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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 RESULTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

Dear Shareholders,

On behalf of the board of directors, I hereby present the annual results of the Company for the year ended December 31, 2010. During the period under review, the Company experienced rapid growth and encountered tremendous opportunities.

The oil and gas industry in China continued to grow during 2010 despite the volatile crude oil price throughout the year. The strong oil demand in China coupled with the weak U.S. dollar resulted in the industry becoming increasingly dependent on China's economy. The National Development and Reform Commission of the People's Republic of China expects the oil and gas industry to continue its upward trend in light of economic stimulus plans and other positive policies.

The Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong on December 14, 2010, marking a key milestone in the Group's history. Our share price has increased significantly from the initial public offer price of HK\$1.70 per share, reflecting the strength of our company and the support of our shareholders.

During the period under review, the Company delivered a brilliant performance with turnover of approximately RMB1.805 billion, representing an increase of 54.7% from 2009. Profit before tax surged 216.7% from the preceding year to approximately RMB582.6 million. EBITDA increased to approximately RMB1.163 billion, representing a 69.2% increase from the previous year. Profit attributable to equity holders was approximately RMB420.9 million, increasing almost four fold from the previous year and exceeding our profit forecast as set out in our prospectus dated December 1, 2010. Earnings per share increased by 216.7% to RMB0.19. In view of the stellar results for 2010, and given the low interest rate environment, the directors of the Company recommended the payment of a special final dividend of HK\$0.035 per share although there was no plan to pay any dividend for the year ended December 31, 2010 as stated in our prospectus dated December 1, 2010.

We are the leading independent upstream oil company operating onshore in China, with Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, the most prolific oil-producing basin in the country. We seek to independently or jointly explore and produce oil with other large partners, and look for new exploration, development and production opportunities globally.

As of December 31, 2010, we had estimated net proved, proved+probable and proved+probable+possible crude oil reserves of approximately 32.9 million barrels, 52.5 million barrels and 66.4 million barrels respectively, an increase of 3.5 million barrels, 4.9 million barrels and 5.3 million barrels respectively, as compared to our reserve as of June 30, 2010 as stated in our prospectus dated December 1, 2010. Also, as at December 31, 2010, we had estimated 2C Contingent Resources of 4.9 million barrels and Best Estimate of Undiscovered Prospective Resources of 4.9 million barrels.

During the year, we commenced infill drilling on the Daan oilfield and successfully drilled six wells. Reserves attributable to infill drilling included in our reserves for the first time at December 31, 2010 are 3.3 million barrels, 4.3 million barrels and 5.2 million barrels of proved, proved+probable, and proved+probable+possible, respectively. To develop these reserves we plan to drill an additional 455 infill wells including 36 infill wells in 2011. Since the reserve report as at June 30, 2010 as set out in our prospectus dated December 1, 2010, our net proved and net proved+probable reserves increased by approximately 11.9% and 10.1%, respectively, mostly from infill drilling, indicating the Company has substantial continuing growth potential in its existing oilfields in China.

The daily production of MI Energy Corporation, our wholly owned subsidiary, has grown significantly since it took over operations of the three oilfields in 2001. The average daily net output reached 6,439 barrels in 2007, 8,150 barrels in 2008, 7,637 barrels in 2009 and 9,349 barrels in 2010, representing a CAGR of 13.24%.

On February 14, 2011, the Company announced another important milestone in agreeing to acquire all the issued and outstanding participation interests of Emir-Oil, LLC, an oil and natural gas exploration and production company in the Republic of Kazakhstan. The acquisition of Emir-Oil, LLC will be an important first step for the Company towards becoming an international oil and gas company. Based on Emir-Oil, LLC's reserve report as of March 31, 2010, the contracted area has proved reserves, proved+probable reserves, and proved+probable+possible reserves of approximately 22.7 million, 92.2 million and 127.6 million barrels of oil equivalent, respectively. In addition, based on the evaluation of four

resource prospects in the contracted area as at July 1, 2010, there is an estimated prospective resources of approximately 171.0 million barrels of oil on an unrisksed basis and 51.3 million barrels of oil on a risksed basis.

Given the trend in international crude oil price since late 2010, the planned increase in our capital expenditures and wells to be drilled in 2011 for the Daan, Moliqing and Miao3 oilfields, and the future contribution from Emir-Oil, LLC, we expect to have another strong year in 2011.

The energy sector is expected to continue its rapid growth amidst stronger hopes on recovery of the global economy, increasing consumption of petroleum and other kinds of energy, and climbing oil prices. In the face of heated competition in China as well as overseas and other uncertainties (such as the unrest in North Africa and Middle East, wars, energy policy changes and major oil and gas leaks), we will strive to raise our competitiveness and gradually develop our business by expanding the geographical and operational scope, improving the quality of our staff, upgrading facilities, tapping into overseas markets, optimizing corporate structure and reducing operating costs.

Last but not least, I would like to take this opportunity to express my heartfelt thanks to the board and all the staff for their efforts over the past year, and to our shareholders and business partners for their trust in and support to us.

