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MIE HOLDINGS CORPORATION

MI能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1555)

INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2012

FINANCIAL SUMMARY

	Unaudited Six-Month Period Ended June 30,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Total revenue	1,756,012	1,282,917
Profit from operations	665,449	512,282
EBITDA	1,042,188	743,694
Adjusted EBITDA	1,062,600	809,340
Net profit for the period	347,053	303,864
Basic earnings per share (RMB per share)	0.13	0.12
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	As at	
	June 30,	December 31,
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	5,889,425	5,267,499
Cash and cash equivalents	371,955	533,029
Total assets	7,669,558	7,426,325
Total equity	3,244,502	2,962,653
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OPERATING SUMMARY

	Six-Month Period Ended	
	June 30,	
	2012	2011
Sales volume		
Crude oil (barrels)	2,421,658	1,821,820
China oilfields	2,041,370	1,821,820
Kazakhstan oilfields	380,288	—
Export sales	360,859	—
Domestic sales	19,429	—
Gas (Mscf)	795,424	—
Kazakhstan oilfields	795,424	—
Total (BOE) (Note)	2,554,229	—
Net production volume		
Crude oil (barrels)	2,433,221	1,815,069
China oilfields	2,048,825	1,815,069
Kazakhstan oilfields	384,396	—
Gas (Mscf)	841,582	—
Kazakhstan oilfields	841,582	—
Total (BOE) (Note)	2,573,485	—
Average daily net crude oil production		
Crude oil (barrels)	13,369	10,028
China oilfields	11,257	10,028
Kazakhstan oilfields	2,112	—
Gas (Mscf)	4,624	—
Kazakhstan oilfields	4,624	—
Average realized price		
Crude oil (US\$ per barrel of crude oil)	114.61	107.63
China oilfields	119.61	107.63
Kazakhstan oilfields	87.81	—
Export sales	89.64	—
Domestic sales	53.87	—
Gas (US\$ per Mscf)	1.15	—
Kazakhstan oilfields	1.15	—
Lifting costs(US\$ per barrel of crude oil)	8.24	7.83
China oilfields	8.03	7.83
Kazakhstan oilfields	9.38	—

Note: based on the conversion ratio of 6 Mscf gas = 1 barrel oil as only for reference purpose.

	Six-Month Period Ended June 30,			
	2012		2011	
	Gross	Net	Gross	Net
Wells drilled during the period	254	227.8	263	236.7
Development wells	251	225.2	263	236.7
China oil fields	248	223.2	263	236.7
Successful	248	223.2	262	235.8
Dry	—	—	1	0.9
Kazakhstan oilfields	2	2.0	—	—
Successful	2	2.0	—	—
Dry	—	—	—	—
USA oilfields	1	—	—	—
Successful	1	—	—	—
Dry	—	—	—	—
Exploration wells	3	2.6	—	—
China oil fields	—	—	—	—
Successful	—	—	—	—
Dry	—	—	—	—
Kazakhstan oilfields	2	2.0	—	—
Successful	2	2.0	—	—
Dry	—	—	—	—
USA oilfields	1	0.6	—	—
Successful	1	0.6	—	—
Dry	—	—	—	—
Horizontal Wells (Note)	3	1.5	—	—
China oil fields	1	0.9	—	—
Successful	1	0.9	—	—
Dry	—	—	—	—
Kazakhstan oilfields	—	—	—	—
Successful	—	—	—	—
Dry	—	—	—	—
USA oilfields	2	0.6	—	—
Successful	2	0.6	—	—
Dry	—	—	—	—
Operated by the Company	253	225.2	263	236.7
Operated by Others	1	—	—	—

Note: The three horizontal wells include a development well in China oilfields, a development well and an exploration well in USA oilfields.

BUSINESS REVIEW AND PROSPECTS

The Company's results in the first half year of 2012 ("Current Period") are significantly better than the first half of 2011 ("Prior Period"). Crude oil sales increased 33% to 2.42 million barrels and revenue increased 36.9% to RMB1,756.0 million. Realized crude oil price increased 6.5% to US\$114.61 per barrel. Net crude oil production increased 33.3% to an average of 13,369 barrels per day. In the Prior Period, the Company had no gas sales, but in the Current Period with the purchase of Emir-Oil, our Kazakhstan properties, gas production averaged 4,624 Mscf per day.

The Current Period results include the Kazakhstan properties acquired in late September 2011 which achieved crude oil sales of 0.38 million barrels, gas sales of 0.80 billion scf, revenue of RMB0.22 billion, a realized crude oil price of US\$87.81 per barrel, a realized gas price of US\$1.15 per Mscf and net average crude oil production of 2,112 barrels per day, and our northeast China oil properties (the Daan, Moliqing and Miao 3 production sharing contracts) which improved significantly over the Prior Period with a 12.1% increase in sales volume to 2.04 million barrels, a 20.3% increase in revenue to RMB1.54 billion, an 11.1% increase in realized oil price to US\$119.61 per barrel and a 12.3% increase in average oil production to 11,257 barrels per day.

The Company had budgeted to invest US\$303 million for the China oil properties, the Kazakhstan oil and gas properties, and the USA shale oil properties in 2012. During the Current Period, a total of US\$154 million has been invested of which US\$152 million was spent on the existing projects in China, Kazakhstan and USA; and US\$2 million was for an acquisition of a shale oil project in the USA. Out of the US\$154 million invested during the Current Period, US\$127 million, US\$22 million and US\$5 million were invested on the China oil properties, Kazakhstan oil and gas properties and the USA properties, respectively. In the Prior Period, US\$101 million was invested with all of the US\$101 million invested in the then existing projects.

Drilling continued at a brisk pace and during the Current Period, the Company drilled 251 gross development wells without any dry holes as compared to the Prior Period when 263 gross wells were drilled with 1 dry hole. In the Current Period 3 exploration wells were also drilled without any dry holes. No exploration wells were drilled in the Prior Period. During the Current Period, we drilled our first horizontal well. Included in the Current Period well counts of 254 wells, three are horizontal wells with two in the USA and one in China. Of all the wells drilled in both the Current and Prior periods, only one Current Period horizontal well was not operated by the Group. The Group continues to demonstrate its proven capability in development operations, now extended into exploration and horizontal drilling and completion operations.

All three exploration wells drilled in the Current Period are successful. One horizontal well discovery established our first production in the Niobrara oil shale play in Colorado, USA; the second discovery found the North Kariman oil field in the exploration area of our ADK area in Kazakhstan (production test performed on one zone resulting in oil flow at good rates and additional zones have been planned); the third discovery, also located in our Kazakhstan properties, will be completed and production tested soon which logs indicate commercial oil. Following the Company's low risk strategy has yielded 100% success in its first three exploration wells.

From the Prior Period to the Current Period, the Group successfully expanded its drilling both in terms of geography from only in China to now also include Kazakhstan and the USA, and in terms of technology to include two operated, successful horizontal wells.

During the Current Period, the Company made two acquisitions aiming at expanding the Group's existing scale of operations and improving the Group's operation and technical expertise, both of which were entered into at low initial investment cost.

In May 2012, the Company, through its wholly owned subsidiary MIE Jurassic Energy Corporation, acquired 50% capital interest in White Hawk Petroleum, LLC ("White Hawk") from Pacific Energy Development Corporation ("PEDCO") for US\$2 million. White Hawk is a newly formed Nevada LLC whose assets consist of a minority, non-operated interest in the Leighton — Mandurah Prospect Deep Contract Area in the Eagle Ford Shale oil trend, McMullen County, Texas. White Hawk has a 7.939% working interest and a 5.95425% net revenue interest covering 1,650.75 gross acres and including three existing producing wells. Undeveloped acreage has room for 24 additional wells based on eighty-acre spacing. The acquisition will improve the Company's operating and technical expertise in regard to horizontal drilling and completions by participation in another of the USA's most active gas/oil shale plays.

