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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)**

## **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2011**

Dear Shareholders,

On behalf of the board of directors (“Board of Directors”), I hereby present the annual results of the Company for the year ended December 31, 2011. The Company continued its rapid growth both on its China assets and by acquiring Emir-Oil, LLC (“Emir-Oil”) in Kazakhstan, our first major international expansion and then the successful acquisition of the Niobrara Asset (defined below) in USA. Net profit, after adjusting out the one time RMB460 million gain from the Emir-Oil acquisition, increased 53% from RMB421 million to RMB645 million. Sales volume increased by 20% from 3.42 million barrels to 4.03 million barrels, and average realized oil prices increased by 40% from US\$77.99 per barrel to US\$108.80 per barrel compared to the prior year. Since our initial public offering (“IPO”) in December 2010 on the Main Board of the Stock Exchange of Hong Kong, and with active support from our shareholders, our share price has increased significantly from the IPO price of HK\$1.70 to a high of HK\$4.40\* per share and has been trading in a range of HK\$2.85\* to HK\$3.25\* per share for the thirty calendar days ended March 19, 2012. Our strong China assets and new Kazakhstan assets provide a new stronger base for continued rapid growth, plus we are poised to acquire additional accretive assets.

The Company achieved another major milestone in May 2011 when the Company tapped the debt capital market and raised US\$400 million by issuing 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., will mature on May 12, 2016, and bear coupon at 9.75% per annum. Thanks to the support from our investors, our notes are one of the best performing listed notes from a China issuer and have traded at par or at a premium from March 2, 2012 to March 19, 2012. The proceeds from these notes were used primarily to repay the entire US\$200 million credit facility with CITIC Bank and to finance the acquisition of Emir-Oil, LLC. At present, these notes remain our only long-term debt. Under these notes, we are also allowed to take on additional debt of at least US\$250 million, which will increase as we increase our asset base.

\* Source: Bloomberg

During 2011, the Company delivered a brilliant financial performance. Turnover increased to RMB2.827 billion, representing an increase of 56.6% from 2010. Profit before tax surged 140.3% from the preceding year to RMB817.2 million. EBITDA increased to RMB2.102 billion, representing a 80.8% increase from the previous year. Net profit was RMB1,105.8 million, an increase of 162.7%. After adjusting for non-recurring expenses/income, adjusted EBITDA (defined below) from core operations increased to RMB1,725.3 million, and net profit from core operations increased to RMB768.3 million. Earnings per share increased by 121.1% to RMB0.42 per share. In view of the strong performance for 2011, the Board of Directors recommended the payment of a final dividend of HK\$0.044 per share.

During 2011, we successfully acquired oil and gas assets in Kazakhstan and in the USA, becoming a growing international upstream company. We continue as the largest independent upstream oil company operating onshore in China as measured by gross production under production sharing contracts with the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, the most prolific oil-producing basin in the country. To that solid, growing China base asset on which net daily production increased by 13.4% from 9,349 barrels of oil per day (“BOPD”) in 2010 to 10,601 BOPD in 2011, we have added Emir-Oil in Kazakhstan, which has three production contracts for the Aksaz, Dolinnoe and Kariman producing oilfields, plus an exploration contract that covers the Emir oilfield and the rest of the 850 square kilometer ADEK exploration contract area. With an acquisition cost of US\$159.1 million, Emir-Oil increases our Proved crude oil reserves by 27 million barrels, or 79%, to 61 million barrels at a cost of US\$5.89 per barrel, and our Proved + Probable crude oil reserves by 61 million barrels, or 120% to 111 million barrels at a cost of US\$2.63 per barrel, providing significant future production and cash flow growth potential. During the year, we also entered the shale oil industry in the USA through Condor Energy Technology LLC, (“Condor”) in which we have an 80% interest, with an upfront cost of US\$3 million. Condor has acquired a 31.25% interest in and acts as the operator of 7,450 net acres (30.1 square kilometers) in the Niobrara oil shale play located at Weld County, Colorado, USA (“Niobrara Asset”). While this acreage is currently not producing, we, as the operator, plan to drill the first well in the second quarter of 2012 to unlock the potential of this resource, and at the same time gain technological and operating experience in horizontal drilling and multi-stage fracturing completions suitable for use elsewhere in the world, in particular, in China’s gas shale resources.

Our acquisition strategy for 2012 is to continue to evaluate opportunities in China where the main potential for expansion in the near term is acquisition of existing projects, given that the new projects offered by national oil companies have not been attractive to us. Also, we believe that we will have opportunities to participate in China shale gas development in the near future, as current regulations now under review by National Development and Reform Committee and the Ministry of Land and Resources will likely be revised, opening up the enormous China shale gas reserves to more companies. As reported by the US Energy Information Administration, China has an estimate of 1,275 trillion cubic feet of technically recoverable shale gas reserves, being the largest out of all countries with technically recoverable shale gas reserves. The resource is largely untapped and Chinese government is

taking initiatives to increase its shale gas production capacity. We will continue to review and screen projects, giving priority to opportunities:

- In China and Asia emerging markets countries, areas with good synergy to our existing operations in China, Kazakhstan and USA,
- In countries with low political and low economic risk like those in North America,
- With some existing reserves and production with little or no exploration risk, for which our operating experience and technology in low permeability formations requiring considerable development effort can be directly applied.

During 2011 we drilled gross 467 wells in China with only one dry hole. We started a development well and an exploration well in late 2011 in Kazakhstan, both of which encountered oil zones and which will be completed and tested shortly. In 2012, we plan to drill: (i) 367 wells on our three China PSC's; (ii) three more development wells on our Kazakhstan production contract areas, and at least two more exploration wells on the ADEK block in Kazakhstan; and (iii) one exploration well on our Niobrara Asset. Total planned investment budget for 2012 is US\$303 million with US\$193 million for MI Energy Corporation ("MIE") in China, US\$94 million for Emir-Oil in Kazakhstan, and US\$16 million for Condor in the USA. So in 2012 we plan to add to our asset base not only by development work and acquisitions, but also by drilling in low risk exploration and resource plays. Also, during 2012 we plan to drill two horizontal wells in China to test their potential in the Daan and Moliqing oilfields, which are not included in the well counts or budget above.

Net production averaged 10,601 BOPD from the three China PSCs in 2011, up 13.4% from 2010. Emir-Oil, which we completed the acquisition for in September 30, 2011, had a net production average of 2,104 BOPD and 4,858 MCFD in the fourth quarter of 2011. MIE target net production for 2012 is within a range of 11,000 BOPD to 12,200 BOPD or 3.8% to 15.1% growth from 2011. Emir-Oil target net production for 2012 is within a range of 2,700 BOPD to 4,500 BOPD or 28.3% to 113.9% growth from the fourth quarter of 2011. The Company total target for 2012 net production is within a range of 13,700 BOPD to 16,700 BOPD.

Oil prices remain strong into first quarter of 2012. We sell our oil in China to PetroChina using the Daqing oil price. The Daqing price for the first two months of 2012 averaged US\$120.15 per barrel (or US\$5.08 above Dated Brent of US\$115.07).

The acquisition of Emir-Oil, with its large reserve base which enables future increases in production, the acquisition of Niobrara Asset through Condor, with its access to the USA shale oil market and technology for horizontal drilling and multistage fracturing completions, and additional drilling for our China oilfields providing continued production growth, all combine to make us well poised for further rapid growth and development for 2012. Based on the current level of Daqing and Brent oil prices, we expect 2012 to be another excellent year for the Company.

In closing, heartfelt thanks to the board and all the staff for their efforts over the past year, and to our shareholders, bondholders and business partners for their trust and support.