**Zhang Ruilin**  
*Chairman*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	<b>Year ended December 31,</b>	
		<b>2010</b>	<b>2009</b>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	4	<b>1,804,976</b>	1,166,827
<b>Operating expenses</b>			
Purchases, services and other		(126,517)	(123,587)
Employee compensation costs	5	(110,346)	(67,651)
Depreciation, depletion and amortization		(528,582)	(445,824)
Distribution expenses		(28,424)	(21,861)
Administrative expenses		(50,154)	(62,253)
Taxes other than income taxes	6	(289,296)	(73,308)
Other losses	7	(37,644)	(131,124)
<b>Total operating expenses</b>		<b>(1,170,963)</b>	(925,608)
<b>Profit from operations</b>		<b>634,013</b>	241,219
Finance income	8	35,344	1,552
Finance costs	8	(86,788)	(58,832)
<b>Finance costs – net</b>	8	<b>(51,444)</b>	(57,280)
<b>Profit before income tax</b>		<b>582,569</b>	183,939
<b>Income tax expense</b>	9	<b>(161,705)</b>	(73,462)
<b>Net profit for the year</b>		<b>420,864</b>	110,477
<b>Other comprehensive income:</b>			
Currency translation difference		(10,941)	–
<b>Other comprehensive income for the year, net of tax</b>		<b>(10,941)</b>	–
<b>Total comprehensive income for the year</b>		<b>409,923</b>	110,477
<b>Net profit attributable to the equity holders of the Company</b>		<b>420,864</b>	110,477
<b>Earnings per share, Basic (expressed in RMB per share)</b>	10	<b>0.19</b>	0.06
<b>Earnings per share, Diluted (expressed in RMB per share)</b>	10	<b>0.19</b>	0.06
<b>Dividends distributed during the year</b>	16	<b>217,584</b>	341,615
<b>Dividends proposed after the balance sheet date</b>	16,18	<b>77,933</b>	–

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>As at December 31,</b>	
		<b>2010</b>	2009
		<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		3,024,482	2,665,143
Intangible asset		1,677	2,599
Derivative financial instruments	11	20,285	–
Trade and other receivables	13	24,212	70,360
		<u>3,070,656</u>	<u>2,738,102</u>
<b>Current assets</b>			
Inventories		36,664	76,078
Derivative financial instruments	11	11,168	20,307
Trade and other receivables	13	398,294	489,571
Amount due from shareholder		–	81,074
Pledged deposits		29,916	30,729
Cash and cash equivalents		680,033	290,271
		<u>1,156,075</u>	<u>988,030</u>
<b>TOTAL ASSETS</b>		<b><u>4,226,731</u></b>	<b><u>3,726,132</u></b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Group</b>			
Ordinary shares	12	17,588	659
Preferred shares	12	–	171
Share premium		826,477	339,449
Other reserves		91,919	64,460
Retained earnings		1,023,947	848,707
		<u>1,959,931</u>	<u>1,253,446</u>
<b>TOTAL EQUITY</b>		<b><u>1,959,931</u></b>	<b><u>1,253,446</u></b>

		<b>As at December 31,</b>	
	<i>Notes</i>	<b>2010</b>	2009
		<b>RMB'000</b>	<b>RMB'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Asset retirement obligations		9,270	6,978
Deferred income tax liabilities– net		8,694	86,400
Trade and other payables	14	137,598	170,235
Borrowings	15	1,191,862	1,242,963
		<u>1,347,424</u>	<u>1,506,576</u>
<b>Current liabilities</b>			
Trade and other payables	14	775,137	808,635
Current income tax liabilities		44,898	55,052
Borrowings	15	99,341	102,423
		<u>919,376</u>	<u>966,110</u>
<b>Total liabilities</b>		<u>2,266,800</u>	<u>2,472,686</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,226,731</u>	<u>3,726,132</u>
<b>Net current assets</b>		<u>236,699</u>	<u>21,920</u>
<b>Total assets less current liabilities</b>		<u>3,307,355</u>	<u>2,760,022</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION AND GROUP REORGANIZATION

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

MI Energy Corporation (“MIE”) is a limited liability company incorporated in Cayman Islands and domiciled in the People’s Republic of China (“PRC” or “China”). MIE was a wholly owned subsidiary of Far East Energy Limited (“FEEL”) until January 12, 2009, when MIE became a wholly owned subsidiary of the Company and the Company became a subsidiary of FEEL. Mr. Zhang Ruilin and Mr. Zhao Jiangwei ultimately control MIE through their controlling interest in FEEL.

The Company and its subsidiaries’ (“the Group”) principal business is to engage in the development, production and sale of crude oil through MIE’s four production sharing projects it obtained in 2001 and located at four oil blocks. 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 Miao3 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 Miao3 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 Miao3, 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The Company prepared the accompanying consolidated financial statements in accordance with IFRS as issued by the IASB.

All significant intra-group transactions and balances have been eliminated on consolidation.

The principal accounting policies used in preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all years presented unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of financial derivative instruments at fair value through profit or loss.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Production sharing contracts

The Group's development and production activities 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 participating 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) Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States Dollar ("US\$"). The presentation currency of the consolidated financial statements is the RMB.

