,124.8 million for the year ended December 31, 2012. This increase was primarily due to an increase in revenue, partially offset by the increase in depreciation, depletion and amortization, taxes other than income taxes, purchase, services and others and employee compensation cost.

Finance income/(costs), net

The Group's net finance cost increased by RMB119.7 million, or 74.9%, from RMB159.8 million for the year ended December 31, 2011 to RMB279.5 million for the year ended December 31, 2012.

Finance income decreased from RMB74.7 million for the year ended December 31, 2011 to RMB5.8 million for the year ended December 31, 2012. The decrease in finance income was primarily due to exchange gains of RMB70.7 million for the year ended December 31, 2011 caused by the appreciation of the Renminbi against the US dollar in 2011 and our borrowings being denominated and settled in US dollars. The Renminbi remained relatively stable in 2012.

Finance cost increased RMB50.8 million or 21.7% from RMB234.5 million for the year ended December 31, 2011 to RMB285.3 million for the year ended December 31, 2012. Included in finance costs for the year ended December 31, 2011 are one-off costs associated with the early repayment of the US\$200 million LIBOR + 4.5% CITIC bank loan ("US\$200 Million CITIC Loan") totaling RMB38.7 million. In May 2011, the Company issued the US\$400 million 5-year senior notes with 9.75% annual coupon rate ("2016 Notes") to finance the acquisition of Emir-Oil and to repay the US\$200 Million CITIC Loan resulting in an early repayment penalty of US\$1 million (RMB6.8 million), waiver fee of US\$0.4 million (RMB2.6 million) and write-off of unamortized non-cash costs of RMB29.3 million. For the year ended December 31, 2011, finance costs included interest expense of the 2016 Notes from May 2011 to December 2011, interest expense on the US\$200 Million CITIC Loan from January 2011 to May 2011, and the one-off costs associated with the early repayment of the US\$200 Million CITIC Loan of RMB38.7 million.

For the year ended December 31, 2012, finance costs increased primarily due to: (i) full 12 months of interest expenses for the 2016 Notes; (ii) we borrowed US\$80 million at LIBOR+4.5% and US\$60 million at LIBOR+3.5% from China Minsheng Banking Corporation Limited head office and China Minsheng Banking Corporation Limited Hong Kong Branch

(“Minsheng”) in 2012. The effective interest rates of these two Minsheng loans are 9.05% per annum and 9.61% per annum, respectively; (iii) we took on a RMB50 million six-months working capital bank loan from China Construction Bank (“CCB”) in January 2012 which was repaid on July 16, 2012. In July, 2012, we took a RMB60 million six-months working capital bank loan from CCB which was repaid in January 2013. The effective interest rates of these two six-months working capital CCB loans are 7.015% per annum and 6.44% per annum, respectively.

Gain arising from acquisition of Emir-Oil

For the year ended December 31, 2011, the Group recorded a one-time fair value non-cash gain arising from acquisition of Emir-Oil of RMB460.3 million to comply with IFRS accounting standards. The recognition of this one-time fair value non-cash gains also required recognition of an intangible asset being mining rights with a fair value of RMB577.3 million which must be amortized commencing the year ended December 31, 2012.

Share of loss of jointly controlled entities

The Group acquired a 50% interest in White Hawk and 51% interest in SGE in 2012. The Group’s share of loss of jointly controlled entities totaled RMB8.3 million for the year ended December 31, 2012, and comprise RMB1.0 million share of profit from White Hawk and RMB9.3 million share of loss of SGE.

Profit before income tax

The Group’s profit before income tax decreased by RMB562.8 million, or 40.2%, from RMB1,399.8 million for the year ended December 31, 2011 to RMB837.0 million for the year ended December 31, 2012. This decrease was primarily due to the cumulative effects of the above factors, and in particular, the inclusion of the one-time fair value non-cash gain arising from the acquisition of Emir-Oil of RMB460.3 million included in the year ended December 31, 2011. After excluding the one-time fair value non-cash gain arising from the acquisition of Emir-Oil of RMB460.3 million, the Group’s profit before income tax for the year ended December 31, 2011 would be RMB939.5 million. After taking into consideration the exclusion of the one-time fair value non-cash gain of RMB460.3 million, the Group’s profit before income tax decreased by RMB102.5 million or 10.9% from RMB939.5 million for the year ended December 31, 2011 to RMB837.0 million for the year ended December 31, 2012.

Income tax expense

The Group had income tax expense of RMB293.9 million for the year ended December 31, 2011, compared to income tax expense of RMB295.8 million for the year ended December 31, 2012. The effective tax rate for the year ended December 31, 2012 is 35%. The effective tax rate for the year ended December 31, 2011 was 21%, but after adjusting for non-taxable the one-time fair value non-cash gain of RMB460.3 million, the effective tax rate was 31%.