In June 2012, the Company agreed to acquire 51% interest in Sino Gas & Energy Limited ("SGE"). SGE's principal business activity is the exploration and development of unconventional gas in China on the eastern flank of the Ordos Basin under two Production Sharing Contracts, namely Linxing and Sanjiaobei PSCs. The Company paid US\$10 million at closing in July 2012. Over the next few years, the Company will pay an additional US\$90 million to fund exploration and delineation drilling plus preparation of Chinese reserve reports and related overall development plans. The Company's estimate of risked contingent resources (2C, 100%) is 0.97 Tscf. A past public presentation indicated un-risked gas 2C contingent resources of 1.799 Tscf and midpoint prospective resources of 1.861 Tscf for 100% interest in these two PSCs at the beginning of 2012. For further details please refer to the Company's announcement dated June 27, 2012.

The acquisition will provide a clear way for the Company to immediately begin participation in China unconventional gas under two existing PSCs with significant potential, aligning the Company for more effective future participation in the rapidly expanding exploration and development of Chinese unconventional gas resources.

FINANCIAL RESULT HIGHLIGHTS

The Company's revenue increased by RMB473.1 million, or 36.9%, from RMB1,282.9 million for the Prior Period to RMB1,756.0 million for the Current Period. Compared to the year ended December 31, 2011, revenue for the Current Period is equivalent to 62.1% of the revenue for the full year in 2011.

The Company's adjusted EBITDA increased by approximately RMB253.3 million, or 31.3%, from approximately RMB809.3 million for the Prior Period to approximately RMB1,062.6 million for the Current Period. Compared to the year ended December 31, 2011, adjusted EBITDA for the Current Period is equivalent to 61.6% of adjusted EBITDA for the full year in 2011.

The Company's net profit increased by RMB43.2 million, or 14.2% from RMB303.9 million for the Prior Period to RMB347.1 million for Current Period. Compared to the year ended December 31, 2011, net profit for the Current Period is equivalent to 53.8% of net profit for the full year in 2011, after subtracting from the 2011 net profit the RMB460.3 million one time non-cash gain arising from the acquisition of Emir-Oil.

For the Current Period the Company's basic and diluted earnings per share were RMB0.13. For the Prior Period the Company's basic and diluted earnings per share were RMB0.12 and RMB0.11, respectively.

The aggregate average realized oil price for China and Kazakhstan was US\$114.61 per barrel for the Current Period compared to US\$107.63 per barrel for the Prior Period. For our China oilfields, the average realized oil price was US\$119.61 per barrel for the Current Period, compared to US\$107.63 per barrel for the Prior Period. For our Kazakhstan oilfields, the average realized oil price comprising export and domestic sales was US\$87.81 per barrel for the Current Period. The average realized oil price for the Current Period was US\$89.64 per barrel from export sales (after transportation and marketing commissions of US\$21.21 per barrel) and US\$53.87 per barrel from domestic sales.

Lifting cost per barrel was US\$7.83 per barrel for the first half of 2011 compared to lifting costs of US\$8.24 per barrel for the first half of 2012 (not including the gas in calculating lifting cost). The increase is mainly due to (i) increase in staff costs due to increase in salaries and additional workers for our China operations; (ii) increase in electricity expense due to more productive wells and higher unit electricity fee; (iii) increase in number of productive wells for our China oilfields resulting in the increase in downhole operating costs and repair and maintenance costs (for the China oilfields, we operated 1,832 productive wells as at June 30, 2011 and 2,206 productive wells as at June 30, 2012); and (iv) the inclusion of Emir-Oil which has a higher lifting cost than our China oilfields.

OUTLOOK FOR 2012

For full year 2012 the Company plans to drill 392 vertical wells and 12 horizontal wells, plus participate in 2 non-operated horizontal development wells. Included in these totals are 21 exploration wells, one of which is a horizontal well. Seventeen of the exploration wells are on the SGE northwest China properties. In the second half of 2012, 141 of the vertical wells remain to be drilled, and 10 of the operated horizontal wells.

With the addition of SGE and budget revisions on other properties we have revised our investment budget for 2012, increasing it by US\$65 million from US\$303 million to US\$368 million. The US\$65 million increase is the net of

- US\$44 million increase for adding SGE acquisition cost and 2012 work program including drilling 17 wells,
- US\$47 million increase mainly for adding 8 horizontal wells on our Daan and Moliqing properties including the successful horizontal development well drilled in the Current Period in the Moliqing oilfield which has been successfully fracture treated and put into production at rates 4.3 times those of nearby vertical wells and another horizontal well drilled and fracture treated in mid-August in the Daan oilfield, and

- US\$26 million decrease in for Kazakhstan Emir-Oil due to deferral of facility construction costs into 2013 as design plans are expected to be finalized in the fourth quarter 2012, and then the bidding process will take the remainder of 2012 (US\$15 million) and by lower drilling and completion costs (US\$11 million).

Of the planned US\$368 million, at the end of the Current Period, US\$154 million or 41.8% has been expended.

The Company has revised its full year 2012 anticipated approximate net crude oil production forecast as follows:

	Average Barrels per Day
Northeast China (Daan, Moliqing and Miao 3 PSCs)	11,270–11,730
Northwest China (SGE, exploration, unconventional gas)	no sales in 2012
Kazakhstan (Emir-Oil, development and exploration)	2,600–3,100
USA (Condor in Niobrara and White Hawk in Eagle Ford Shale)	30–60
Total	<u>13,900–14,890</u>

The forecast for China is narrower, but basically unchanged. For Kazakhstan, previously the Company had targeted production of 2,700 to 4,500 barrels per day. Expectations for 2012 are now on the low side of this previous estimate, primarily due to delays in getting wells on production in the Current Period, which we expect will also lead to at least two of the wells planned for the second half of 2012 to not come on production until first quarter of 2013. For Kazakhstan Emir-Oil's net crude oil production averaged of 2,112 barrels per day for the Current Period; however early in the second half of 2012 it has increased quickly and for July and for the first half of August averaged 2,801 and 3,611 barrels per day, respectively.

The capabilities of the Group to discover new reserves and to develop new and existing reservoirs expanded significantly with our technical, operational and economic successes in exploration and in horizontal drilling and completion. The acquisition of 51% of SGE provides entry into China unconventional gas exploration and development where our technical expertise and practical working experience in China can assure future success and significant growth. New techniques combined with historical methods will allow continued development the base oil assets in northeast China (Daan, Moliqing and Miao 3). Production is increasing significantly in the second half of 2012 on our Kazakhstan properties, and we have identified more locations to drill to optimize development on our USA Niobrara leases. The Group is positioned to continue its healthy growth into the future.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)**

		Unaudited	
		Six month period	
		ended June 30,	
		2012	2011
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	1,756,012	1,282,917
Operating expenses			
Purchases, services and other		(115,991)	(70,857)
Geological and geophysical expense		(791)	—
Employee compensation costs	7	(118,996)	(110,540)
Depreciation, depletion and amortization		(376,673)	(231,412)
Distribution expenses		(16,620)	(14,890)
Administrative expenses		(55,518)	(35,044)
Taxes other than income taxes	8	(424,014)	(295,434)
Other income/(losses)	9	<u>18,040</u>	<u>(12,458)</u>
Total operating expenses		<u>(1,090,563)</u>	<u>(770,635)</u>
Profit from operations		665,449	512,282
Finance income	10	3,684	32,479
Finance costs	10	<u>(141,104)</u>	<u>(101,485)</u>
Finance cost — net		(137,420)	(69,006)
Investment income		<u>66</u>	<u>—</u>
Profit before income tax		528,095	443,276
Income tax expense	11	<u>(181,042)</u>	<u>(139,412)</u>
Net profit for the period		<u>347,053</u>	<u>303,864</u>
Attributable to:			
Owners of the Company		347,469	303,864
Non-controlling interest		<u>(416)</u>	<u>—</u>
Earnings per share, Basic			
(expressed in RMB per share)	12	0.13	0.12
Earnings per share, Diluted			
(expressed in RMB per share)	12	<u>0.13</u>	<u>0.11</u>