#### (ii) *Transactions and balances of each entity*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income.

#### (iii) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

### (d) Property, plant and equipment

Property, plant and equipment, including oil and gas properties, is stated at historical cost less accumulated depreciation, depletion, amortization and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

### (e) 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 construction in progress 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Oil and gas properties (Continued)

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.

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 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 which management believes can be reasonably produced within the current terms of their production agreements.

### (f) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For derivative instruments that do not qualify for hedge accounting, changes in the fair value of these derivative instruments are recognized immediately in the consolidated statements of comprehensive income.

### (g) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent years, borrowings are stated at amortized cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the year of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the end of the reporting period.

Borrowing costs are recognized as an expense in the year in which they are incurred except for the portion eligible for capitalization as part of qualifying property, plant and equipment.

### (h) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

Provision for future decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time, which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Employee benefits

#### (i) *Defined contribution plan*

The Group has various defined contribution plans for state pensions, housing fund and other social obligations in accordance with the local conditions and practices in the municipalities and province in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expenses when they are due.

#### (ii) *Equity-settled share-based compensation – Stock options*

The Group operates a stock incentive compensation plan for share-based payment transactions, such as stock options under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options on the grant date. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and other reserves when the options are exercised.

#### (iii) *Cash-settled share-based compensation – Stock appreciation rights*

Compensation under the stock appreciation rights is measured based on the fair value of the liability incurred and its expenses over the vesting period. The liability is remeasured at each reporting period to its fair value until settlement with all the changes in liability recorded in employee compensation costs in the consolidated statement of comprehensive income, the related liability is included in the salaries and welfare payable.

### (j) Revenue recognition

Revenues are recognized upon delivery of crude oil that are allocated to MIE under PSC (See Note 4). 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 Company.

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 contract (PSC). For the year ended December 31, 2009 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.

### (k) Share capital

Ordinary shares are classified as equity.

Preferred shares issued by the Company are classified as equity when they are not redeemable by the Company and there is no obligation outside the control of the Company to pay dividends.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

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 and adjusting the profit or loss attributable to equity holders of the Company accordingly for related amounts. The effect of potentially dilutive ordinary shares are included only if they are dilutive.

### (m) Segment reporting

The Group operates as a single operating segment. 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.

## 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 oil 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.

The Group's reserve estimates were prepared for each oilfield and include only crude oil that the Group believes can be reasonably produced within current economic and operating conditions.

Proved 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.

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

#### (a) Estimation of proved oil reserves (Continued)

Proved 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 two categories: proved developed producing reserves and proved undeveloped reserves. proved developed producing reserves are used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production) and reduce net profit and vice-versa. proved 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 oil reserves resulting from new information becoming available from development and production activities and change in oil price have tended to be the most significant cause of annual revisions.

#### (b) Estimated 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 REVENUE

The Group's revenue relates to the sale of crude oil in one geographical location, China. All revenue is realized through the sale of the Group's share of crude oil to PetroChina pursuant to the PSC.

### 5 EMPLOYEE COMPENSATION COSTS

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Wages, salaries and allowances	70,829	50,563
Housing subsidies	1,327	1,181
Share options granted	10,360	1,224
Stock appreciation rights granted	19,069	2,260
Welfare and other expenses	8,761	12,423
	<u>110,346</u>	<u>67,651</u>

## 6 TAXES OTHER THAN INCOME TAXES

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Taxes other than income taxes	<u>289,296</u>	<u>73,308</u>

Taxes other than income taxes mainly represent a special oil levy which is paid or payable by petroleum exploration and development enterprises for the sales of domestic crude oil at a rate variable based on the oil prices. This levy was imposed by the PRC government and became effective from March 26, 2006.

## 7 OTHER LOSSES

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Net gain on forward foreign exchange contract	–	5,478
Loss on oil put option	(44,692)	(136,252)
Others	<u>7,048</u>	<u>(350)</u>
Total	<u>(37,644)</u>	<u>(131,124)</u>

The net gain on the forward foreign exchange contract results from the exchange rate between the US dollar and the RMB being less than the rate set in the contract resulting in a gain of RMB 5,478,000 for 2009.

The net loss of the oil put option in the year ended December 31, 2009 and 2010 is due to the change in fair value of the unrealized portion of the oil put option.

## 8 FINANCE COSTS – NET

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
<b>Finance income</b>		
Interest income from savings accounts	144	1,552
Exchange gain	<u>35,200</u>	<u>–</u>
<b>Total finance income</b>	<u>35,344</u>	<u>1,552</u>
<b>Finance costs</b>		
Interest expenses	86,777	56,498
Bank charges	11	88
Exchange loss	<u>–</u>	<u>2,246</u>
<b>Total finance costs</b>	<u>86,788</u>	<u>58,832</u>
<b>Finance costs – net</b>	<u>51,444</u>	<u>57,280</u>

## 9 INCOME TAX EXPENSE

	<b>Year ended December 31,</b>	
	<b>2010</b>	2009
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Current income tax	<b>239,411</b>	89,832
Deferred income tax	<b>(77,706)</b>	(16,370)
	<b><u>161,705</u></b>	<u>73,462</u>

The Company is an exempted company incorporated in the Cayman Islands. Under the laws of Cayman Islands, the Company is not subject to tax on income or capital gain.