Net profit for the year

As a result of the foregoing, our net profit for the year decreased by RMB564.5 million, or 51.0%, from RMB1,105.8 million for the year ended December 31, 2011 to RMB541.3 million for the year ended December 31, 2012. However, net profit for the year ended December 31, 2011 includes a one-time fair value non-cash gain arising from the acquisition of Emir-Oil of RMB460.3 million. After excluding the one-time fair value non-cash gain of RMB460.3 million, the Group's net profit for the year ended December 31, 2011 is RMB645.5 million. After taking into consideration the exclusion of the one-time fair value non-cash gain of RMB460.3 million, the Group's net profit decreased by RMB104.2 million or 16.1% from RMB645.5 million for the year ended December 31, 2011 to RMB541.3 million for the year ended December 31, 2012.

Adjusted net profit is net profit for the year adjusted for items included in determining Adjusted EBITDA. Adjusted net profit reflects the Group's net income adjusted for non-cash and non-recurring items. The adjusted net profit decreased by RMB22.0 million, or 3.0%, from RMB729.7 million for the year ended December 31, 2011 to RMB707.7 million for the year ended December 31, 2012.

During the 2nd half of 2012, Emir-Oil's operations have significantly turned around. During the 1st half of 2012, Emir-Oil recorded a profit from operation of RMB6.6 million, a loss before income tax of RMB17.0 million and a net loss of RMB14.0 million. In the 2nd half of 2012, Emir-Oil's operations have completely turned around to record a full year's profit from operation of RMB69.3 million, profit before income tax of RMB70.1 million and net profit of RMB42.3 million.

EBITDA and Adjusted EBITDA

We provide a reconciliation of EBITDA and adjusted EBITDA to net profit for the year, our most directly comparable financial performance calculated and presented in accordance with IFRS. EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude non-cash items such as share-based compensation expense, realized and unrealized loss/(gain) on the oil hedge options, gain arising from acquisition of Emir-Oil, loss on impairment of receivables, write-off of inventory, loss on disposal of property, plant and equipment and intangible assets, expenses related to the issuance of senior notes given these expenses are related to financing activities, and any other non-recurring items such as acquisition expenses and geological and geophysical expenses.

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, 2012 and December 31, 2011:

	Year Ended December 31,	
	2012	2011
	RMB'000	RMB'000
Net profit for the year	541,272	1,105,842
Income tax expenses	295,765	293,909
Finance income	(5,797)	(74,728)
Finance cost	285,307	234,482
Depreciation, depletion and amortization	861,367	542,002
	<u>1,977,914</u>	<u>2,101,507</u>
EBITDA		
Withholding tax on interest accrued for intercompany loans	49,321	–
Share-based compensation expenses	86,066	18,042
Write off of inventory	1,430	–
(Gain)/Loss on oil hedge options	(1,487)	32,137
Gain arising from acquisition of Emir-Oil	–	(460,345)
Loss on disposal of property, plant and equipment	862	1,089
Impairment of trade and other receivables	1,052	–
Gain from changes in fair value of option to ACAP	(17,317)	–
Option granted to Essentia	5,341	–
Other acquisition expenses	18,261	8,760
Geological and geophysical expense	22,922	–
Expenses related to issuance of senior notes	–	24,127
	<u>2,144,365</u>	<u>1,725,317</u>
Adjusted EBITDA		

The Group's EBITDA decreased by approximately RMB123.6 million, or 5.9%, from approximately RMB2,101.5 million for the year ended December 31, 2011 to approximately RMB1,977.9 million for the year ended December 31, 2012. The decrease was primarily due to inclusion of the one-time fair value non-cash gain arising from acquisition of Emir-Oil of RMB460.3 million for the year ended December 31, 2011. After excluding the one-time fair value non-cash gain of RMB460.3 million, the Group's EBITDA for the year ended December 31, 2011 should be RMB1,641.2 million, which would result in an increase in the Group's EBITDA for the year ended December 31, 2012 by RMB336.7 million, or increase of 20.5%.

The Group's adjusted EBITDA increased by approximately RMB419.1 million, or 24.3%, from approximately RMB1,725.3 million for the year ended December 31, 2011 to approximately RMB2,144.4 million for the year ended December 31, 2012. The increase in adjusted EBITDA was also primarily due to the increase in sales volume.

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

	Year Ended December 31, 2012				
	China RMB'000	Kazakhstan RMB'000	USA RMB'000	Others RMB'000	Total RMB'000
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)	1,997,914
Withholding tax on interest accrued for intercompany loans	-	-	-	49,321	49,321
Share-based compensation expenses	72,861	3,861	-	9,344	86,066
Write off of inventory	-	1,430	-	-	1,430
(Gain)/Loss on oil hedge options	9,148	-	-	(10,635)	(1,487)
Loss on disposal of property, plant and equipment	-	862	-	-	862
Impairment of trade and other receivables	-	1,052	-	-	1,052
Gain from changes of fair value of option to ACAP	-	-	-	(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
Adjusted EBITDA	1,974,915	211,117	(3,803)	(37,864)	2,144,365