		Unaudited	
		Six month period	
		ended June 30,	
		2012	2011
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Dividends distributed during the period	<i>4</i>	<u>95,070</u>	<u>76,842</u>
Net profit for the period		347,053	303,864
Other comprehensive income			
Currency translation difference		<u>1,632</u>	<u>(20,100)</u>
Other comprehensive income for the period, net of tax		<u>1,632</u>	<u>(20,100)</u>
Total comprehensive income for the period		<u>348,685</u>	<u>283,764</u>
Attributable to:			
Owners of the Company		349,101	283,764
Non-controlling interest		<u>(416)</u>	<u>—</u>
Total comprehensive income for the period		<u>348,685</u>	<u>283,764</u>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(UNAUDITED)**

		Unaudited June 30, 2012 RMB'000	Audited December 31, 2011 RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		5,889,425	5,267,499
Intangible asset		560,611	584,322
Investments	<i>13</i>	15,910	3,966
Trade and other receivables	<i>15</i>	199,497	32,032
Restricted cash		7,515	7,530
		<hr/> 6,672,958	<hr/> 5,895,349
Current assets			
Inventories		54,420	51,837
Derivative financial instruments	<i>14</i>	3,890	9,151
Trade and other receivables	<i>15</i>	566,335	703,068
Pledged deposits		—	233,891
Cash and cash equivalents		371,955	533,029
		<hr/> 996,600	<hr/> 1,530,976
TOTAL ASSETS		<hr/> 7,669,558	<hr/> 7,426,325
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	<i>16</i>	17,629	17,627
Share premium	<i>16</i>	836,374	835,709
Other reserves	<i>16</i>	157,286	102,083
Retained earnings			
— Proposed final dividend		—	94,514
— Others		2,230,125	1,909,216
		<hr/> 3,241,414	<hr/> 2,959,149
Equity attributable to owners of the Company		<hr/> 3,241,414	<hr/> 2,959,149
Non-controlling interest		<hr/> 3,088	<hr/> 3,504
Total Equity		<hr/> 3,244,502	<hr/> 2,962,653

		Unaudited	Audited
		June 30,	December 31,
		2012	2011
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Asset retirement obligations		28,300	21,876
Deferred tax liabilities — net		219,196	213,447
Trade and other payables	<i>17</i>	134,904	110,358
Borrowings	<i>18</i>	2,711,582	2,463,004
Derivative financial instruments	<i>14</i>	76,658	85,157
		<u>3,170,640</u>	<u>2,893,842</u>
Current liabilities			
Trade and other payables	<i>17</i>	1,097,369	1,495,602
Current income tax liabilities		106,378	63,610
Borrowings	<i>18</i>	50,000	—
Derivative financial instruments	<i>14</i>	669	10,618
		<u>1,254,416</u>	<u>1,569,830</u>
Total liabilities		<u>4,425,056</u>	<u>4,463,672</u>
TOTAL EQUITY AND LIABILITIES		<u>7,669,558</u>	<u>7,426,325</u>
Net current liabilities		<u>(257,816)</u>	<u>(38,854)</u>
Total assets less current liabilities		<u>6,415,142</u>	<u>5,856,495</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (UNAUDITED)

1. GENERAL INFORMATION

MIE Holdings Corporation (the “Company”) and its subsidiaries’ (together, the “Group”) principal business is to engage in the development, production and sale of: (1) oil through four production sharing projects in China; (2) oil and gas through Emir-Oil, LLC’s (“Emir-Oil, LLC”) exploration contract and three production contracts in Kazakhstan and; (3) shale oil through Condor Energy Technology LLC’s (“Condor”) working interest in the Niobrara asset in the United States of America.

The Company was incorporated by Far East Energy Limited, 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 condensed consolidated interim financial information is presented in Renminbi (“RMB”) unless otherwise stated. This condensed consolidated interim financial information was approved for issue on August 21, 2012.

These condensed consolidated interim financial statements have not been audited.

On May 23, 2012, the Company acquired from Pacific Energy Development Corporation (“PEDCO”) a 50% capital interest in White Hawk Petroleum LLC (“White Hawk”), an LLC registered in Nevada, USA, whose assets consist of a 7.939% working interest and a 5.95425% net revenue interest covering 1,650.75 gross acres in the Leighton-Mandurah prospect deep contract area in the Eagle Ford Shale oil trend, McMullen County, Texas. The purchase price of US\$2 million, included the 50% capital interest in White Hawk and 1 million warrants in PEDCO, half of which are exercisable at US\$1.25 per share and half of which are exercisable at US\$1.50 per share exercisable within two years. (“PEDCO warrants”)

On June 25, 2012, the Company entered into an agreement with Sino Gas and Energy Holdings Limited (“SGEH”) to acquire a 51% majority interest in Sino Gas and Energy Limited (“SGE”), an entity organized under the laws of Australia. The acquisition was at completion on July 6, 2012. For detail, please refer to Note 20.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended June 30, 2012 have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRSs.

Net current liabilities

As at June 30, 2012, the Group has a deficiency in net current assets of RMB257,816,000 which was driven mainly by significant capital expansion program undertaken by the Company in the six months ended June 30, 2012 of RMB975,765,000. The Group generated positive cash flow from operating activities of RMB687,479,000 and RMB1,246,076,000 for the six months ended June 30, 2012 and the year ended December 31, 2011 respectively and expects to continue to generate positive cash flow in the second half of the year 2012. It has undrawn facility of US\$40,000,000 from Minsheng Bank (Note 18) as at June 30, 2012 and a new facility from China Construction Bank (“CCB”) of RMB60 million after the repayment of the RMB50 million facility to CCB on July 16, 2012 (Note 20).

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.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those described in the annual financial statements for the year ended December 31, 2011.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

- IAS 12 (Amendment), 'Deferred tax: Recovery of underlying assets', effective for annual periods beginning on or after January 1, 2012. IAS 12, 'Income taxes', 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. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes — recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

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

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning January 1, 2012 and have not been early adopted:

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 1, 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.
- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.
- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

3. ACCOUNTING POLICIES (Continued)

- IAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to IAS 19's impact.

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

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

4. EQUITY DISTRIBUTIONS

A dividend of HK\$0.044 per share in respect of the year ended December 31, 2011 (year ended December 31, 2010 of HK\$0.035 per share), amounting to a total dividend of HK\$116,504,995 (RMB95,070,000) (December 31, 2010: HK\$92,474,000 (RMB76,842,000)) was approved at the annual general meeting on May 18, 2012 and was paid on June 15, 2012.

5. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2011.

6. SEGMENT INFORMATION

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

The Board of Directors considers the business performance of the Group from a geographic perspective being China, Kazakhstan and United States of America ("USA").

The China segment derives its revenue from the sale of oil. Revenue is realized from the sale of the Group's share of crude oil to PetroChina pursuant to three PSCs: Daan, Moliqing and Miao 3. The Kazakhstan segment derives its revenue from the sale of oil and gas. The USA segment will derive its revenue from sale of shale oil, but had not commenced production as at June 30, 2012.