Corporate income tax for its operation in China is provided on the basis of statutory profit for financial reporting purposes as defined by the PRC tax authorities, adjusted for income and expense items which are not assessable or deductible for income tax purposes. In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is 25% for years ended December 31, 2009 and 2010.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the corporate income tax rate in the PRC applicable to the Group:

	<b>Year ended December 31,</b>	
	<b>2010</b>	2009
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Profit before income tax	<b>582,569</b>	183,939
Statutory tax rates	<b>25%</b>	25%
Tax calculated at the statutory tax rates	<b>145,642</b>	45,985
Tax effect of income not subject to tax	–	(738)
Expenses not deductible for tax purposes	<b>17,115</b>	35,394
Prior year tax filling adjustments	<b>(736)</b>	(7,179)
Additional-deduction for research and development expenses	<b>(316)</b>	–
Tax charge	<b><u>161,705</u></b>	<u>73,462</u>

PRC tax regulations require tax to be assessed on activities that are undertaken, executed or managed in the PRC. During the relevant period oil put option gains and losses were not subjected to or deductible for income tax in PRC.

## 10 EARNINGS PER SHARE

### (a) Basic

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

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Net profit attributable to equity holders of the Company	420,864	110,477
Adjustment for:		
Dividends entitled by Series A preferred shares	(82,823)	(10,311)
Dividends entitled by Series B preferred shares	(48,082)	—
	<u>289,959</u>	<u>100,166</u>
Weighted average number of ordinary shares (thousands)	<u>1,538,264</u>	<u>1,800,339</u>
Earnings per share, Basic (RMB per share)	<u>0.19</u>	<u>0.06</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,	
	2010 RMB'000	2009 RMB'000
Net profit attributable to equity holders of the Company	<u>420,864</u>	<u>110,477</u>
Net profit used to determine diluted earnings per share	<u>420,864</u>	<u>110,477</u>
Weighted average number of ordinary shares (thousands)	1,538,264	1,800,339
Adjustments for:		
– Assumed conversion of convertible preferred shares (thousands)	684,284	198,812
– Share options (thousands)	<u>9,919</u>	<u>471</u>
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	<u>2,232,467</u>	<u>1,999,622</u>
Earnings per share, Diluted (RMB per share)	<u>0.19</u>	<u>0.06</u>

## 11 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,	
	2010 RMB'000	2009 RMB'000
<b>Assets</b>		
Oil put option	<u>31,453</u>	<u>20,307</u>
Less: non-current portion	<u>(20,285)</u>	<u>–</u>
Current portion	<u>11,168</u>	<u>20,307</u>

The Group used oil put options purchased from Standard Bank (“Standard Bank Oil Hedge”) to manage its exposure to movements in the price of crude oil for period from January 1, 2008 to December 31, 2010. MIE bought an option, but not the obligation, to notionally sell to the financial institution 5,236,710 barrel at a strike price of US\$62.50, in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 to December 31, 2010 (the “Bought Option”). In addition, MIE sold an option to the financial institution, so that the financial institution can notionally sell to MIE 5,236,710 barrel at a strike price of US\$42.50 in monthly instalments ranging from 130,061 barrel to 154,378 barrel from January 1, 2008 for December 31, 2010 (the “Sold Option”) under the same terms and conditions as the Bought Option. The effect of the above is that Group received money from the financial institution each month, in respect of the notional volume of that month, if the average monthly West Texas Intermediate (“WTI”) crude oil spot price of oil falls below US\$62.50, but the maximum payout by the financial institution was limited to US\$20.00 per barrel.

## 11 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

In October 2010, the Group further purchased an option to notionally sell to Merrill Lynch Commodities, Inc. (“MLCI”) 3,000,000 barrels of crude oil at a strike price of US\$70.00 per barrel, in instalments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 (“MLCI Oil Hedge”). The price under the option is based on WTI crude oil prices. In addition, in October 2010, the Group sold an option to MLCI to notionally sell to us 3,000,000 barrels at a strike price of US\$55.00 per barrel in instalments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 under the same terms and conditions as the purchased option. The effect of the above arrangement is that we will receive from MLCI each month the difference between the strike price of US\$70.00 per barrel and the WTI crude oil price, in respect of the notional volume of that month, if the average monthly WTI spot price of oil falls below US\$70.00 per barrel, but the maximum payout by MLCI is limited to US\$15.00 per barrel. The premium of US\$8.74 million (RMB57.86 million) for this option is payable over 8 instalments on a quarterly basis from April 2011.

## 12 SHARE CAPITAL

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
<b>Issued and fully paid:</b>		
Ordinary shares	17,588	659
Preferred shares	–	171
	<u>17,588</u>	<u>830</u>

### Authorized ordinary and preferred shares

	As at December 31,	
	2010	2009
	'000	'000
<b>Authorized:</b>		
Ordinary shares of US\$0.001 per share	100,000,000	150,000
Preferred shares		
Series A preferred shares of US\$0.001 each	–	30,000
Series B preferred shares of US\$0.001 each	–	–

As at December 31, 2009, the total number of authorized shares is 180,000,000 shares comprising 150,000,000 ordinary shares with a par value of US\$0.001 each and 30,000,000 Series A preferred shares with a par value of US\$0.001 each. Each share has one vote.