**Zhang Ruilin**  
*Chairman*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<b>Year ended December 31,</b>	
		<b>2011</b>	<b>2010</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	4	<u>2,827,141</u>	<u>1,804,976</u>
<b>Operating expenses</b>			
Purchases, services and other		(185,494)	(126,517)
Employee compensation costs	5	(197,052)	(110,346)
Depreciation, depletion and amortization		(542,002)	(528,582)
Distribution expenses		(31,472)	(28,424)
Administrative expenses		(90,297)	(50,154)
Taxes other than income taxes	6	(656,766)	(289,296)
Other losses	7	<u>(24,898)</u>	<u>(37,644)</u>
Total operating expenses		<u>(1,727,981)</u>	<u>(1,170,963)</u>
<b>Profit from operations</b>		<u>1,099,160</u>	<u>634,013</u>
Finance income	8	74,728	35,344
Finance costs	8	<u>(234,482)</u>	<u>(86,788)</u>
<b>Finance costs — net</b>	8	<u>(159,754)</u>	<u>(51,444)</u>
<b>Gain arising from acquisition of Emir-Oil, LLC</b>	18	460,345	—
<b>Profit before income tax</b>		1,399,751	582,569
<b>Income tax expense</b>	9	<u>(293,909)</u>	<u>(161,705)</u>
<b>Net profit for the year</b>		<u>1,105,842</u>	<u>420,864</u>
<b>Attributable to:</b>			
Owners of the Company		1,106,072	420,864
Non-controlling interest		<u>(230)</u>	<u>—</u>
		<u>1,105,842</u>	<u>420,864</u>
<b>Earnings per share, Basic</b> (expressed in RMB per share)	10	<u>0.42</u>	<u>0.19</u>
<b>Earnings per share, Diluted</b> (expressed in RMB per share)	10	<u>0.42</u>	<u>0.19</u>
<b>Dividends distributed during the year</b>		76,842	217,584
<b>Dividends proposed after the balance sheet date</b>	16	<u>94,514</u>	<u>77,933</u>

	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Net profit for the year</b>	<b>1,105,842</b>	420,864
<b>Other comprehensive income:</b>		
Currency translation difference	<u>(44,697)</u>	<u>(10,941)</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>(44,697)</u>	<u>(10,941)</u>
<b>Total comprehensive income for the year</b>	<u><b>1,061,145</b></u>	<u>409,923</u>
<b>Attribute to:</b>		
Owners of the Company	<b>1,061,375</b>	409,923
Non-controlling interest	<u>(230)</u>	<u>—</u>
<b>Total comprehensive income for the year</b>	<u><b>1,061,145</b></u>	<u>409,923</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>As at December 31,</b>	
	<i>Notes</i>	<b>2011</b>	<b>2010</b>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		5,267,499	3,024,482
Intangible asset		584,322	1,677
Investment		3,966	—
Derivative financial instruments	11	—	20,285
Trade and other receivables	12	32,032	24,212
Restricted cash		7,530	—
		<b>5,895,349</b>	<b>3,070,656</b>
<b>Current assets</b>			
Inventories		51,837	36,664
Derivative financial instruments	11	9,151	11,168
Trade and other receivables	12	703,068	398,294
Pledged deposits		233,891	29,916
Cash and cash equivalents		533,029	680,033
		<b>1,530,976</b>	<b>1,156,075</b>
<b>TOTAL ASSETS</b>		<b>7,426,325</b>	<b>4,226,731</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Ordinary shares	15	17,627	17,588
Share premium		835,709	826,477
Other reserves		102,083	91,919
Retained earnings			
— Proposed final dividend	16	94,514	77,933
— Others		1,909,216	946,014
		<b>2,959,149</b>	<b>1,959,931</b>
<b>Equity attributable to owners of the Company</b>		<b>2,959,149</b>	<b>1,959,931</b>
<b>Non-controlling interest</b>		<b>3,504</b>	<b>—</b>
<b>TOTAL EQUITY</b>		<b>2,962,653</b>	<b>1,959,931</b>

		<b>As at December 31,</b>	
		<b>2011</b>	<b>2010</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Asset retirement obligations		21,876	9,270
Deferred income tax liabilities — net		213,447	8,694
Trade and other payables	13	110,358	137,598
Borrowings	14	2,463,004	1,191,862
Derivative financial instruments	11	85,157	—
		<u>2,893,842</u>	<u>1,347,424</u>
<b>Current liabilities</b>			
Trade and other payables	13	1,495,602	775,137
Current income tax liabilities		63,610	44,898
Borrowings	14	—	99,341
Derivative financial instruments	11	10,618	—
		<u>1,569,830</u>	<u>919,376</u>
<b>Total liabilities</b>		<u>4,463,672</u>	<u>2,266,800</u>
<b>Total equity and liabilities</b>		<u>7,426,325</u>	<u>4,226,731</u>
<b>Net current (liabilities)/assets</b>		<u>(38,854)</u>	<u>236,699</u>
<b>Total assets less current liabilities</b>		<u>5,856,495</u>	<u>3,307,355</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 exploration, development, production and sale of crude oil through (1) MI Energy Corporation’s (“MIE”) four production sharing projects in China; (2) Emir-Oil, LLC’s (“Emir-Oil, LLC”) exploration contract and three production contracts in Kazakhstan and; (3) Condor’s interest in the Niobrara Asset in USA.

On May 26, 2001, MIE was assigned all of Microbes, Inc.’s, its then parent company, 90% foreign participating interest in the production sharing contracts (“PSCs”) of four oil blocks, namely, Daan, Moliqing and Miao 3 in Jilin Province with PetroChina and Luojiayi 64 block in Shengli of Shandong Province with China Petroleum and Chemical Corporation (“Sinopec”). The Daan and Miao 3 projects were established in 1997, and the Moliqing project was established in 1998. The duration of those three projects are 30 years with the commercial production period being up to 20 years. Daan, Moliqing and Miao 3 will expire in year 2024, year 2028 and year 2028 respectively. The Group acts as the operator of these four PSCs. The Group 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 Miao 3, respectively (Note 2(b)). As of January 1, 2005, the Daan project was in the commercial production phase. As of October 1, 2008, the Miao 3 project attained commercial production. As of December 1, 2008, the Moliqing project reached commercial production. In 2006, the Luojiayi 64 block stopped work and in 2005 MIE’s related investment was fully written off (Note 17(b)).

The financial statements are presented in Renminbi (“RMB”) unless otherwise stated.

## 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 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.

#### (i) *Net current liabilities*

As at December 31, 2011, the Group has a deficiency in net current assets of RMB38,854,000 which was driven mainly by significant capital expansion program undertaken by the Company in 2011 of RMB1,398,147,000 that was funded by trade payables. The Group generated positive cash flow from operating activities of RMB1,246,076,000 and RMB1,014,899,000 for the years ended December 31, 2011 and 2010 respectively and expects to continue to generate positive cash flow in year 2012. It has also secured a facility for a term loan of RMB50,000,000 from a bank (Note 19).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

#### (i) Net current liabilities (Continued)

After taking into consideration the positive operating cash flow and the availability of the undrawn loan facilities 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) Change in accounting estimates

The cost of oil and gas properties is amortized at the field level based on the unit of production method. Unit of production rates were previously based on proved developed producing oil reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements.

From January 1, 2011, the Group has applied the unit of production rates based on proved and probable developed producing oil reserves estimated to be recoverable from existing facilities based on current terms of the respective production agreements. The change in estimate is due to management's view that inclusion of probable developed producing reserve will be more reflective of the reserve base available to the Company from its investment in the oil and gas properties. The change resulted in increase of net profit by RMB128 million for the year ended December 31, 2011. It is impracticable to estimate the amount of impact for future years.

#### (iii) New accounting pronouncements

(A) New standards, amendments to and interpretations on existing standards adopted by the Group are as follows:

- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from January 1, 2011.
- IAS 1 (Amendment) 'Presentation of financial statements', effective for periods beginning on or after January 1, 2011. The amendment removes the requirement for each item of other comprehensive income to be presented separately in the statement of changes in equity.
- IFRS 7 (Amendment) 'Financial instruments: disclosures', effective for periods beginning on or after January 1, 2011. The amendment clarifies the nature and extent of risks arising from financial instruments.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

#### (iii) New accounting pronouncements (Continued)

(B) New standards, amendments and interpretations to existing standards not yet effective and not early adopted by the Group:

- IAS 12 (Amendment), 'Income taxes' on deferred tax. This amendment currently 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. This amendment is not applicable until January 1, 2012 but is available for early adoption.
- Revised IAS 27, 'Separate financial statements'. This includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. This revised IAS 27 is not applicable until January 1, 2013 but is available for early adoption.
- Revised IAS 28, 'Associates and joint ventures'. This includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. This revised IAS 28 is not applicable until January 1, 2013 but is available for early adoption.
- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.
- IFRS 10 'Consolidated financial statements'. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. This standard is not applicable until January 1, 2013 but is available for early adoption.
- IFRS 11, 'Joint arrangements'. This clarifies joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. Proportional consolidation of joint ventures is no longer allowed. This standard is not applicable until January 1, 2013 but is available for early adoption.
- IFRS 12, 'Disclosures of interests in other entities'. This 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. This standard is not applicable until January 1, 2013 but is available for early adoption.
- IFRS 13, 'Fair value measurement'. IFRS 13 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. This standard is not applicable until January 1, 2013 but is available for early adoption.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Production sharing contracts

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's assets used in jointly controlled operations;
- (ii) any liabilities that MIE has incurred;
- (iii) MIE'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'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 has incurred in respect of its interest in the production.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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.