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

6. SEGMENT INFORMATION (Continued)

The segment information provided to the Board of Directors for the reportable segments for the six months ended June 30, 2012 is as follows:

	China	Kazakhstan	USA	Others*	Inter- segment transaction	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	1,539,687	216,325	—	—	—	1,756,012
Revenue	<u>1,539,687</u>	<u>216,325</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,756,012</u>
Purchases, services and other	(84,484)	(31,507)	—	—	—	(115,991)
Geological and geophysical expense	—	(791)	—	—	—	(791)
Employee compensation costs	(77,437)	(21,890)	—	(19,669)	—	(118,996)
Depreciation, depletion and amortization	(323,494)	(53,070)	—	(109)	—	(376,673)
Distribution expenses	(16,620)	—	—	—	—	(16,620)
Administrative expenses	(29,981)	(9,914)	(2,428)	(13,195)	—	(55,518)
Taxes other than income taxes (<i>Note 8</i>)	(301,111)	(92,577)	—	(30,326)	—	(424,014)
Other (losses)/income	(582)	—	—	18,622	—	18,040
Profit from operations	<u>705,978</u>	<u>6,576</u>	<u>(2,428)</u>	<u>(44,677)</u>	<u>—</u>	<u>665,449</u>
Finance income	2,815	1,743	—	21,895	(22,769)	3,684
Finance cost	(8,568)	(25,315)	—	(129,990)	22,769	(141,104)
Investment income	—	—	66	—	—	66
Income tax expense	(184,055)	3,013	—	—	—	(181,042)
Net profit for the period	<u>516,170</u>	<u>(13,983)</u>	<u>(2,362)</u>	<u>(152,772)</u>	<u>—</u>	<u>347,053</u>
Total assets	<u>5,275,168</u>	<u>2,174,870</u>	<u>70,397</u>	<u>145,233</u>	<u>—</u>	<u>7,665,668</u>
Total assets includes:						
Property, plant and equipment	4,321,313	1,534,560	32,072	1,480	—	5,889,425
Intangible assets	5,499	536,371	18,741	—	—	560,611
Additions to non-current assets	801,265	142,428	32,072	—	—	975,765
Total liabilities	<u>1,028,670</u>	<u>435,704</u>	<u>6,648</u>	<u>96,328</u>	<u>—</u>	<u>1,567,350</u>

6. SEGMENT INFORMATION (Continued)

As at June 30, 2011, the Group operated as a single operating segment in China. The segment information for six months ended June 30, 2011 is as follows:

	China <i>RMB'000</i>	Others* <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	1,282,917	—	1,282,917
Revenue	<u>1,282,917</u>	<u>—</u>	<u>1,282,917</u>
Purchases, services and other	(70,857)	—	(70,857)
Employee compensation costs	(102,691)	(7,849)	(110,540)
Depreciation, depletion and amortization	(231,412)	—	(231,412)
Distribution expenses	(14,890)	—	(14,890)
Administrative expenses	(26,299)	(8,745)	(35,044)
Taxes other than income taxes (<i>Note 8</i>)	(295,434)	—	(295,434)
Other losses	(12,458)	—	(12,458)
Profit from operations	<u>528,876</u>	<u>(16,594)</u>	<u>512,282</u>
Finance income	31,232	1,247	32,479
Finance cost	(66,067)	(35,418)	(101,485)
Income tax expense	(139,412)	—	(139,412)
Net profit for the period	<u><u>354,629</u></u>	<u><u>(50,765)</u></u>	<u><u>303,864</u></u>

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

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

The assets and liabilities as at December 31, 2011 is as follows:

	China <i>RMB'000</i>	Kazakhstan <i>RMB'000</i>	Others* <i>RMB'000</i>	Inter- segment transaction <i>RMB'000</i>	Total <i>RMB'000</i>
Total assets	5,239,096	2,078,556	99,522	—	7,417,174
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
Total liabilities	<u><u>1,331,285</u></u>	<u><u>354,077</u></u>	<u><u>187,044</u></u>	<u><u>—</u></u>	<u><u>1,872,406</u></u>

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.

6. SEGMENT INFORMATION (Continued)

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

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

	As at	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Segment assets for reportable segments	7,520,435	7,317,652
Other segments assets	145,233	99,522
	<u>7,665,668</u>	<u>7,417,174</u>
Unallocated:		
Current derivative financial instruments	3,890	9,151
Total assets per consolidated statement of financial position	<u><u>7,669,558</u></u>	<u><u>7,426,325</u></u>

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

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

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

	As at	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Segment liabilities for reportable segments	1,471,022	1,685,362
Other segments liabilities	96,328	187,044
	<u>1,567,350</u>	<u>1,872,406</u>
Unallocated:		
Current derivatives financial instrument premium	18,797	25,644
Non-current derivatives financial instrument premium	—	6,843
Current derivative financial instruments	669	10,618
Non-current derivative financial instruments	76,658	85,157
Current borrowings	50,000	—
Non-current borrowings	2,711,582	2,463,004
	<u>2,711,582</u>	<u>2,463,004</u>
Total liabilities per consolidated statement of financial position	<u><u>4,425,056</u></u>	<u><u>4,463,672</u></u>

6. SEGMENT INFORMATION (Continued)

Breakdown of the revenue is as follows:

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Analysis of revenue by segment		
Sale of oil in China	1,539,687	1,282,917
Sale of oil and gas in Kazakhstan	216,325	—
	<u>1,756,012</u>	<u>1,282,917</u>

Revenues in China of approximately RMB1,539,687,000 (2011: RMB1,282,917,000) are derived from a single external customer, PetroChina.

Revenues in Kazakhstan of approximately RMB201,125,000 are derived from Titan Oil.

7. PROFIT FROM OPERATIONS

All significant unusual items in nature, size or incidence have been included in the Condensed Consolidated Interim Statement of Comprehensive Income. Included in employee compensation costs are share-based compensation expenses of RMB32,120,000 (2011: RMB49,573,000).

8. TAXES OTHER THAN INCOME TAXES

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
China		
Special oil levy	292,715	289,363
Others	8,396	6,071
	<u>301,111</u>	<u>295,434</u>
Kazakhstan		
Mineral extraction tax	13,765	—
Rent export tax	55,139	—
Rent export duty expenditures	12,021	—
Property tax	11,652	—
	<u>92,577</u>	<u>—</u>
Others		
Withholding tax	30,326	—
	<u>30,326</u>	<u>—</u>
Total	<u>424,014</u>	<u>295,434</u>

9. OTHER INCOME/(LOSSES)

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Gain/(loss) on oil put option	4,286	(16,073)
Gain from changes of fair value of option to ACAP	8,499	—
Others	5,255	3,615
	<u>18,040</u>	<u>(12,458)</u>

10. FINANCE COST — NET

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Finance income		
Interest income	3,684	1,735
Exchange gain	—	30,744
	<u>3,684</u>	<u>32,479</u>
Finance cost		
Interest expense	(132,595)	(91,851)
Bank charges	(1,191)	(9,634)
Exchange loss	(7,318)	—
	<u>(141,104)</u>	<u>(101,485)</u>
Finance costs — net	<u>(137,420)</u>	<u>(69,006)</u>

11. INCOME TAX EXPENSE

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Current income tax — overseas	178,101	132,113
Deferred income tax	2,941	7,299
	<u>181,042</u>	<u>139,412</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 six months ended June 30, 2012 and 2011. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending December 31, 2012 is 34% (the estimated tax rate for the six months ended June 30, 2011 was 31%). The increase in average annual tax rate is mainly due to higher non-deductible expenses relating to interest expenses for the Notes which was issued in May 2011.

12. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the six month period excluding ordinary shares purchased by the trustee and held in trust for the benefit of selected grantees pending the exercise of SAR to which these shares relate (Note 16).

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	347,469	303,864
Weighted average number of ordinary shares (thousands)	2,647,237	2,641,726
Earnings per share, Basic (RMB per share)	0.13	0.12

(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. For six months ended June 30, 2012 and 2011, the Company only has share options outstanding which are potentially dilutive. A calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. The number of ordinary shares calculated above for basic earning per share is increased by the number of ordinary shares that would have been issued assuming the exercise of the share options at the date later of beginning of the relevant period or the date of issue.