On February 5, 2010, FEEL, shareholders of FEEL, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited. To enable the transaction, the Company’s authorized share capital was increased to 230,000,000 shares comprising 150,000,000 ordinary shares with a par value of US\$0.001 each, 30,000,000 Series A preferred shares with a par value of US\$0.001 each and 50,000,000 Series B preferred shares with a par value of US\$0.001 each.

## 12 SHARE CAPITAL (Continued)

Pursuant to a resolution of the shareholders of the Company on November 27, 2010 and immediately prior to the Global Offering on December 14, 2010, the authorized share capital of the Company was increased from US\$230,000 comprising 230,000,000 shares (comprising 150,000,000 ordinary shares with a par value of US\$0.001 each, 30,000,000 Series A preferred shares with a par value of US\$0.001 each and 50,000,000 Series B preferred shares with a par value of US\$0.001 each) to US\$100,000,000 comprising 100,000,000,000 shares of US\$0.001 each.

### (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 follows:

	<b>As at December 31,</b>	
	<b>2010</b>	2009
	<b>RMB'000</b>	RMB'000
<b>Issued and fully paid:</b>		
At January 1, 2009		
100,000,000 ordinary shares of US\$0.001 each		684
At October 31, 2009		
Cancellation of ordinary shares		
3,643,730 ordinary shares at US\$0.001 each (Note 12(b))		(25)
At December 31, 2009		<u>659</u>
At January 1, 2010		
96,356,270 ordinary shares at US\$0.001 each	<b>659</b>	
At March 10, 2010		
Cancellation of 18,212,560 ordinary shares at US\$0.001 each	<b>(124)</b>	
At December 14, 2010		
Conversion of 25,101,220 Series A preferred shares to 25,101,220 ordinary shares at US\$0.001 each (Note 12(b))	<b>171</b>	
Conversion of 36,425,120 Series B preferred shares to 18,212,560 ordinary shares at US\$0.001 each (Note 12(b))	<b>124</b>	
Capitalization issuance of 2,078,542,510 ordinary shares at US\$0.001 each to shareholders registered on November 23, 2010	<b>13,822</b>	
Issuance of 441,334,000 ordinary shares at US\$0.001 each during Global Offering	<b>2,936</b>	
At December 31, 2010		
2,641,334,000 ordinary shares at US\$0.001 each	<b>17,588</b>	

On April 16, 2010, the shareholders adopted an ordinary resolution effecting certain amendments to the authorized and issued share capital to effect a 10-for-one split of the Company's share capital pursuant to which each ordinary share, Series A preferred share and Series B preferred share of the Company was subdivided into 10 shares at a par value of US\$0.001 each, such that the authorized share capital of the Company of US\$230,000 comprising 230,000,000 shares is divided into 150,000,000 ordinary shares with a par value of US\$0.001 each, 30,000,000 Series A preferred shares with a par value of US\$0.001 each and 50,000,000 Series B preferred shares with a par value of US\$0.001 each.

## 12 SHARE CAPITAL (Continued)

### (a) Issued and fully paid ordinary shares (Continued)

In connection with the 10-for-one split, the 607,287 ordinary shares of a par value of US\$0.01 each reserved under the MIE 2009 Stock Incentive Compensation (the “Plan”) for delivery in connection with the grant, vesting or other issuance of stock incentive awards was adjusted to 6,072,870 ordinary shares of a par value of US\$0.001 each, to reflect the subdivision of the Company’s ordinary shares approved by the shareholders of the Company on April 16, 2010.

All share and per share amounts presented in the consolidated financial statements have been restated on a retroactive basis to reflect the effect of 10-for-one share split and issuances.

Pursuant to written resolutions passed by the Company’s shareholders on November 27, 2010 and immediately prior to the completion of the Company’s global offering for listing on the Stock Exchange of Hong Kong Limited (“Global Offering”) on December 14, 2010, the Company:

- (i) converted all issued and outstanding 25,101,220 Series A preferred shares and 36,425,120 Series B preferred shares into 25,101,220 ordinary shares and 18,212,560 ordinary shares respectively in accordance with the Company’s then existing articles of association;
- (ii) immediately upon conversion of the Series A preferred shares and Series B preferred shares into ordinary shares, designated all the unissued 30,000,000 Series A preferred shares and 50,000,000 Series B preferred shares with a par value of US\$0.001 each as ordinary shares with a par value of US\$0.001 each;
- (iii) increased the authorized share capital of the Company from US\$230,000 comprising 230,000,000 ordinary shares of US\$0.001 each to US\$100,000,000 comprising 100,000,000,000 shares of US\$0.001 each;
- (iv) allotted and issued a total of 2,078,542,510 ordinary shares credited as fully paid at par to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on November 23, 2010 in proportion to their then existing respective shareholdings by way of capitalization of the sum of US\$ 2,078,542.51 (RMB 13,822,000) standing to the credit of the share premium account of the Company (“Capitalization Issue”). The shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

On December 14, 2010, the Company issued 441,334,000 ordinary shares at HK\$1.70 per share for the Global Offering.