According to general oil and gas practice, the physical nature of the taking (lifting) oil is such that a partner may take more oil than it is entitled to as defined by the PSC contract.

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

For the year ended December 31, 2011 and 2010, 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 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.

Proved and probable reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. The Group classified its Proved Reserves into Proved Developed Producing Reserves and Proved Undeveloped Reserves. Probable reserves are also classified into Probable Developed Producing Reserves and Probable Undeveloped Reserves. Prior to January 1, 2011, Proved Developed Producing Reserves was used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial information for property, plant and equipment related to oil and gas production activities. From January 1, 2011, the Group has applied the unit of production rates based on Proved and Probable Developed Producing Reserves. An increase/decrease in Proved and Probable Developed Producing Reserves will decrease/increase depreciation, depletion and amortization charges (assuming constant production) and increase/reduce net profit. Proved and Probable Reserve estimates are subject to revision, either upward or downward based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

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.

### **3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

#### **(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 prior to the expiration of PSCs. 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 and Kazakhstan.

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 three PSCs: Daan, Moliqing and Miao 3. The Kazakhstan segment derives its revenue from the sale of oil and gas.

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

#### 4 SEGMENT INFORMATION (Continued)

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

	China RMB'000	Kazakhstan RMB'000	Others* RMB'000	Inter- segment transaction RMB'000	Total RMB'000
Segment revenue	<u>2,723,671</u>	<u>103,470</u>	<u>—</u>	<u>—</u>	<u>2,827,141</u>
<b>Revenue</b>	<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)	(32,635)	—	(90,297)
Taxes other than income taxes (Note 6)	(609,193)	(47,573)	—	—	(656,766)
Other losses	(15,237)	1,200	(10,861)	—	(24,898)
<b>Profit from operations</b>	<u>1,210,313</u>	<u>(7,492)</u>	<u>(103,661)</u>	<u>—</u>	<u>1,099,160</u>
Finance income	72,174	—	11,918	(9,364)	74,728
Finance cost	(69,024)	(9,364)	(165,458)	9,364	(234,482)
Gain arising from acquisition of Emir-Oil, LLC (Note 18)	—	—	460,345	—	460,345
Income tax expense	(296,075)	2,166	—	—	(293,909)
<b>Net profit for the year</b>	<u>917,388</u>	<u>(14,690)</u>	<u>203,144</u>	<u>—</u>	<u>1,105,842</u>
<b>Total assets</b>	<u>5,239,096</u>	<u>2,078,556</u>	<u>99,522</u>	<u>—</u>	<u>7,417,174</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	1,347,546	74,254	1,648	—	1,423,448
<b>Total liabilities</b>	<u>1,331,285</u>	<u>354,077</u>	<u>187,044</u>	<u>—</u>	<u>1,872,406</u>

#### 4 SEGMENT INFORMATION (Continued)

The Group operated as a single operating segment in China in 2010. The segment information for the year ended December 31, 2010 is as follows:

	China <i>RMB'000</i>	Others* <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	1,804,976	—	1,804,976
<b>Revenue</b>	<u>1,804,976</u>	<u>—</u>	<u>1,804,976</u>
Purchases, services and other	(126,517)	—	(126,517)
Employee compensation costs	(108,244)	(2,102)	(110,346)
Depreciation, depletion and amortization	(528,582)	—	(528,582)
Distribution expenses	(28,424)	—	(28,424)
Administrative expenses	(50,081)	(73)	(50,154)
Taxes other than income taxes ( <i>Note 6</i> )	(289,296)	—	(289,296)
Other losses	(37,644)	—	(37,644)
<b>Profit from operations</b>	<u>636,188</u>	<u>(2,175)</u>	<u>634,013</u>
Finance income	37,645	(2,301)	35,344
Finance cost	(86,788)	—	(86,788)
Income tax expense	(161,705)	—	(161,705)
<b>Net profit for the year</b>	<u>425,340</u>	<u>(4,476)</u>	<u>420,864</u>
<b>Total assets</b>	<u>3,852,326</u>	<u>342,952</u>	<u>4,195,278</u>
Total assets includes:			
Property, plant and equipment	3,024,482	—	3,024,482
Intangible assets	1,667	—	1,667
Additions to non-current assets	<u>889,600</u>	<u>—</u>	<u>889,600</u>
<b>Total liabilities</b>	<u>875,025</u>	<u>44,610</u>	<u>919,635</u>

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

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 held by the Group are not considered to be segment assets.

#### 4 SEGMENT INFORMATION (Continued)

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Segment assets for reportable segments	7,317,652	3,852,326
Other segments assets	99,522	342,952
<b>Unallocated:</b>		
Current derivative financial instruments	9,151	11,168
Non-current derivative financial instruments	—	20,285
<b>Total assets per consolidated statement of financial position</b>	<b><u>7,426,325</u></b>	<b><u>4,226,731</u></b>

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:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Segment liabilities for reportable segments	1,685,362	875,025
Other segments liabilities	187,044	44,610
<b>Unallocated:</b>		
Current derivatives financial instrument premium	25,644	33,577
Non-current derivatives financial instrument premium	6,843	22,385
Current derivative financial instruments	10,618	—
Non-current derivative financial instruments	85,157	—
Current borrowings	—	99,341
Non-current borrowings	2,463,004	1,191,862
<b>Total liabilities per consolidated statement of financial position</b>	<b><u>4,463,672</u></b>	<b><u>2,266,800</u></b>

Breakdown of the revenue is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Analysis of revenue by segment</b>		
Sale of crude oil in China	2,723,671	1,804,976
Sale of oil and gas in Kazakhstan	103,470	—
	<b><u>2,827,141</u></b>	<b><u>1,804,976</u></b>

#### 4 SEGMENT INFORMATION (Continued)

Revenues in China of approximately RMB2,723,671,000 (2010: 1,804,976,000) are derived from a single external customer, PetroChina.

Revenues in Kazakhstan of approximately RMB96,760,000 are derived from Titan Oil.

#### 5 EMPLOYEE COMPENSATION COSTS

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Wages, salaries and allowances	166,249	70,829
Housing subsidies	1,811	1,327
Share options granted	5,414	10,360
Stock appreciation rights granted	12,628	19,069
Welfare and other expenses	10,950	8,761
	<u>197,052</u>	<u>110,346</u>

#### 6 TAXES OTHER THAN INCOME TAXES

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
<b>China</b>		
Special oil levy	595,368	288,133
Urban construction tax and education surcharge	13,825	1,163
	<u>609,193</u>	<u>289,296</u>
<b>Kazakhstan</b>		
Mineral extraction tax	6,699	—
Rent export tax	25,458	—
Rent export duty expenditures	5,527	—
Property tax	7,549	—
Others	2,340	—
	<u>47,573</u>	<u>—</u>
	<u>656,766</u>	<u>289,296</u>

#### 7 OTHER LOSSES

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Loss on oil hedge options	(32,137)	(44,692)
Others	7,239	7,048
	<u>(24,898)</u>	<u>(37,644)</u>

## 7 OTHER LOSSES (Continued)

The net loss of the oil hedge options in the year ended December 31, 2011 and 2010 is due to the change in fair value of the unrealized portion of the oil hedge options.

## 8 FINANCE COSTS — NET

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
<b>Finance income</b>		
Interest income from savings accounts	4,066	144
Exchange gain	70,662	35,200
<b>Total finance income</b>	<u>74,728</u>	<u>35,344</u>
<b>Finance costs</b>		
Interest expenses	224,279	86,777
Bank charges	10,200	11
Exchange loss	3	—
<b>Total finance costs</b>	<u>234,482</u>	<u>86,788</u>
<b>Finance costs — net</b>	<u>159,754</u>	<u>51,444</u>

## 9 INCOME TAX EXPENSE

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Current income tax — overseas	280,526	239,411
Deferred income tax	13,383	(77,706)
	<u>293,909</u>	<u>161,705</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, 2011 and 2010. 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.

## 9 INCOME TAX EXPENSE (Continued)

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,	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	1,399,751	582,569
Tax calculated at domestic tax rates applicable to profits in the respective countries	301,022	145,642
Tax effect of income not subject to tax	(17,898)	—
Expenses not deductible for tax purposes	10,788	17,115
Prior year tax filling adjustments	659	(736)
Additional-deduction for research and development expenses	(662)	(316)
	<u>293,909</u>	<u>161,705</u>
Tax charge	<u>293,909</u>	<u>161,705</u>

The weighted average applicable tax rate was 22% (2010: 25%).