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Net profit attributable to equity holders of the Company	347,469	303,864
Profit used to determine diluted earnings per share	347,469	303,864
Weighted average number of ordinary shares in issue (thousands)	2,647,237	2,641,726
Adjustments for:		
— Share options (thousands)	17,962	18,418
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	2,665,199	2,660,144
Earnings per share, Diluted (RMB per share)	0.13	0.11

13. INVESTMENTS

	As at June 30, 2012 RMB'000
Beginning of the period (a)	3,966
Addition (b)	11,878
Share of post-tax profits of jointly controlled entity	<u>66</u>
End of the period	<u><u>15,910</u></u>

(a) The beginning balance represents the value of 4,000,000 shares of restricted A convertible preferred stock in PEDCO at USD0.75 per share acquired in October 2011.

(b) On May 23, 2012, the Company acquired from PEDCO a 50% capital interest in White Hawk. The purchase price of acquisition of US\$2 million included the 50% capital interest in White Hawk and 1 million PEDCO warrants. (Note 14)

The Group's share of the results in White Hawk and its aggregated assets and liabilities are shown below:

	Six months ended June 30, 2012 RMB'000
Assets	13,166
Liabilities	1,242
Revenues	85
Share of profit	<u>66</u>
Percentage held	<u><u>50%</u></u>

14. DERIVATIVE FINANCIAL INSTRUMENTS

	As at	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Assets		
Oil hedge options (a)	3,470	9,151
PEDCO warrants (b)	420	—
	<u>3,890</u>	<u>9,151</u>
Current portion	<u>3,890</u>	<u>9,151</u>

	As at	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000
Liabilities		
Current		
Oil hedge options (a)	669	10,618
Non-current		
Option to ACAP (c)	76,658	85,157
	<u>77,327</u>	<u>95,775</u>

(a) Oil hedge options

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

Contract Period	Monthly Notional Quantity (barrel)	Annual Notional Quantity (barrel)	MIE sold put option at strike price (WTI price per barrel)	MIE bought put option at strike price (WTI price per barrel)
Year ended December 31, 2011	150,000	1,800,000	US\$55.00	US\$70.00
Year 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 instalments on a quarterly basis from April 2011.

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(a) Oil hedge options (Continued)

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

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

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 (Note 9) and as assets or liabilities.

(b) PEDCO warrants

Connected with the purchase of the 50% interest in White Hawk on May 23, 2012, for a consideration of US\$2,000,000, the Company also acquired 1 million PEDCO warrants, half of which are exercisable at US\$1.25 per share and half of which at US\$1.50 per share exercisable within two years. The initial fair value of the warrants is approximately RMB420,000 (Note 1).

(c) Option to ACAP

The Company has granted Acap Limited (“ACAP”), which provided general consulting services to the Company in relation to the acquisition of Emir-Oil, LLC, a right to co-invest with the Company or its associates for up to 9.9% of the assets acquired in the acquisition, on the same terms and conditions under the purchase agreement within 36 months from the closing of the transaction. The change in fair value of the option to ACAP is recognized in the consolidated statement of comprehensive income (Note 9).

15. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of RMB765,832,000 as at June 30, 2012 (December 31, 2011: RMB 735,100,000) are trade receivables of RMB257,864,000 (December 31, 2011: RMB 210,603,000).

The aging analysis of trade receivables were as follows:

	As at	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000
0 — 30 days	257,830	197,123
31 — 180 days	1	13,441
over 180 days	33	39
	<u>257,864</u>	<u>210,603</u>

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

As of June 30, 2012 and December 31, 2011, there were no trade receivables past due which are impaired.

16. SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Other reserve RMB'000	Total RMB'000
Opening balance January 1, 2012	2,647,396	17,627	835,709	102,083	955,419
Transfer to safety fund reserve	—	—	—	26,004	26,004
Currency translation difference	—	—	—	1,632	1,632
Employees stock option scheme — value of employee services	—	—	—	33,433	33,433
Employees stock option scheme — exercise of employee options	445	2	665	—	667
Share buy back (a)	—	—	—	(5,866)	(5,866)
At June 30, 2012	<u>2,647,841</u>	<u>17,629</u>	<u>836,374</u>	<u>157,286</u>	<u>1,011,289</u>
Opening balance January 1, 2011	2,641,334	17,588	826,477	91,919	935,984
Transfer to safety fund reserve	—	—	—	18,791	18,791
Currency translation difference	—	—	—	(20,100)	(20,100)
Employees stock option scheme — value of employee services	—	—	—	1,803	1,803
Employees stock option scheme — exercise of employee options	1,701	11	2,167	—	2,178
At June 30, 2011	<u>2,643,035</u>	<u>17,599</u>	<u>828,644</u>	<u>92,413</u>	<u>938,656</u>

16. SHARE CAPITAL (Continued)

- (a) To supplement the 2009 Stock Incentive Compensation Plan (the “Plan”) in respect the operation of the share appreciation rights (“SAR”), the board of the Company resolved on May 30, 2012 that up to 44,415,800 shares of the Company will be purchased by a trustee from the market out of cash contributed by the Group and be held in trust for the benefit of the persons holding SAR and pending the exercise of the SAR (“Selected Grantees”). Upon exercise of the SAR, the trustee will sell the purchased shares to which the SAR so exercised relates and pay the Selected Grantees in satisfaction of the Company’s payment obligations in relation to the SAR under the Plan.

In the current period, the trustee has acquired 3,822,000 shares through purchases from the market at an aggregate consideration of RMB5,866,000 (including transaction costs). The purchased shares are being held in trust and did not result in any share cancellation.

17. TRADE AND OTHER PAYABLES

At June 30, 2012 and December 31, 2011, the ageing analysis of the trade and other payable based on invoice date is as follows:

	As at	
	June 30, 2012 RMB’000	December 31, 2011 RMB’000
< 6 months	893,328	1,299,650
6 months–1 year	244,917	160,788
1–2 years	58,480	123,733
2–3 years	19,365	2,954
> 3 years	16,183	18,835
Total	<u>1,232,273</u>	<u>1,605,960</u>

18. BORROWINGS

- (a) Summary of borrowings

	As at	
	June 30, 2012 RMB’000	December 31, 2011 RMB’000
Bank borrowings		
Non-current (i)	233,905	—
Current (ii)	50,000	—
	<u>283,905</u>	<u>—</u>
Senior Notes (iii)	<u>2,477,677</u>	<u>2,463,004</u>
Total borrowings	<u>2,761,582</u>	<u>2,463,004</u>

18. BORROWINGS (Continued)

(a) Summary of borrowings (Continued)

Bank Borrowings

(i) *Loan from China Minsheng Bank*

On June 18, 2012, MI Energy Corporation (“MIE”) signed a US\$80 million syndicated loan facility with China Minsheng Banking Corporation Limited head office and China Minsheng Banking Corporation Limited Hong Kong Branch. The term of the loan is 35 months and bears interest at LIBOR plus 5% per annum, repayable in three equal instalments on the 24th, 30th and 35th months after June 25, 2012. The loan is unsecured and guaranteed by the Company. As of June 30, 2012, MIE had drawn down US\$40 million under the loan.

(ii) *Loan from China Construction Bank*

MIE entered into a RMB50 million working capital loan agreement with China Construction Bank (“CCB”) on January 4, 2012 for 6 months commencing on January 13, 2012. The interest rate is the base rate as published by the People’s Bank of China at 6.1% per annum plus 15% of the base rate and the resulting effective interest rate is 7.015% per annum. The loan is secured by a pledge of MIE’s entitlement to the sales income from Moliqing and Miao 3. The loan was repaid on July 16, 2012 (Note 20).