#### *Reserve arising from redeemable ordinary shares*

In January 2009, Standard Bank acquired 1,970,490 of the Company’s ordinary shares (representing 1.97% of the outstanding share capital) for US\$5,123,000 (RMB 35,043,000) from FEEL. Concurrently, FEEL also sold Standard Bank a conversion option that allowed the Company’s ordinary shares to be converted into the preferred shares, on the same terms and conditions as any new preferred shares issued by the Company exceeding US\$20 million (RMB 136 million) during the term of the option. If Standard Bank did not convert the ordinary shares, Standard Bank had the right to sell the ordinary shares back to MIE at their original issuance price (US\$5,123,000). FEEL and the Company were jointly and severally liable with MIE for this arrangement.

At the date of the sale of ordinary shares from FEEL to Standard Bank, the fair value of MIE’s liability to Standard Bank amounted to US\$5,123,000 (RMB 35,043,000).

In October 2009, those ordinary shares were bought back by FEEL from Standard Bank and the option was terminated and the corresponding liability US\$5,123,000 (RMB 35,043,000) was transferred back to equity.

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

## 12 SHARE CAPITAL (Continued)

### (b) Issued and fully paid preferred shares

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
<b>Issued and fully paid:</b>		
<b>Series A preferred shares</b>		
At July 9, 2009		
Issuance of 21,457,490 Series A preferred shares of US\$0.001 each		146
At October 30, 2009		
Issuance of 3,643,730 Series A preferred shares at US\$0.001 each (Note 12(a))		25
At December 31, 2009		171
25,101,220 Series A preferred shares of US\$0.001 each		<u>171</u>
At December 14, 2010		
Conversion of 25,101,220 Series A preferred shares of US\$0.001 each to 25,101,220 ordinary shares (Note 12(a))	(171)	
At December 31, 2010		
Nil Series A preferred shares of US\$0.001 each	<u>-</u>	
<b>Series B preferred shares</b>		
At March 10, 2010		
Issuance of 36,425,120 Series B preferred shares of US\$0.001 each		249
At December 14, 2010		
Conversion of 36,425,120 Series B preferred shares of US\$0.001 each to 18,212,560 ordinary shares (Note 12(a))	(249)	
At December 31, 2010		
Nil Series B preferred shares of US\$0.001 each	<u>-</u>	
At December 31, 2010		
Total preferred shares	<u>-</u>	

#### *Series A preferred shares*

On June 19, 2009, FEEL, the Company, MIE and TPG Star Energy Ltd. (“TPG”) entered into a Series A preferred share subscription agreement and put option agreement (“TPG SPA”). The Company issued 21,457,490 Series A preferred shares to TPG representing 17.667% of the capital of the Company for consideration of US\$53,000,000 (RMB 362,000,000) less transaction fee US\$3,000,000 (RMB 20,490,000). The above transaction was completed and became enforceable on July 9, 2009 when the Series A preferred shares were issued to TPG.

On October 26, 2009, FEEL, FEEL’s shareholders, the Company and MIE entered into a shares purchase agreement with Sino Link Limited, an indirect subsidiary of CITIC Group, pursuant to which FEEL sold 3,643,730 Series A preferred shares to Sino Link Limited for a consideration of US\$9 million (RMB 61,454,000). As FEEL was not at that time the holder of any Series A preferred shares, the Company redeemed 3,643,730 ordinary shares held by FEEL and issued in exchange 3,643,730 Series A preferred shares to FEEL, which were then transferred to Sino Link Limited on October 30, 2009.

## 12 SHARE CAPITAL (Continued)

### (b) Issued and fully paid preferred shares (Continued)

Each of the Series A preferred share:

- has the same voting and dividend rights, other than deemed dividends, as those of ordinary shares into which Series A preferred share is convertible.
- is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion ratio.
- will automatically convert into fully paid ordinary shares at the applicable conversion ratio immediately prior to a Global Offering.
- is convertible to ordinary shares at the initial conversion ratio of 1:1.

FEEL granted a put option to holders of Series A preferred shares which requires FEEL to purchase all or some of the Series A preferred shares. The option guarantees that holders of Series A preferred shares will recover its initial cost at a compounded rate of return of 15%. FEEL, MIE and the Company are jointly and severally liable for this obligation.

In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the Series A and Series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the Series A preferred shares are entitled to recover the original purchase price and, if a put given to Series A preferred shareholders is exercised, an amount that would result in the shareholders obtaining a compounded rate of return of 15% from the issue of the Series A preferred shares, less any distributions made to the shareholders during the investment period.

#### *Series B preferred shares*

On February 5, 2010, FEEL, FEEL's shareholders, MIE and the Company entered into a shares purchase agreement with Harmony Energy Limited, a company incorporated in British Virgin Islands and a wholly owned subsidiary of Ever Union Capital Limited, pursuant to which FEEL sold 36,425,120 Series B preferred shares for a consideration of US\$89,970,000 (RMB 614,171,000). As FEEL was not at that time the holder of any Series B preferred shares, on March 10, 2010, the Company repurchased 18,212,560 ordinary shares held by FEEL and issued in exchange 36,425,120 Series B preferred shares to FEEL, which FEEL transferred to Harmony Energy Limited.