## 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,	
	2011	2010
	RMB'000	RMB'000
Net profit attributable to owners of the Company	1,106,072	420,864
Adjustment for:		
Dividends entitled by Series A preferred shares	—	(82,823)
Dividends entitled by Series B preferred shares	—	(48,082)
	<u>1,105,842</u>	<u>289,959</u>
Weighted average number of ordinary shares (thousands)	<u>2,643,681</u>	<u>1,538,264</u>
Earnings per share, Basic (RMB per share)	<u>0.42</u>	<u>0.19</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. Prior to Company's Global Offering on December 14, 2010, the Company had two categories of dilutive potential ordinary shares: convertible preferred shares and share options. The convertible preferred shares are assumed to be converted into ordinary shares at the later of, beginning of the relevant year or date of issuance. For share options, a calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. Subsequent to the Company's Global Offering, the Company only has share options outstanding which are potentially dilutive.

## 10 EARNINGS PER SHARE (Continued)

### (b) Diluted (Continued)

The number of ordinary shares calculated as above for earnings per share, basic is increased by the number of ordinary shares that would have been issued assuming the exercise of the share options and conversion of preferred shares at the later of, beginning of the relevant year or date of issuance.

	Year ended December 31,	
	2011	2010
	RMB'000	RMB'000
Net profit attributable to owners of the Company	<u>1,106,072</u>	<u>420,864</u>
Net profit used to determine diluted earnings per share	<u>1,106,072</u>	<u>420,864</u>
Weighted average number of ordinary shares (thousands)	2,643,681	1,538,264
Adjustments for:		
— Assumed conversion of convertible preferred shares (thousands)	—	684,284
— Share options (thousands)	<u>15,483</u>	<u>9,919</u>
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	<u>2,659,164</u>	<u>2,232,467</u>
Earnings per share, Diluted (RMB per share)	<u>0.42</u>	<u>0.19</u>

## 11 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
<b>Assets</b>		
Oil hedge options	9,151	31,453
Less: non-current portion:	<u>—</u>	<u>(20,285)</u>
Current portion	<u>9,151</u>	<u>11,168</u>
<b>Liabilities</b>		
<b>Current</b>		
Oil hedge options	<u>10,618</u>	<u>—</u>
<b>Non current</b>		
Option to ACAP (Note 18)	<u>85,157</u>	<u>—</u>

## 11 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

### (a) Oil hedge options

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

<b>Contract Period</b>	<b>Monthly Notional Quantity (barrel)</b>	<b>Annual Notional Quantity (barrel)</b>	<b>MIE sold put option at strike price (WTI price per barrel)</b>	<b>MIE bought put option at strike price (WTI price per barrel)</b>
Year ended December 31, 2011	150,000	1,800,000	US\$55.00	US\$70.00
Year ending 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 is payable over 8 installments on a quarterly basis from April 2011 (Note 13).

- (ii) On 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 ending December 31, 2012 (or total notional quantity of 720,000 barrels per annum) at zero premium:

<b>Counterparty</b>	<b>Company bought put option at strike price (IPE Brent price per barrel)</b>	<b>Company sold call option at strike price (IPE Brent price per barrel)</b>	<b>Company bought call option at strike price (IPE Brent price per barrel)</b>
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

The change in fair value of derivative financial instruments, which are not designated as cash flow hedges for accounting purposes, are recognized in the consolidated statement of comprehensive income and as an asset for the oil hedge options entered into in October 2010 and as a liability for oil hedge options entered into in October 2011 in the consolidated statement of financial position as at December 31, 2011.

### (b) 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, 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.

## 12 TRADE AND OTHER RECEIVABLES

### (a) Summary of trade and other receivables

	As at December 31,	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets</b>		
<b>Current</b>		
Trade receivables from PetroChina	166,204	25,973
Trade receivable from other third parties	44,399	—
Other receivables due from related parties		
— PetroChina	37,993	33,225
— Global Oil Corporation	142,500	137,590
Advances to employees	5,937	7,134
Unbilled receivables from PetroChina	134,710	145,011
Other receivables — others	4,409	576
	<u>536,152</u>	<u>349,509</u>
<b>Non-current</b>		
Amounts due from related party		
— Global Oil Corporation	—	24,212
Long term VAT recoverable	19,969	—
	<u>19,969</u>	<u>—</u>
	556,121	373,721
<b>Non-financial assets</b>		
<b>Current</b>		
Advances to suppliers — others	45,717	1,210
Less: provision for impairment of advances to suppliers — others	(1,123)	—
	<u>44,594</u>	<u>—</u>
Advances to suppliers — others — net	44,594	—
Refundable deposit paid for development property	80,000	—
Advances to suppliers — related party	31,718	45,283
Prepayments to third parties	9,657	2,292
Other deferred assets	947	—
	<u>166,916</u>	<u>48,785</u>
<b>Non-current</b>		
Prepayments to third parties	12,063	—
	<u>12,063</u>	<u>—</u>
	178,979	48,785
<b>Total</b>	<u><u>735,100</u></u>	<u><u>422,506</u></u>
<b>Total current</b>	<u>703,068</u>	398,294
<b>Total non-current</b>	<u>32,032</u>	24,212
<b>Total</b>	<u><u>735,100</u></u>	<u><u>422,506</u></u>

## 12 TRADE AND OTHER RECEIVABLES (Continued)

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

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Trade receivables from PetroChina	166,204	25,973
Trade receivable from other third parties	44,399	—
Unbilled receivables from PetroChina	134,710	145,011
Other receivables due from related parties	180,493	195,027
	<u>525,806</u>	<u>366,011</u>
Other receivables — third parties	30,315	7,710
	<u>556,121</u>	<u>373,721</u>

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

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
0–30 days	197,123	25,973
31–180 days	13,441	—
over 180 days	39	—
	<u>210,603</u>	<u>25,973</u>

As of December 31, 2011 and 2010, there were no trade receivables past due which are impaired.

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

### 13 TRADE AND OTHER PAYABLES

#### (a) Summary of trade and other payables

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
<b>Financial liabilities</b>		
<b>Current</b>		
Trade payables	687,392	527,319
Amount due to related parties	—	616
Notes payable <sup>(i)</sup>	233,891	—
Interest payable	33,689	1,244
Derivatives financial instrument premium payable (Note 11)	25,644	33,577
Other tax payable	51,448	22,728
Special oil levy	348,960	87,939
Other payables	5,242	45,306
	<u>1,386,266</u>	<u>718,729</u>
<b>Non-current</b>		
Derivatives financial instrument premium payable (Note 11)	6,843	22,385
Trade payables	103,166	115,213
	<u>1,496,275</u>	<u>856,327</u>
<b>Non-financial liabilities</b>		
<b>Current</b>		
Salary and welfare payable <sup>(ii)</sup>	108,234	56,408
Capital lease liability	1,102	—
	<u>109,336</u>	<u>56,408</u>
<b>Non-current</b>		
Capital lease liability	349	—
	<u>109,685</u>	<u>56,408</u>
<b>Total</b>	<u><u>1,605,960</u></u>	<u><u>912,735</u></u>
Total current	1,495,602	775,137
Total non-current	110,358	137,598
<b>Total</b>	<u><u>1,605,960</u></u>	<u><u>912,735</u></u>

- (i) As at December 31, 2011, MIE has a total of 16 effective notes payables agreements with China Construction Bank (“CCB”) amounting to RMB233,891,000 with a term of six months from the date of issuance (“Notes Payables”). The Notes Payables are secured by pledged deposits amounting to RMB233,891,000 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. Upon maturity of the Notes Payables, the pledged deposits will be released by CCB to the suppliers/service providers.

### 13 TRADE AND OTHER PAYABLES (Continued)

#### (a) Summary of trade and other payables (Continued)

(ii) Stock appreciation rights liabilities of RMB33,512,000 (2010: RMB21,260,000) has been included in salaries and welfare payable for the year ended December 31, 2011.

(b) At December 31, 2011 and 2010, the ageing analysis of the trade and other payables is as follows:

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
<6 months	1,299,650	608,245
6 months–1 year	160,788	212,457
1–2 years	123,733	50,232
2–3 years	2,954	35,305
>3 years	18,835	6,496
<b>Total</b>	<b>1,605,960</b>	<b>912,735</b>

### 14 BORROWINGS

#### (a) Summary of borrowings

	As at December 31,	
	2011	2010
	RMB'000	RMB'000
Bank borrowings		
Non-current	—	1,191,862
Current	—	99,341
Total bank borrowings	—	1,291,203
Senior notes		
Non-current	2,463,004	—
Total borrowings	2,463,004	1,291,203

#### Senior Notes

On May 12, 2011, the Company issued US\$400 million 9.75% senior notes (the “Notes”) due 2016. The Notes bear coupon at a 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 Notes, after deduction of underwriting fees, discounts and commissions and other expenses payable in connection with the issuance of the 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 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 Notes were listed on the Singapore Exchange Securities Trading Limited on May 13, 2011.