(iii) *Senior Notes*

On May 12, 2011, the Company issued US\$400,000,000 9.75% senior notes (“Notes”) due 2016. The Notes bear a coupon rate of 9.75% per annum, payable semi-annually in arrears on May 12 and November 12 of each year, commencing on November 12, 2011. The net proceeds of the issuance of the 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. The Notes are listed on the Singapore Exchange Securities Trading Limited.

The Notes are general obligation of the Company and are senior in right of payment to any existing and future obligations of the Company and its subsidiaries expressly subordinated in right of payment to the 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, issue preferred stock or 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 12 May of any year set forth below:

Period	Redemption Price
2014	104.8750%
2015	102.4375%

At any time prior to May 12, 2014, the Company may at its option redeem the 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 and accrued and unpaid interest to the redemption date.

18. BORROWINGS (Continued)

(a) Summary of borrowings (Continued)

(iii) Senior Notes (Continued)

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) Movements in borrowings is analysed as follows:

	Six months ended June 30,	
	2012	2011
	RMB'000	RMB'000
Carrying amount as at January 1	2,463,004	1,291,203
Issue of the Notes	—	2,528,955
Borrowings from CCB	50,000	—
Borrowings from Minsheng	233,905	—
Amortization of the Notes	5,292	665
Repayments of borrowings	—	(1,291,203)
Exchange difference	9,381	(5,031)
	<u>2,761,582</u>	<u>2,524,589</u>
Carrying amount of the borrowings and Notes as at June 30	<u>2,761,582</u>	<u>2,524,589</u>

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

	As at	
	June 30, 2012	December 31, 2011
Effective interest rates on the bank borrowings	7.02%	—
Effective interest rates on the Notes	<u>10.91%</u>	<u>10.91%</u>

Interest expense on borrowings for the six months ended June 30, 2012 is RMB129,775,000 (June 30, 2011: RMB91,851,000).

(d) As of June 30, 2012, the Group has US\$40 million undrawn borrowing facilities from Minsheng Bank expiring within nine months.

19. COMMITMENTS AND CONTINGENCIES

(a) Commitments

- (i) The Group has operating lease commitment related to its non-cancellation operating lease for offices. The future aggregate minimum lease payments under the operating lease are as follows:

	As at	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000
<1 year	6,650	4,687
1-2 year	3,259	3,507
2-5 year	2,805	4,304
	12,714	12,498

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

	As at	
	June 30, 2012 RMB'000	December 31, 2011 RMB'000
<1 year	494,584	440,808
1-2 year	418,777	420,509
2-5 year	1,342,918	1,294,990
>5 year	6,244,025	6,470,097
	8,500,304	8,626,404

- (iii) Sino Gas and Energy Limited (“SGE”) commitment

On June 25, 2012, the Group entered into an agreement to acquire 51% interest in SGE. The aggregate amount of consideration is US\$100 million. This transaction has not been completed as of June 30, 2012. For details, please refer to Note 20.

(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.

20. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

- (a) On June 25, 2012, the Company entered into an agreement with SGEH to acquire a 51% majority interest in Sino Gas and Energy Limited (“SGE”), an entity organized under the laws of Australia. The principal business activity of SGE is the exploration of unconventional gas assets in China pursuant to two PSCs, namely Linxing PSC and Sanjiaobei PSC, both of which are located on the eastern flank of the Ordos Basin. The aggregate amount of the consideration payable by the Company is US\$100 million comprising (a) US\$10 million for the purchase of certain existing shares of SGE payable in cash at completion; and (b) US\$66,342,287 and US\$23,657,713 for the subscription of new shares of SGE and certain loan notes to SGE payable in cash progressively after completion. US\$10 million was paid on July 4, 2012 at completion, which was the date that SGE became a jointly controlled entity of the Group.
- (b) On July 16, 2012, MIE repaid the balance of RMB50 million working capital loan to CCB.

On July 11, 2012, MIE entered into a new RMB60 million working capital loan agreement with CCB for 6 months commencing from July 11, 2012. The interest rate is the base rate as published by the People’s Bank of China plus an additional 15% of the base rate. The loan is secured by a pledge on MIE’s entitlement on the sales income from Moliqing and Miao 3.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operating Results

Six-Month Period Ended June 30, 2012 Compared to Six-Month Period Ended June 30, 2011

Revenue. Our revenue increased by RMB473.1 million, or 36.9%, from RMB1,282.9 million for the six-month period ended June 30, 2011 to RMB1,756.0 million for the six-month period ended June 30, 2012.

This increase was due to an increase in the crude oil prices and our sales volume. Average realized oil price was US\$114.61 per barrel for the six-month period ended June 30, 2012, compared to US\$107.63 per barrel for the six-month period ended June 30, 2011. Sales volume was 2.42 million barrels for the six-month period ended June 30, 2012, compared to 1.82 million barrels for the six-month period ended June 30, 2011. The increase in sales volume is consistent with the trend in production volume.

Revenue for the six-month period ended June 30, 2012 is equivalent to 62.1% of the revenue for the full year ended December 31, 2011.

- China

In the six-month period ended June 30, 2012, our China oil fields realized revenue of RMB1,539.7 million. The average realized oil price was US\$119.61 per barrel for the six-month period ended June 30, 2012, compared to US\$107.63 per barrel for the six-month period ended June 30, 2011. Our sales volume was 2.04 million barrels for the six-month period ended June 30, 2012, compared to 1.82 million barrels for the six-month period ended June 30, 2011.

- Kazakhstan

During the six-month period ended June 30, 2012, Emir-Oil realized revenue from oil sales of RMB210.6 million. Emir-Oil exported 95% of its sales volume of oil through Titan Oil and realized prices based on Brent less transportation and marketing commissions for these sales. The average realized oil price comprising export and domestic sales was US\$87.81 per barrel for the six-month period ended June 30, 2012. The average realized oil price for the six-month period ended June 30, 2012 was US\$89.64 per barrel from export sales (after transportation and marketing commissions of US\$21.21 per barrel) and US\$53.87 per barrel from domestic sales. Revenue from export sales of oil accounted for 97% of Emir-Oil's total oil revenue during the six-month period ended June 30, 2012. Emir-Oil's oil sales volume was 380,288 barrels for the six-month period ended June 30, 2012, comprising 360,859 barrels from export sales and 19,429 barrels from domestic sales. Emir-Oil commenced sales of domestic oil to Petrochina International Kazakhstan LLP for 7,368 barrels and 12,061 barrels of oil in May and June 2012 at a price of US\$55.02 and US\$53.17 per barrel for May and June 2012, respectively. In the past, Emir-Oil, under the ownership of BMB Munai, Inc., sold oil to the domestic market at a substantially lower price.

During the six-month period ended June 30, 2012, Emir-Oil realized revenue from gas sales of RMB5.7 million with a realized gas price of US\$1.15 per Mscf and a gas sales volume of 795,424 Mscf.

Operating expenses. The Group's operating expenses increased by RMB320.0 million, or 41.5%, from RMB770.6 million for the six-month period ended June 30, 2011 to RMB1,090.6 million for the six-month period ended June 30, 2012, primarily due to an increase in depreciation, depletion, amortization, taxes other than income taxes, purchases, services and other expenses, other gain or loss and administrative expenses.