Each Series B preferred share:

- has the same voting and dividend rights, other than deemed dividends, as those of the ordinary share into which such Series B preferred share is convertible;
- is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion rate;
- will automatically convert into fully paid ordinary shares at the applicable conversion ratio immediately prior to a Global Offering; and
- is convertible to ordinary shares at the initial conversion ratio of 2:1.

## 12 SHARE CAPITAL (Continued)

### (b) Issued and fully paid preferred shares (Continued)

In the event of a liquidation, dissolution or winding up of the Company, the available assets and funds of the Company are distributed to the Series A and Series B preferred shareholders, on a pro rata basis ahead of ordinary shareholders. The holders of the Series B preferred shares are entitled to recover the original purchase price.

All outstanding Series A preferred shares and Series B preferred shares have been converted to ordinary shares on December 14, 2010 pursuant to written resolutions passed by the Company's shareholders on November 27, 2010. (Note 12(a))

## 13 TRADE AND OTHER RECEIVABLES

Trade receivables are within the credit terms of 30 days. The ageing of the trade receivables is consistent with the agreed terms with the customer.

## 14 TRADE AND OTHER PAYABLES

The ageing of the trade and other payables is consistent with the agreed terms with the creditors.

## 15 BORROWINGS

### (a) Summary of borrowings

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Bank borrowings		
Non-current	1,191,862	1,242,963
Current	99,341	102,423
	<hr/>	<hr/>
Total borrowings	<b>1,291,203</b>	<b>1,345,386</b>

In October 2007, MIE entered into a financing arrangement with Standard Bank, for a bank facility of US\$150 million (approximately RMB 1,125 million) which reduced to zero in 2013. MIE utilized US\$100 million (approximately RMB 750 million) in 2007 and further drew down US\$20 million (approximately RMB 136 million) in August 2008. This revolving bank facility was amended on January 12, 2009 and the interest rate increased from LIBOR + 2.75% to LIBOR + 5.75%.

The Standard Bank loan was collateralized primarily by MIE's ordinary shares held by FEEL, assignment of MIE's bank account for collection of oil revenue, a charge over the debt service reserve account, the Group's share of entitlement under the PSCs, a fixed charge over the Group's property, plant and equipment and a floating charge over all present and future assets. The Group is required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility.

On July 28, 2009, MIE entered into a five-year US\$200 million transferrable term loan and revolving credit facility with Citic Ka Wah Bank Limited and China CITIC Bank Corporation Limited Guangzhou Branch ("CITIC Facility"), primarily to repay the Standard Bank loan, fund the development oilfields and for general working capital purposes.

## 15 BORROWINGS (Continued)

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

The CITIC Facility includes two long-term term loans and one short-term revolving facility, which can be converted into a term loan towards the end of the third year. The term loans do not require principal repayments for the first three years and the principal repayments are made starting from the 37th month. The term loans under the facility bear an interest rate of LIBOR plus 4.50% per annum. The facility contains the following financial covenants:

- (a) the consolidated tangible net worth, subject to certain adjustments, will be not less than (i) RMB 1.0 billion from 2009 to 2011 and (ii) RMB 1.5 billion for 2012;
- (b) the ratio of consolidated total borrowing to consolidated tangible net worth, subject to certain adjustments, will not exceed (i) 140% from 2009 to 2010 and (ii) 100% for 2011;
- (c) the ratio of consolidated total borrowings to consolidated EBITDA (as defined in the credit facility agreement) will not exceed (i) 270%, from 2009 to 2010, (ii) 220% from 2011 to 2012 and (iii) 180% for 2013; and
- (d) the total capital expenditure in any financial year will not exceed RMB 1.0 billion.

Any failure to maintain these covenants could result in an acceleration of obligations under the CITIC Facility. As at December 31, 2010, the Company did not breach these loan covenants.

The CITIC Facility was secured primarily by 100% of the ordinary shares in MIE held by the Company, 51% of the ordinary shares in the Company held by FEEL and 51% of ordinary shares in FEEL, an assignment of the bank accounts for the collection of oil revenue, the Group's share of entitlement under the PSCs, a charge over the Group's debt service reserve account, and an assignment of the Group's interest in the Group's insurance policies. The Group is required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility.

MIE drew down US\$122 million (RMB 830 million) from the CITIC Facility on July 31, 2009 to repay the loan from Standard Bank. MIE further drew down US\$78 million (RMB 546 million) subsequently during the 2009 financial year. There is no unused facility as at December 31, 2009 and 2010.