## 14 BORROWINGS (Continued)

### (a) Summary of borrowings (Continued)

#### *Senior Notes (Continued)*

The 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 Notes.

The 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 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:

<b>Period</b>	<b>Redemption Price</b>
2014	104.8750%
2015	102.4375%

At any time prior to May 12, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus the applicable premium as of, 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 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 Notes, plus accrued and unpaid interest to the redemption date, provided that at least 65% of the aggregate principal amount of the Notes issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

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

	<b>As at December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Carrying amount as at January 1,	—	—
Issue of the Notes	<b>2,528,955</b>	—
Amortization of the Notes	<b>897</b>	—
Exchange difference	<b>(66,848)</b>	—
	<hr/>	<hr/>
Carrying amount of the Notes as at December 31,	<b>2,463,004</b>	—
	<hr/> <hr/>	<hr/> <hr/>

## 14 BORROWINGS (Continued)

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

	As at December 31,	
	2011 RMB'000	2010 RMB'000
Effective interest rates on the bank borrowings	—	5.85%
Effective interest rates on the Notes	<u>10.91%</u>	<u>—</u>

- (d) The exposure of the Group's borrowings to contractual interest rate changes based on LIBOR + 4.5% at December 31, 2010 are as follows:

	As at December 31,	
	2011 RMB'000	2010 RMB'000
<1 year	—	99,341
1–2 years	—	529,816
2–5 years	—	662,046
Total borrowings	<u>—</u>	<u>1,291,203</u>

The 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 borrowings are denominated in US dollars.
- (f) The Group has obtained a RMB50 million facility from China Construction Bank on January 4, 2012 (Note 19).

## 15 SHARE CAPITAL

	As at December 31,	
	2011 '000	2010 '000
<b>Authorized ordinary shares:</b>		
Ordinary shares of US\$0.001 per share	<u>100,000,000</u>	<u>100,000,000</u>

	As at December 31,	
	2011 RMB'000	2010 RMB'000
<b>Issued and fully paid:</b>		
Ordinary shares	<u>17,627</u>	<u>17,588</u>

As at December 31, 2011 and 2010, 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.

## 15 SHARE CAPITAL (Continued)

### (a) 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:

	<b>As at December 31,</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
<b>Issued and fully paid:</b>		
At January 1, 2010		
96,356,270 ordinary shares at US\$0.001 each		659
At March 10, 2010		
Cancellation of 18,212,560 ordinary shares at US\$0.001 each		(124)
At December 14, 2010		
Conversion of 25,101,220 Series A preferred shares to 25,101,220 ordinary shares at US\$0.001 each		171
Conversion of 36,425,120 Series B preferred shares to 18,212,560 ordinary shares at US\$0.001 each		124
Capitalization issuance of 2,078,542,510 ordinary shares at US\$0.001 each to shareholders registered on November 23, 2010		13,822
Issuance of 441,334,000 ordinary shares at US\$0.001 each during Global Offering		<u>2,936</u>
At December 31, 2010		<u>17,588</u>
At January 1, 2011		
2,641,334,000 ordinary shares at US\$0.001 each	<u>17,588</u>	
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		<u>9</u>
		<u>39</u>
At December 31, 2011		
2,647,395,808 ordinary shares at US\$0.001 each	<u>17,627</u>	

## 16 EQUITY DISTRIBUTIONS

The dividend in respect of the year ended December 31, 2010 of HK\$0.035 per share, amounting to a total dividend of HK\$92,447,000 (RMB77,933,000) was approved at the annual general meeting on May 6, 2011 and was paid on May 27, 2011.

A dividend in respect of the year ended 31 December 2011 of HK\$0.044 per share, amounting to a total dividend of HK\$116,583,000 (RMB94,514,000), is to be proposed at the annual general meeting in May 2012. These financial statements do not reflect this dividend payable.

	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Proposed final dividend of HK\$0.044 (2010: HK\$0.035) per ordinary share	<u><b>116,583</b></u>	<u>92,447</u>

## 17 COMMITMENTS AND CONTINGENCIES

### (a) Commitments

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:

	<b>As at December 31,</b>	
	<b>2011</b>	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	<b>4,687</b>	1,296
Within 1–2 years	<b>3,507</b>	1,500
Within 2–5 years	<b>4,304</b>	—
	<u><b>12,498</b></u>	<u>2,796</u>

Lease expenses for the year ended December 31, 2011 relates to office and car rental of RMB12,565,000 (2010: RMB6,591,000).

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.

	<b>As at</b> <b>December 31,</b> <b>2011</b> <i>RMB'000</i>
Less than 1 year	<b>440,808</b>
Within 1–2 years	<b>834,376</b>
Within 2–5 years	<b>881,123</b>
	<u><b>2,156,307</b></u>

## 17 COMMITMENTS AND CONTINGENCIES (Continued)

### (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.

## 18 BUSINESS COMBINATION

On September 19, 2011, the Group acquired 100% of the share capital of Emir-Oil, LLC and intercompany loans payable by Emir-Oil, LLC for US\$159,601,000. Emir-Oil is an oil and natural gas exploration and production company in the Republic of Kazakhstan. The Group assumed the control of Emir-Oil, LLC on September 30, 2011.

As a result of the acquisition, the Group expanded and diversified its operation beyond PRC into the Republic of Kazakhstan. The negative goodwill of RMB580,680,000 arising from the acquisition of Emir-Oil is mainly due to the following:

1. BMB Munai, Inc. (“BMB”), the then parent of Emir-Oil, had defaulted on certain covenants of its convertible senior notes and had attempted to re-negotiate with the convertible senior notes holders since 2010. As a result, Emir-Oil was having difficulty obtaining new funding from BMB, or other lenders to meet its oil exploration license conditions within the required timetable.
2. At the date the Company entered into the participation interest purchase agreement with BMB to acquire Emir-Oil, Brent oil price was US\$103.43 per barrel. At the completion date of the Company’s acquisition of Emir-Oil, Brent oil price had increased by 8.6% to US\$112.30 per barrel.

Therefore, the fair value of Emir-oil’s net assets at the acquisition completion date, being predominately its oil reserves valued by an independent appraisal firm, was in excess of the purchase price paid by the Company thus resulting in the negative goodwill of RMB580,680,000.

## 18 BUSINESS COMBINATION (Continued)

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

<b>Consideration at September 30, 2011</b>	<b>RMB'000</b>
Cash	1,014,248
<b>Total consideration</b>	<u>1,014,248</u>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	28,323
Property, plant and equipment	1,392,488
Intangible assets	577,348
Inventories	2,050
Trade and other receivables	83,351
Restricted cash	6,418
Trade and other payables	(292,431)
Assets retirement obligations	(10,060)
Deferred tax liabilities	(192,559)
<b>Total identifiable net assets</b>	<u>1,594,928</u>
<b>Negative goodwill</b>	<u>(580,680)</u>
<b>Acquisition related cost</b>	
— Option to ACAP ( <i>Note 11</i> )	85,157
— Others*	35,178
<b>Total acquisition related cost</b>	<u>120,335</u>
<b>Gain arising from acquisition of Emir-Oil, LLC</b>	<u>(460,345)</u>
Cash consideration paid	1,014,248
Cash and cash equivalents of Emir-Oil, LLC at date of acquisition	(28,323)
<b>Acquisition of Emir-Oil, LLC, net of cash acquired</b>	<u>985,925</u>

\* Include certain fees paid to ACAP for a monthly retainer of US\$20,000 and a success fee equating to 2.5% of the consideration payable at closing date.

## 19 SUBSEQUENT EVENTS

MIE entered into a RMB working capital loan agreement with China Construction Bank (“CCB”) on January 4, 2012 for a RMB50 million 6 month loan commencing from January 13, 2012 at the interest rate of 7.015% per annum. The interest rate is the base rate as published by the People’s Bank of China at 6.1% per annum plus a 15% and the resulting effective interest rate is 7.015% per annum. The loan is secured by a pledge on the sales income of MIE’s entitlement from Moliqing and Miao 3 oil fields.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND PROSPECTS

During 2011, the Company continued its rapid growth both on its China assets and by acquiring Emir-Oil in Kazakhstan, our first major international expansion and then the successful acquisition of the Niobrara Asset in USA. After the successful IPO on the Main Board of the Stock Exchange of Hong Kong in December 2010, the Company achieved another milestone in the international capital market in May 2011 when the Company tapped the debt capital market and raised US\$400 million by issuing notes listed on the Singapore Exchange Securities Trading Limited. These notes will mature on May 12, 2016 and bear a coupon at 9.75% per annum.