For the six months ended June 30, 2012, the operating expenses for our China and Kazakhstan operations amounted to RMB833.7 million and RMB209.7 million.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB45.1 million, or 63.6%, from RMB70.9 million for the six-month period ended June 30, 2011 to RMB116.0 million for the six-month period ended June 30, 2012. The increase in purchase, services and other expenses was primarily due to: (i) the increase in sales volume for our China operations; (ii) increase in electricity expense due to more productive wells and higher unit electricity fee; (iii) the increase in number of productive wells for our China oilfields resulting in the increase in downhole operating costs, repair and maintenance costs, and safety fee expenses. For the China oilfields, we operated 1,832 productive wells as at June 30, 2011 and 2,206 productive wells as at June 30, 2012; and (iv) the acquisition of Emir-Oil in September 2011, therefore the results for the period ended June 30, 2012 included six months of Emir-Oil's purchases, services and other expenses amounting to RMB31.5 million.
- *Employee compensation costs.* The Group's employee compensation costs increased by RMB8.5 million, or 7.7%, from RMB110.5 million for the six-month period ended June 30, 2011 to RMB119.0 million for the six-month period ended June 30, 2012. The increase in employee compensation costs was primarily due to: (i) the acquisition of Emir-Oil in September 2011, therefore the results for the period ended June 30, 2012 included six months of Emir-Oil's employee compensation costs amounting to RMB21.9 million; and (ii) in the first half of 2012, we increased wages for the workers in our China oilfield operation and hired more employees in our China oilfields. As at June 30, 2011, we had 1,743 employees, and as at June 30, 2012, we had 1,894 employees in our China oilfields. The increase in employee compensation cost was partially offset by the decrease in share-based compensation expenses, which decreased from RMB49.6 million for the first half of 2011 to RMB32.1 million for the first half of 2012, and a reduction in bonuses in the first half of 2012.
- *Depreciation, depletion and amortization.* The Group's depreciation, depletion and amortization increased by RMB145.3 million, or 62.8%, from RMB231.4 million for the six-month period ended June 30, 2011 to RMB376.7 million for the six-month period ended June 30, 2012. The increase in depreciation, depletion and amortization was mainly due to: (i) the increase in our sales volume in China oilfields in the first half of 2012; (ii) the acquisition of Emir-Oil in September 2011, therefore the results for the period ended June 30, 2012 included six months of Emir-Oil's depreciation, depletion and amortization amounting to RMB53.1 million; and (iii) more depreciation, depletion and amortization from the Daan and Moliqing oilfields.

- *Distribution and administrative expenses.* The Group's distribution and administrative expenses increased by RMB22.2 million, or 44.5%, from RMB49.9 million for the six-month period ended June 30, 2011 to RMB72.1 million for the six-month period ended June 30, 2012. The increase in distribution and administrative expenses was primarily due to: (i) more business travel expenses due to the business expansion; and (ii) the acquisition of Emir-Oil in September 2011, therefore the results for the period ended June 30, 2012 included six months of Emir-Oil's administrative expenses amounting to RMB9.9 million.
- *Taxes other than income taxes.* The Group's taxes other than income taxes increased by RMB128.6 million, or 43.5% from RMB295.4 million for the six-month period ended June 30, 2011 to RMB424.0 million for the six-month period ended June 30, 2012. The following table summarizes taxes other than income taxes for the six month period ended June 30, 2012 and June 30, 2011:

	Six-Month Period Ended	
	June 30,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
China		
Special oil levy	292,715	289,363
Others	8,396	6,071
	<u>301,111</u>	<u>295,434</u>
Mineral extraction tax	13,765	—
Rent export tax	55,139	—
Rent export duty expenditures	12,021	—
Property tax	11,652	—
Social liability expense	—	—
	<u>92,577</u>	—
Others		
Withholding tax	30,326	—
	<u>424,014</u>	<u>295,434</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 the first half of 2012 due to increase in sales volume. The sales volume was 2.04 million barrels for the six-month period ended June 30, 2012, compared to 1.82 million barrels for the six-month period ended June 30, 2011. Although the average realized oil price increased from US\$107.63 per barrel for the six months ended June 30, 2011 to US\$119.61 per barrel for the six months ended June 30, 2012, the Ministry of Finance increased the threshold for the payment of the special oil levy from US\$40 to US\$55 per barrel with effect from November 1, 2011 which resulted in a decrease in unit special oil levy. This reduction in unit special oil levy offset the increase in special oil levy payable due to increase in sales volume. The special oil levy has five levels and is calculated and charged according to the progressive and valorem rates on the excess amounts of the realized crude oil price. The special oil levy is calculated on a monthly basis and paid on a quarterly basis.

During the six months ended June 30, 2012, Emir-Oil's taxes other than income taxes amounted to RMB92.6 million. Please refer to above for a breakdown of the different types of taxes other than income taxes paid by Emir-Oil.

- *Other gain or losses.* The Group had other gains of RMB18.0 million for the six-month period ended June 30, 2012, compared to other losses of RMB12.5 million for the six-month period ended June 30, 2011, primarily due to: (i) the non-cash unrealized gain of RMB4.3 million from the oil hedge options 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; and (ii) the non-cash unrealized gain of RMB8.5 million from the option granted by the Company to Acap Limited("ACAP"). The change in fair value of the option to ACAP is recognized in the consolidated statement of comprehensive income.

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

Contract Period	Monthly Notional Quantity (barrel)	Annual Notional Quantity (barrel)	Sold put option at strike price (WTI price per barrel)	Bought put option at strike price (WTI price per barrel)
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 fair value of MLCI Oil Hedge asset as at June 30, 2012 is US\$0.52 million and the fair value of MLCI Oil Hedge asset as at December 31, 2011 is US\$1.45 million. We recorded a loss from MLCI Oil Hedge of US\$0.93 million (RMB5.8 million) 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:

Counterparty	Bought put option at strike price (IPE Brent price per barrel)	Sold call option at strike price (IPE Brent price per barrel)	Bought call option at strike price (IPE Brent price per barrel)
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 fair value of these three oil hedge option as at December 31, 2011 and June 30, 2012 are as follows:

Counterparty	Fair value (liability)/asset as at December 31, 2011 (US\$ million)	Fair value (liability)/asset as at June 30, 2012 (US\$ million)	Changes in fair value (liability)/asset (US\$ million)
JPMorgan	(0.74)	(0.05)	0.69
Deutsche	(0.82)	(0.05)	0.77
SB Plc	(0.13)	0.03	0.16

The changes in fair value (liability)/asset of above three oil hedge options resulted in a gain of US\$1.62 million (RMB10.1 million).

Profit from operations. The Group’s profit from operations increased by RMB153.1 million, or 29.9%, from RMB512.3 million for the six-month period ended June 30, 2011 to RMB665.4 million for the six-month period ended June 30, 2012. This change was primarily due to an increase in revenue, partially offset by an increase in operating expenses.

During the six months ended June 30, 2012, the China operations and Kazakhstan operations generated profit from operations of RMB706.0 million and RMB6.6 million, respectively.

Profit from operation for the six-month period ended June 30, 2012 is equivalent to 60.5% of the profit from operation for the full year ended December 31, 2011.

Finance income/(costs), net. The Group's finance cost, net, increased by RMB68.4 million, or 99.1%, from RMB69.0 million for the six-month period ended June 30, 2011 to RMB137.4 million for the six-month period ended June 30, 2012. This increase was primarily due to finance cost of RMB141.1 million for the period ended June 30, 2012 compared to RMB101.5 million for the period ended June 30, 2011, caused by: (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 LIBOR + 4.5% CITIC bank loan, which resulted in a significant increase in interest expenses; and (ii) we raised RMB50 million working capital bank loan from China Construction Bank("CCB") in January 2012 which was repaid on July 16, 2012. The effective interest rate of the CCB loan is 7.015% per annum which also increased our interest expenses. In the first half of 2011, before we issued US\$400 million senior note in May, we only had the US\$200million LIBOR + 4.5% CITIC bank loan.

Profit before income tax. The Group's profit before income tax increased by RMB84.8 million, or 19.1%, from RMB443.3 million for the six-month period ended June 30, 2011 to RMB528.1 million for the six-month period ended June 30, 2012. This increase was primarily due to the cumulative effects of the above factors.