	Year ended December 31, 2011				Total RMB'000
	China RMB'000	Kazakhstan RMB'000	USA RMB'000	Others RMB'000	
Net profit for the year	917,388	(5,326)	(1,208)	194,988	1,105,842
Income tax expenses	296,075	(2,166)	–	–	293,909
Finance income	(72,174)	–	–	(2,554)	(74,728)
Finance cost	69,024	–	–	165,458	234,482
Depreciation, depletion and amortization	513,834	28,103	–	65	542,002
EBITDA	<u>1,724,147</u>	<u>20,611</u>	<u>(1,208)</u>	<u>357,957</u>	<u>2,101,507</u>
Share-based compensation expenses	18,042	–	–	–	18,042
Loss on oil hedge options	21,276	–	–	10,861	32,137
Gain arising from acquisition of Emir-Oil, LLC	–	–	–	(460,345)	(460,345)
Expenses related to issuance of senior notes	–	–	–	24,127	24,127
Loss on disposal of property, plant and equipment	–	1,089	–	–	1,089
Other acquisition expenses	–	–	–	8,760	8,760
Adjusted EBITDA	<u>1,763,465</u>	<u>21,700</u>	<u>(1,208)</u>	<u>(58,640)</u>	<u>1,725,317</u>

MARKET RISKS

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

Oil price risk

The Group is engaged in crude oil development, production and selling activities. Prices of crude oil are affected by both domestic and global factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Prior to 2008, the Group did not use any derivative instruments to hedge against potential price fluctuations of crude oil and therefore the Group was exposed to general price fluctuations of crude oil. During the year ended December 31, 2010 and 2011, the Group entered into oil hedge options contracts (Note 13) to manage its price risk.

Currency risk

The majority of the Group's China operation sales are in US dollars, while production and other expenses are incurred in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates.

EMPLOYEES

As at December 31, 2012, the Group had 2,426 employees, with 2,069 based in China and 349 based in Kazakhstan and 8 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.

DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.059 (2011: HK\$0.044) per share in respect of 2012 to shareholders whose names appear on the register of members of the Company on June 5, 2013. The proposed final dividend will be paid on or about June 14, 2013, following approval at the Annual General Meeting to be held on or around Friday, May 24, 2013.

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, 2012, including the accounting policies adopted by the Group and has discussed the internal controls and financial reporting matters of the Group.

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

During the year, neither the Company nor its subsidiaries purchased, disposed of or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled on or around Friday, May 24, 2013. 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 21, 2013 to Friday, May 24, 2013, both days inclusive, during which period 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 for registration not later than 4:30 p.m. on Monday, May 20, 2013.

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 Wednesday, June 5, 2013. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, June 3, 2013 to Wednesday, June 5, 2013, both days inclusive, during which period 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, May 31, 2013.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules, issued by the Stock Exchange in October 2011, is the new edition of the Code on Corporate Governance Practices (the "Former Code") as contained in Appendix 14 of the Listing Rules, and is applicable to financial reports covering an accounting period which ends after April 1, 2012.

During the accounting period for the year ended December 31, 2012, the Company has complied with all the Code Provisions set out in the CG Code during the period from April 1, 2012 to December 31, 2012 as well as the Former Code during the period from January 1, 2012 to March 31, 2012, except for Code Provision A.2.1, A.6.7 and E.1.2 as explained below:

Code Provision A.2.1

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

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

Code Provisions A.6.7 and E.1.2

Code Provision A.6.7 of the CG Code stipulates, among other things, that independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings and develop a balanced understanding of the views of shareholders. Code provision E.1.2 of the CG Code stipulates that 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, other members of such committees or their duly appointed delegates, to be available to answer questions at the annual general meeting.

At the annual general meeting of the Company held on May 18, 2012 (the "2012 AGM"), Mr. Zhang Ruilin, (Chairman of the Board), Mr. Jeffrey W. Miller (Chairman of the Audit Committee), Mr. Mei Jianping (Chairman of the Remuneration Committee and Nomination Committee) and Mr. Cai Rucheng (member of the Audit Committee, Remuneration Committee and Nomination Committee) were unable to attend the 2012 AGM due to other important business engagements. In order to ensure smooth holding of the 2012 AGM, Mr. Zhang Ruilin has authorized Mr. Zhao Jiangwei, an executive director of the Company, to chair the 2012 AGM. They will use their best endeavours to attend all future shareholder meetings of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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. Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code during year 2012.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The electronic version of this announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.mienergy.com.cn>). The annual report for the year ended December 31, 2012 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 24, 2013. 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 27, 2013

As at the date of this announcement, the Board comprises (1) the executive directors namely Mr. Zhang Ruilin, Mr. Zhao Jiangwei, Mr. Forrest Lee Dietrich and Mr. Allen Mak; (2) the non-executive director namely Mr. Wang Sing (Mr. Tsang Chi Kin 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.