As of December 31, 2011, we had estimated net proved, proved+probable and proved+probable+possible crude oil reserves of approximately 61.0 million barrels, 110.8 million barrels and 138.8 million barrels respectively, an increase of 28.1 million barrels, 58.3 million barrels and 72.4 million barrels respectively, as compared to our reserve as of December 31, 2010. Included in the crude oil reserves as at December 31, 2011, 27.0 million barrels, 60.5 million barrels and 79.0 million barrels are contributed by Emir-Oil. Furthermore, Emir-Oil also has 29,343 MMscf, 63,340 MMscf and 93,424 MMscf net proved, proved+probable and proved+probable+possible gas reserves as at December 31, 2011.

Our net daily crude oil production increased 13.4% from 9,349 barrels per day in 2010 to 10,601 barrels of crude oil per day in 2011, and our 2011 gross and net oil production for 2011 were 7.11 million barrels and 4.14 million barrels. These production numbers include Emir-Oil, production only for the 4th quarter of 2011.

During 2011, we made net investments in China of RMB1,228.2 million and drilled 467 wells, a record year in terms of number of wells drilled in any one year since we became the operator of Daan, Moliqing and Miao 3 oilfields in May 2001.

Our operations continue at a rapid pace. As of December 31, 2011, we operated 2,095 gross productive wells comprising 2,071 wells in China and 24 wells in Kazakhstan. In 2011, we concurrently operated 32 drilling rigs, of which 30 drilling rigs were operated within our China oilfields and 2 drilling rigs were operated within our Kazakhstan oilfields.

For the year ended December 31, 2011, the Company's total revenue was RMB2,827.1 million, representing a 56.6% increase over the previous year. The Company's EBITDA increased substantially to RMB2,101.5 million, an increase of 80.8% over the previous year. The Company's net profit was RMB1,105.8 million, an increase of 162.7% over the previous year, primarily as a result of significant increase in realized oil prices and sales volume and the RMB460.3 million from the gain arising from the acquisition of Emir-Oil.

The aggregate average realized oil price for China and Kazakhstan was US\$108.80 per barrel for the year ended December 31, 2011, compared to US\$77.99 per barrel for the year ended December 31, 2010. For our China oilfields, the average realized oil price was US\$109.99 per barrel for the year ended December 31, 2011, compared to US\$77.99 per barrel for the year ended December 31, 2010. During the three months ended December 31, 2011 that we controlled Emir-Oil, the average realized oil price was US\$84.38 per barrel after taking into consideration the transportation and marketing discount and domestic sales.

Lifting cost was US\$7.29 per barrel for the year ended December 31, 2011, of which lifting cost was US\$7.16 per barrel for our China oilfields and US\$9.70 per barrels for our Kazakhstan oilfields respectively. Lifting cost includes directly controllable costs to produce a barrel of oil. Other production costs such as safety fee, environment expenses, technical & research expense and overhead have not been included since they are not directly attributable to the production of a barrel of oil.

For the year ended December 31, 2011, the Company's basic and diluted earnings per share were both RMB0.42 per share, representing an increase of 121.1% over the previous year.

In view of the strong performance of 2011 and given the low interest rate environment, the Board of Directors recommended the payment of a final dividend of HK\$0.044 per share.

Our China oilfields continue to have strong growth potential, and we are continually expanding our operations by drilling more wells in Daan, Moliqing and Miao 3 oilfields, which we believe will contribute strong cash flow over the next several years. As of December 31, 2011, we had identified 2,432 potential locations containing proved, probable and possible undeveloped reserves, respectively, for future drilling and within our estimated net reserves we include estimated net proved, probable and possible undeveloped reserves of 12.4 million barrels, 9.6 million barrels and 5.8 million barrels, respectively, for these locations.

In 2012, the Company plans to continue to make capital expenditures to support its steady production growth for the China oilfields. We currently plan to spend a net amount of US\$193 million and 367 wells are planned to be drilled in 2012 comprising 317 wells, 32 wells and 18 wells in Daan, Moliqing and Miao 3 oilfields, respectively, with an expected net production in range of 11,000 BOPD barrels and 12,200 BOPD barrels.

Emir-Oil obtained three 25-year production contracts for each of Aksaz, Dolinnoe and Kariman oilfields in September 2011 from the Ministry of Oil and Gas in the Republic of Kazakhstan. All of Emir-Oil's proven reserves and 85.6% of its probable reserves are attributable to these three production contracts. We plan to ramp up production of Emir-Oil as quickly as possible by repairing four old wells currently shut-in, by performing modern acid fracturing stimulation on at least two wells and by drilling new wells. We began drilling a development well and an exploration well shortly after we acquired Emir-Oil in September 2011, both of which encountered good potential oil zones and which are in the process of being completed and tested. We plan to drill at least five more wells by the end of 2012. We plan investment expenditures of US\$94 million for these 7 wells and associated facility work. Net and gross production is the same on these contracts and our targeted daily average production for 2012 is within a range of 2,700 BOPD to 4,500 BOPD. Within the year end 2011 reserves report are 7 proved, 10 probable and 16 possible locations, enough for continued production growth for approximately seven years.

During the year, we entered into the shale oil industry in the USA through Condor, in which we have an 80% interest, with an upfront cost of US\$3 million. Condor has acquired a 31.25% interest in 7,450 net acres (30.1 square kilometers) in the Niobrara oil shale play located at Weld County, Colorado, USA. While this acreage is currently not producing, as operator we plan to drill at least one exploration well in 2012 with capital expenditure budgeted US\$16 million for this well and a follow-up well. We will work side-by-side with USA experienced technical experts, including those of South Texas Reservoir Alliance LLC through its strategic alliance with Condor. The first horizontal well with multi-stage fracture on the Niobrara Asset has been designed and approved for drilling. Planning is underway on the second well. While we will not forecast production or book reserves for these wells until they are production tested, we remain confident of achieving both our profit and technology transfer objectives.

In China, we sell our oil to PetroChina at the Daqing price; in Kazakhstan, we export 90% of our oil at the Brent price. Since the beginning of this year, Brent has been trading at US\$108 to US\$128 per barrel and Daqing has been trading at US\$114 to US\$130 per barrel. Given the rising tension surrounding Iran's nuclear dispute, other issues in the Middle East, the gradual improvement in the US economy and the stabilizing debt problem in Europe, the Company believes the trend for strong oil price will continue in 2012.

## **FINANCIAL RESULTS**

### **Revenue**

The Group's revenue increased by RMB1,022.1 million, or 56.6%, from RMB1,805.0 million for the year ended December 31, 2010 to RMB2,827.1 million for the year ended December 31, 2011. This increase was primarily due to an increase in the crude oil prices and our sales volume.

The average realized oil price was US\$108.80 per barrel for the year ended December 31, 2011, compared to US\$77.99 per barrel for the year ended December 31, 2010. Our sales volume of crude oil was 4.03 million barrels for the year ended December 31, 2011, compared to 3.42 million barrels for the year ended December 31, 2010.

During the three months ended December 31, 2011 that we controlled Emir-Oil, revenue contributed by Emir-Oil was RMB103.5 million.

- **China**

In 2011, our China oil fields realized revenue of RMB2,723.7 million. The average realized oil price was US\$109.99 per barrel for the year ended December 31, 2011, compared to US\$77.99 per barrel for the year ended December 31, 2010. Our sales volume was 3.84 million barrels for the year ended December 31, 2011, compared to 3.42 million barrels for the year ended December 31, 2010.

- Kazakhstan

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 for the three months ended December 31, 2011. The average realized oil price for the three months ended December 31, 2011 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 during the three months ended December 31, 2011. Emir-Oil's oil sales volume was 187,912 barrels for the three months ended December 31, 2011, comprising 169,984 barrels from export sales and 17,928 barrels from domestic sales.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil realized revenue from gas sales of RMB3.2 million with a realized gas price of US\$1,148.51 per MMscf and a gas sales volume of 439.7 MMscf.

### **Operating expenses**

The Group's operating expenses increased by RMB557.0 million, or 47.6%, from RMB1,171.0 million for the year ended December 31, 2010 to RMB1,728.0 million for the year ended December 31, 2011, primarily due to an increase in special oil levy in China as a result of the increase in realized crude oil prices and sales volume, and an increase in other taxes in Kazakhstan and employee compensation costs.