During the six months ended June 30, 2012, the China operations and Kazakhstan operations generated profit before income tax of RMB700.2 million and loss of RMB17.0 million, respectively.

Income tax expense. The Group had income tax expense of RMB181.0 million for the six-month period ended June 30, 2012, compared to income tax expense of RMB139.4 million for the six-month period ended June 30, 2011. This change was primarily due to an increase in our taxable income. The effective tax rate for the six months ended June 30, 2012 is 34% compared to an effective tax rate for the six months ended June 30, 2011 of 31%. The increase in effective tax rate is mainly due to higher non-deductible expenses relating to interest expense for the US\$400 million 5-year senior notes, share-based compensation expense, and other expenses incurred by non-operating members of the Group.

Net profit. As a result of the foregoing, our net profit increased by RMB43.2 million, or 14.2% from RMB303.9 million for the six-month period ended June 30, 2011 to RMB347.1 million for the six-month period ended June 30, 2012.

Compared to the year ended December 31, 2011, the net profit for the six-month period ended June 30, 2012 accounted for 53.8% of the net profit for the full year of 2011 after adjusting out the one-time non-cash gain arising from the acquisition of Emir-Oil of RMB460.3 million.

EBITDA AND ADJUSTED EBITDA

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

We have included EBITDA and adjusted EBITDA as we believe EBITDA is a financial measure commonly used in the oil and gas industry. We believe that EBITDA and adjusted EBITDA are used as supplemental financial measures by our management and by investors, research analysts, bankers and others, to assess our operating performance, 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 each period indicated.

	Six-Month Period Ended	
	June 30,	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the period	347,053	303,864
Income tax expenses	181,042	139,412
Finance income	(3,684)	(32,479)
Finance cost	141,104	101,485
Depreciation, depletion and amortization	376,673	231,412
	<u>1,042,188</u>	<u>743,694</u>
EBITDA		
Share-based compensation expenses	32,120	49,573
Impairment of inventory	260	—
Geological and geophysical expense	791	—
(Gain)/loss on oil put option	(4,286)	16,073
Loss on disposal of property, plant and equipment	26	—
Gain from changes of fair value of option to ACAP	(8,499)	—
	<u>1,062,600</u>	<u>809,340</u>
Adjusted EBITDA		

The Group's EBITDA increased by approximately RMB298.5 million, or 40.1%, from approximately RMB743.7 million for the six-month ended June 30, 2011 to approximately RMB1,042.2 million for the six-month ended June 30, 2012. The increase was primarily due to the increase in realized oil price and sales volume.

EBITDA for the six-month period ended June 30, 2012 is equivalent to 49.6% of EBITDA for the full year ended December 31, 2011.

The Group's adjusted EBITDA increased by approximately RMB253.3 million, or 31.3%, from approximately RMB809.3 million for the six-month ended June 30, 2011 to approximately RMB1,062.6 million for the six-month ended June 30, 2012. The increase in adjusted EBITDA was also primarily due to the increase in realized oil price and sales volume.

Adjusted EBITDA for the six-month period ended June 30, 2012 is equivalent to 61.6% of adjusted EBITDA for the full year ended December 31, 2011.

The Group's EBITDA and Adjusted EBITDA by operating segment for the six months ended June 30, 2012 are out below:

	Six-Month Period Ended June 30, 2012					
	China	Kazakhstan	USA	Others*	Inter- segment transaction	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net profit for the year	516,170	(13,983)	(2,362)	(152,772)	—	347,053
Income tax expenses	184,055	(3,013)	—	—	—	181,042
Finance income	(2,815)	(1,743)	—	(21,895)	22,769	(3,684)
Finance cost	8,568	25,315	—	129,990	(22,769)	141,104
Depreciation, depletion and amortization	323,494	53,070	—	109	—	376,673
EBITDA	<u>1,029,472</u>	<u>59,646</u>	<u>(2,362)</u>	<u>(44,568)</u>	<u>—</u>	<u>1,042,188</u>
Share-based compensation expenses	25,523	1,929	—	4,668	—	32,120
Impairment of inventory	—	260	—	—	—	260
Geological and geophysical expense	—	791	—	—	—	791
Loss/(gain) on oil put option	5,837	—	—	(10,123)	—	(4,286)
Loss on disposal of property, plant and equipment	—	26	—	—	—	26
Gain from changes of fair value of option to ACAP	—	—	—	(8,499)	—	(8,499)
Adjusted EBITDA	<u><u>1,060,832</u></u>	<u><u>62,652</u></u>	<u><u>(2,362)</u></u>	<u><u>(58,522)</u></u>	<u><u>—</u></u>	<u><u>1,062,600</u></u>

Market Risks

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

Oil price risk

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

Currency risk

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

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

Employees

As at June 30, 2012, the Company had 2,264 employees, with 1,908 based in China, 354 based in Kazakhstan and 2 based in USA. There have been no material changes to the information disclosed in the Annual Report 2011 in respect of the remuneration of employees, remuneration policies and staff development.

Contingencies

On August 28, 2000, MI Energy Corporation ("MIE"), the Company's wholly-owned subsidiary, entered into a production sharing contract ("PSC") with Sinopec for exploration and development of the Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at the Shengli oilfield and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at the Shengli oilfield. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least US\$2 million under the PSC. MIE has invested RMB23.1 million into Luojiayi Block 64 prior to December 31, 2003 and believes its investment in the project at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

Share Award Scheme

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

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

During the period under review, the trustee has acquired 3,822,000 shares through purchases from the market at an aggregate consideration of US\$927,445.38 (including transaction costs) approximately.

DIVIDEND

The Board has resolved that no interim dividend will be paid for the six months ended June 30, 2012.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters, including reviewing the unaudited interim results. The interim results for the six months ended June 30, 2012 are unaudited, but have been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“ISRE 2410”) issued by the International Auditing and Assurance Standards Board (“IAASB”).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save as disclosed in the paragraph headed “Share Award Scheme”, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities for the six months ended June 30, 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code (the “New Code”) as contained in Appendix 14 of the Listing Rules, issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in October 2011, is the new edition of the Code on Corporate Governance Practices (the “Former Code”) as contained in Appendix 14 of the Listing Rules, and is applicable to financial reports covering an accounting period which ends after April 1, 2012. During the accounting period for the six months ended June 30, 2012, the Company has complied with all the Code Provisions set out in the New Code during the period from April 1, 2012 to June 30, 2012 as well as the Former Code during the period from January 1, 2012 to March 31, 2012, except for Code Provision A.2.1 as explained below.

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Zhang Ruilin currently holds the offices of Chairman and Chief Executive Officer of the Company. 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 has 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 to provide the Group with strong and consistent leadership and allow for efficient business planning and decisions. In this respect, the Company does not currently propose to designate another person as the Chief Executive Officer of the Company. However, the Company will continue to review the effectiveness of the Group’s corporate governance structure and consider whether any changes, including the separation of the roles of Chairman and Chief Executive Officer, are necessary.

Model Code for Securities Transactions

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended June 30, 2012. In addition, no incident of non-compliance of the Model Code by the employees was noted by the Company.

Miscellaneous

The Directors are of the opinion that there have been no material changes to the information published in its annual report for the year ended December 31, 2011, other than those disclosed in this interim results announcement.

Publication of Interim Results and Interim Report

The electronic version of this interim results announcement is published on the websites of the Company (<http://www.mienergy.com>), Hong Kong Exchange and Clearing Limited (www.hkexnews.hk) and Singapore Exchange Securities and Trading Limited (www.sgx.com). An interim report for the six months ended June 30, 2012 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the said websites in due course.

By order of the Board
Zhang Ruilin
Chairman

Hong Kong, August 21, 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.