Emir-Oil's operating expenses for the three months ended December 31, 2011 amounted to RMB111.0 million.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB59.0 million, or 46.6%, from RMB126.5 million for the year ended December 31, 2010 to RMB185.5 million for the year ended December 31, 2011. The increase in purchase, service and other expenses for our China operations was primarily due to: (i) the increase in sales volume in 2011 resulting in the increase in electricity and fuel consumptions and transportation cost ; (ii) the increase in number of productive wells for our China operations resulted in the increase in repair and maintenance cost, materials, safety and environment protection expenses. For our China operations, we operated 1,641 productive wells as at December 31, 2010 and 2,071 productive wells as at December 31, 2011; and (iii) we performed more technical analysis in 2011 in our China oilfields to stabilize and improve production levels.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's purchases, services and other expenses amounted to RMB17.6 million.

- *Employee compensation costs.* The Group's employee compensation costs increased by RMB86.8 million, or 78.7%, from RMB110.3 million for the year ended December 31, 2010 to RMB197.1 million for the year ended December 31, 2011. The increase in employee compensation costs for our China operations was primarily due to: (i) higher compensation of employees to retain and hire qualified and talented people after listing; and (ii) in 2011, we also hired more employees in our China oil fields. As at December 31, 2010, we had 1,610 employees, and as at December 31, 2011, we had 1,844 employees for our China operations.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's employee compensation costs amounted to RMB15.6 million.

- *Depreciation, depletion and amortization.* The Group's depreciation, depletion and amortization increased by RMB13.4 million, or 2.5%, from RMB528.6 million for the year ended December 31, 2010 to RMB542.0 million for the year ended December 31, 2011. The increase in depreciation, depletion and amortization for our China operations was mainly due to the increase in sales volume in 2011, which is partially offset by the change in the method of calculation for unit of production rates. The cost of oil properties is amortized at the field level based on the unit of production method. Unit of production rates were previously based on proved developed producing oil reserves estimated to be recoverable from existing facilities based on the current terms of the respective production agreements. From January 1, 2011, the Group has applied the unit of production rates based on proved and probable developed producing oil reserves estimated to be recoverable from existing facilities based on current terms of the respective production agreements. The change in estimate is due to management's view that inclusion of probable developed producing reserve is more reflective of the reserve base available to the Company from its investment in the oil fields.

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, which is also calculated using unit of production rates based on proved and probable developed producing reserves.

- *Distribution and administrative expenses.* The Group's distribution and administrative expenses increased by RMB43.2 million, or 55.0%, from RMB78.6 million for the year ended December 31, 2010 to RMB121.8 million for the year ended December 31, 2011. The increase in distribution and administrative expenses was primarily due to: (i) we issued US\$400 million senior notes in May 2011 and incurred professional fees and other related expenses of RMB24.7 million which were recorded in administrative expenses; and (ii) In 2011, more crude oil was allocated to the foreign contractors at 80% compared to 48% as our investments in the oilfields increased, so we had to bear more administrative expenses for these three oilfields; and (iii) after listing, the Company incurred more reporting, legal expenses and other miscellaneous expenses for the compliance with Listing Rules of the Hong Kong Stock Exchange and other disclosure obligations.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil's administrative expenses amounted to RMB3.3 million.

- *Taxes other than income taxes.* The Group's taxes other than income taxes increased by RMB367.5 million, or 127.0%, from RMB289.3 million for the year ended December 31, 2010 to RMB656.8 million for the year ended December 31, 2011. The following table summarizes taxes other than income taxes for the years ended December 31, 2011 and December 31, 2010:

	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>China</b>		
Special oil levy	<b>595,368</b>	288,133
Urban construction tax and education surtax	<b>13,825</b>	1,163
	<u><b>609,193</b></u>	<u>289,296</u>
<b>Kazakhstan</b>		
Mineral extraction tax	<b>6,699</b>	—
Rent export tax	<b>25,458</b>	—
Rent export duty expenditures	<b>5,527</b>	—
Property tax	<b>7,549</b>	—
Others	<b>2,340</b>	—
	<u><b>47,573</b></u>	<u>—</u>
	<u><b>656,766</b></u>	<u>289,296</u>

This increase in taxes other than income taxes for our China operations was primarily due to an increase in the special oil levy we paid to the PRC government in 2011 due to: (i) increased realized crude oil prices of year 2011 as the special oil levy is calculated and charged at progressive ad valorem rates based on the price of crude oil; and (ii) an increase in sales volume. For our China operations, the average selling price for the year ended December 31, 2010 and 2011 was US\$77.99 and US\$109.99 per barrel, respectively, and the sales volume for the year ended December 31, 2010 and 2011 was 3.42 million and 3.84 million barrels, respectively. During most of the year ended December 31, 2011, we had to pay the special oil levy based on the old rules starting at US\$40 per barrel and the rate increases according to the crude oil price.

In early 2012, the Ministry of Finance of the People's Republic of China ("MOF") issued a notice regarding the increase of the threshold of the special oil levy (Cai Qi [2011] No.480) ("Notice") paid by crude oil producers. Pursuant to the Notice, as approved by

the State Council, MOF has decided to increase the threshold of the special oil levy from US\$40 to US\$55 per barrel, with effect from November 1, 2011. Notwithstanding such adjustment, the special oil levy will continue to have five levels and will be calculated and charged according to the progressive and valorem rates on the excess amounts. The special oil levy will continue to be calculated on a monthly basis and paid on a quarterly basis. Details of the level of the special oil levy are as follows:

<b>Crude oil prices (US\$/barrel)</b>	<b>Level of special oil levy</b>
55–60 (inclusive)	20%
60–65 (inclusive)	25%
65–70 (inclusive)	30%
70–75 (inclusive)	35%
Over 75	40%

Prior to the issue of the Notice, the Group was paying special oil income levy based on the following levels:

<b>Crude oil prices (US\$/barrel)</b>	<b>Level of special oil levy</b>
40–45 (inclusive)	20%
45–50 (inclusive)	25%
50–55 (inclusive)	30%
55–60 (inclusive)	35%
Over 60	40%

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. Please refer to above for a breakdown of the different types of taxes other income taxes paid by Emir-Oil.

- *Other losses.* The Group's other losses decreased by RMB12.7 million, or 33.8%, from approximately RMB37.6 million for the year ended December 31, 2010 to approximately RMB24.9 million for the year ended December 31, 2011. We had other losses of RMB24.9 million for the year ended December 31, 2011, primarily due to the non-cash unrealized loss of RMB32.2 million from the oil hedge options purchased in October 2010 and October 2011 due to the movement in the fair value of the oil hedge options. The accounting standard requires us to perform a fair value valuation on the unexpired portion of any oil hedge option at each reporting period. The fair value valuation is determined by, amongst other things, the spot price and the forward curve of oil prices at the reporting period.

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

<b>Contract Period</b>	<b>Monthly Notional Quantity (barrel)</b>	<b>Annual Notional Quantity (barrel)</b>	<b>MIE sold put option at strike price (WTI price per barrel)</b>	<b>MIE bought put option at strike price (WTI price per barrel)</b>
Year ended December 31, 2011	150,000	1,800,000	US\$55	US\$70
Year ending December 31, 2012	100,000	1,200,000	US\$55	US\$70

The premium of US\$8.74 million (RMB57.86 million) for the above option is payable over 8 installments on a quarterly basis from April 2011.

The spot price of WTI as at December 30, 2011 was US\$99.0 per barrel and the forward curve for WTI for that date was higher than the spot price. Given the WTI spot price and forward curve for WTI was higher than the strike price of US\$70 per barrel for MLCI Oil Hedge, the fair value valuation requires us to book a non-cash loss of RMB21.3 million for the MLCI Oil Hedge to write down the financial derivative asset.

In October 2011, the Group entered into three separate oil hedge options with JPMorgan Chase Bank, N.A. (“JPMorgan”), Deutsche Bank AG (“Deutsche”) and Standard Bank Plc (“SB Plc”) at monthly notional quantity of 60,000 barrel each for the year ending December 31, 2012 (or a total notional quantity of 720,000 barrels) at zero premium:

<b>Counterparty</b>	<b>Company bought put option at strike price (IPE Brent price per barrel)</b>	<b>Company sold call option at strike price (IPE Brent price per barrel)</b>	<b>Company bought call option at strike price (IPE Brent price per barrel)</b>
JPMorgan	US\$60.00	US\$131.00	US\$170.00
Deutsche	US\$60.00	US\$131.50	US\$170.00
SB Plc	US\$60.00	US\$146.00	US\$186.00

The IPE Brent price as at December 30, 2011 was US\$106.51 per barrel and the forward curve for IPE Brent price for that date was higher than the spot price. Given the IPE Brent price and forward curve were approaching the strike price of the sold put option, the fair value valuation requires us to book a net non-cash loss of RMB10.9 million for these three oil hedges and recognize the financial derivative liabilities.

## **Profit from operations**

The Group's profit from operations increased by RMB465.2 million, or 73.4%, from RMB634.0 million for the year ended December 31, 2010 to RMB1,099.2 million for the year ended December 31, 2011. This increase was primarily due to an increase in revenue, partially offset by the increase in special oil levy, other taxes in Kazakhstan and employee compensation cost.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil incurred a loss from operations of RMB7.5 million.

## **Finance income/(costs), net**

The Group's finance cost (net) increased by RMB108.4 million, or 210.9%, from RMB51.4 million for the year ended December 31, 2010 to RMB159.8 million for the year ended December 31, 2011. This increase was primarily due to: (i) the US\$400 million 5-year senior notes issued in May 2011 with 9.75% annual coupon rate to finance acquisition of Emir-Oil and to repay the US\$200 million CITIC bank loan, which resulted in a significant increase in interest expenses; (ii) early repayment of the CITIC bank loan in May 2011 resulted in writing off the unamortized non-cash expenses related to the CITIC bank loan of RMB29.3 million and an early repayment penalty of US\$1.0 million (RMB6.8 million) to CITIC bank; and (iii) CITIC bank charged us US\$0.4 million waiver fee to allow us to go ahead with the US\$400 million 5-year senior notes fund raising. The increase in finance costs was partially offset by the increase in finance income due to the exchange gain caused by the appreciation of the Renminbi against the US dollar in 2011 as our borrowings were denominated and settled in US dollars.

During the three months ended December 31, 2011 that we controlled Emir-Oil, Emir-Oil incurred finance costs of RMB9.4 million.

## **Gain arising from acquisition of Emir-Oil**

On September 19, 2011, the Group acquired 100% of the share capital of Emir-Oil and intercompany loans payable by Emir-Oil to BMB Munai, Inc. for US\$159,601,000 (RMB1,014.2 million). Emir-Oil is an oil and natural gas exploration and production company registered and operating in the Republic of Kazakhstan. The Group assumed the control of Emir-Oil on September 30, 2011.

According to the valuation report prepared by an independent appraisal firm, the fair value of identifiable net assets of Emir-Oil at the date the Group assumed control is RMB1,594.9 million and total acquisition related cost is RMB120.3 million. The net gain arising from acquisition of Emir-Oil is RMB460.3 million accordingly.

## **Profit before income tax**

The Group's profit before income tax increased by RMB817.2 million, or 140.3%, from RMB582.6 million for the year ended December 31, 2010 to RMB1,399.8 million for the year ended December 31, 2011. This increase was primarily due to the cumulative effects of the above factors.

## **Income tax expense**

The Group had income tax expense of RMB161.7 million for the year ended December 31, 2010, compared to income tax expense of RMB293.9 million for the year ended December 31, 2011. This increase was primarily due to an increase in profit before income tax in 2011.

## **Net profit for the year**

As a result of the foregoing, our net profit for the year increased by RMB684.9 million, or 162.7%, from RMB420.9 million for the year ended December 31, 2010 to RMB1,105.8 million for the year ended December 31, 2011. Net profit would be RMB768.3 million after taking into consideration the adjustments used for adjusted EBITDA (below) for non-cash items except for depreciation, depletion and amortization, such as share-based compensation expense, realized and unrealized loss/(gain) on the oil put option, gain arising from acquisition of Emir-Oil, LLC, loss on disposal of property, plant and equipment, non-recurring expenses related to the issuance of senior notes and any other non-recurring or non-cash income/expenses such as the waiver fee, early repayment penalty and write off of unamortized non-cash expenses related to the CITIC Bank loan, which would reflect net profit from core operations after adjustment for non-cash and non-recurring items.

Emir-Oil's loss for the three months ended December 31, 2011 was RMB14.7 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 and non-recurring 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 or non-cash income/expenses. The Group's adjusted EBITDA reflects the Group's 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 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, 2011 and December 31, 2010:

	<b>Year ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Net profit for the year	<b>1,105,842</b>	420,864
Income tax expenses	<b>293,909</b>	161,705
Finance income	<b>(74,728)</b>	(35,344)
Finance cost	<b>234,482</b>	86,788
Depreciation, depletion and amortization	<b>542,002</b>	528,582
	<hr/>	<hr/>
EBITDA	<b>2,101,507</b>	1,162,595
	<hr/>	<hr/>
Share-based compensation expenses	<b>18,041</b>	29,429
Loss on oil hedge options	<b>32,137</b>	44,692
Gain arising from acquisition of Emir-Oil, LLC	<b>(460,345)</b>	—
Expenses related to issuance of senior notes	<b>24,127</b>	—
Loss on disposal of property, plant and equipment	<b>1,089</b>	—
Other acquisition expenses	<b>8,761</b>	—
	<hr/>	<hr/>
Adjusted EBITDA	<b>1,725,317</b>	1,236,716
	<hr/>	<hr/>

The Group's EBITDA increased by approximately RMB938.9 million, or 80.8%, from approximately RMB1,162.6 million for the year ended December 31, 2010 to approximately RMB2,101.5 million for the year ended December 31, 2011. The increase was primarily due to the increase in realized oil price and sales volume.

The Group's adjusted EBITDA increased by approximately RMB488.6 million, or 39.5%, from approximately RMB1,236.7 million for the year ended December 31, 2010 to approximately RMB1,725.3 million for the year ended December 31, 2011. The increase in adjusted EBITDA was also primarily due to the increase in realized oil price and sales volume.

## **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 11) to manage its price risk. If the crude oil price were to increase or decrease by US\$1, the impact on the Group's profit before income tax for the year ended December 31, 2011. As a result of revaluing the oil hedge options would be a decrease of RMB2,698,000 and increase of RMB2,326,000 (2010: decrease of RMB1,566,000 or increase of RMB1,652,000), respectively.

### **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, 2011, the Group had 2,222 employees, with 1,844 based in China and 378 based in Kazakhstan.

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 of Directors recommends the payment of a final dividend of HK\$0.044 per share in respect of 2011 to shareholders whose names appear on the register of members of the Company on May 28, 2012. The proposed final dividend will be paid on or about June 15, 2012, following approval at the Annual General Meeting.

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 of Directors.

### **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the Group's consolidated financial statements for the year ended December 31, 2011, 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**

The Company and its subsidiaries did not purchase, dispose of or redeem any of the listed securities of the Company during the year ended December 31, 2011.

## **USE OF PROCEEDS FROM THE GLOBAL OFFERING**

On December 14, 2010, the Company issued 662,000,000 shares at HK\$1.70 per share by way of the Global Offering. The net proceeds after deducting the relevant expenses were approximately RMB503.8 million (without taking into account the partial exercise of the over-allotment option).

The use of proceeds as stated in the prospectus was as follows:

- Approximately 55% million was expected to be used to expand our operations by acquiring interests in other oil fields.
- Approximately 35% was expected to be used to drill new wells and develop advanced technology.
- Approximately 10% was expected to be used for working capital and general corporate purposes.

Up to December 31, 2011, the net proceeds received from the Global Offering were applied in accordance with the application described in the Company's prospectus.

## **CLOSURE OF REGISTER OF MEMBERS**

The Annual General Meeting of the Company is scheduled on Friday, May 18, 2012. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, May 16, 2012 to Friday, May 18, 2012, 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 Tuesday, May 15, 2012.

The proposed final dividend is subject to the approval of the shareholders of the Company at the Annual General Meeting. The record date for entitlement to the proposed final dividend is Monday, May 28, 2012. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, May 24, 2012 to Monday, May 28, 2012, 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 Wednesday, May 23, 2012.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during year 2011, except for deviations from Code Provision A.2.1 and E.1.2. The following summarizes the requirement under the relevant code provisions and the Company's reason for such deviation.

### **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 Provision E.1.2**

Code provision E.1.2 stipulates that, among others, the chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in their absence, 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 6, 2011 (the "2011 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 2011 AGM due to other important business engagements. In order to ensure smooth holding of the 2011 AGM, Mr Zhang Ruilin authorized Mr Zhao Jiangwei, an executive director of the Company, to chair the 2011 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 2011.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

The electronic version of this announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (<http://www.hkexnews.hk>) and the Company (<http://www.mienergy.com.cn>). The annual report for the year ended December 31, 2011 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 Friday, May 18, 2012. Notice of the Annual General Meeting will be published and sent to shareholders in due course.

By Order of the Board  
**Zhang Ruilin**  
*Chairman*

Hong Kong, March 20, 2012

*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 Law Cheuk Kin, Stephen 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.*