On November 27, 2010, in connection with the Global Offering, the Group entered into a supplemental deed and other transaction documents relating to the CITIC Facility to restructure the financing arrangement with CITIC Bank International Limited (formerly the CITIC Ka Wah Limited) and CITIC Bank Guangzhou ("the lenders"). Pursuant to the restructuring documents,

- i. the lenders agreed to release the share mortgages of 51% of the ordinary shares in the Company held by FEEL and 51% of the ordinary shares in FEEL held by shareholders of FEEL as security of the credit facility immediately before the Global Offering;
- ii. the Company agreed to provide a corporate guarantee for MIE's obligations under the CITIC Facility contemporaneous with the release of the above mortgages.
- iii. the Group agreed to procure FEEL to continue to be the largest shareholder of the Company, holding not less than 35% of the issued share capital in the Company, and maintain management control of the Company;
- iv. the lenders agreed that, immediately upon the occurrence of the Global Offering, FEEL may dispose up to 7% of the Company's issued share capital held by FEEL either in or after the Global Offering;
- v. the lenders also agreed to increase the capital expenditures allowable for 2011 from RMB1.0 billion to RMB1.288 billion.

## 15 BORROWINGS (Continued)

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

The Group paid a waiver fee of US\$6 million pursuant to the restructuring documents. The Group is required to pay a further waiver fee equal to 2.75% of the net amount received by FEEL from its sale of existing shares either in or after the Global Offering.

On December 14, 2010, the share mortgages of 51% of the ordinary shares in the Company held by FEEL and 51% of the ordinary shares in FEEL held by shareholders of FEEL as security of the credit facility were released and a corporate guarantee was provided by the Company concurrently with the release of the mortgages.

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

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Effective interest rates on the borrowings	5.85%	6.56%

- (c) The exposure of the Group's borrowings to contractual interest rate changes based on LIBOR + 4.5% at December 31, 2009 and LIBOR + 4.5% at December 31, 2010 are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
<1 year	99,341	102,423
1-2 years	529,816	–
2-5 years	662,046	1,242,963
Total borrowings	<u>1,291,203</u>	<u>1,345,386</u>

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

- (d) The borrowings are denominated in US dollars.

## 16 EQUITY DISTRIBUTIONS

On July 7, 2009, MIE declared a non-cash deemed dividend distribution to the Company amounting to US\$50 million (equal to RMB 341,630,000) and the Company declared a non-cash deemed dividend distribution to FEEL amounting to US\$50 million (equal to RMB 341,615,000). The non-cash deemed dividend distribution to FEEL was off-set against the outstanding balance of the amount due from FEEL.

On March 7, 2010, the Company declared a cash dividend of US\$20 million (RMB 136,532,000) in favour of all the shareholders of the Company and the dividend was paid on March 9, 2010.

On April 9, 2010, the Board ratified the March 31, 2010 non-cash deemed dividend of US\$11.9 million to FEEL, as allowed by the Fourth Amended and Restated Memorandum and Articles of Association of the Company and the Shareholders Agreement, as the non-cash deemed dividend was used to settle the outstanding receivables from FEEL and did not exceed US\$12 million allowed under the Shareholders Agreement.

A 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), is to be proposed at the annual general meeting on May 6, 2011. These financial statements do not reflect this dividend payable.

## 17 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 SUBSEQUENT EVENTS

### (a) Incorporation of subsidiaries

On February 8, 2011, Palaeontol Coöperatief U.A. was incorporated in the Netherlands as a cooperative with no liability with 99% held by MIE New Ventures Corporation and 1% held by MIE.

On February 11, 2011, Palaeontol B.V. was incorporated in the Netherlands as an investment holding company with limited liability and wholly owned by Palaeontol Coöperatief U.A.. The authorized share capital of the Palaeontol B.V. is 90,000 euros and is divided into 90,000 ordinary shares of one euro each.

### (b) Acquisition of participating interest in oilfield in Kazakhstan.

On February 14, 2011, Palaeontol B.V. (“the Purchaser”), a wholly-owned subsidiary of the Company, entered into a purchase agreement with BMB Munai, Inc. (“the Seller”), which is a Nevada corporation listed on the American Stock Exchange and an independent third party, pursuant to which the Purchaser conditionally agreed to acquire all right, title and interest relating to certain oilfields in Kazakhstan held by Emir-Oil LLC (“Target Company”) and all right, title and interest in and to the loans made by the Seller to the Target Company for an aggregate consideration of US\$170 million (subject to adjustment). The closing of the transaction is subject to the fulfilment of a number of conditions precedents.

The Company has granted Acap Limited, which is providing general consulting services to the Company in relation to above acquisition, 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 term and condition under the purchase agreement within 36 months from the closing of the transaction. The Company also agreed to pay certain fees to Acap Limited, including a monthly retainer and a success fee equating to 2.5% of the consideration payable on closing date and, in the event that the Seller or its affiliates fail to consummate the acquisition with the Company or its affiliates, a break-up fee equating to 10% of any fees or compensation received or to be received by the Company.

### (c) Proposed dividend

A 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) is to be proposed at the annual general meeting on May 6, 2011. These financial statements do not reflect this dividend payable.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW AND PROSPECTS**

The oil and gas industry in China continued to grow during 2010 despite the volatile crude oil price throughout the year. The strong oil demand in China coupled with the weak U.S. dollar resulted in the industry becoming increasingly dependent on China's economy. The National Development and Reform Commission of the People's Republic of China expects the oil and gas industry to continue its upward trend in light of economic stimulus plans and other positive policies.

The Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong on December 14, 2010, marking a key milestone in the Group's history. Our share price has increased significantly from the initial public offer price of HK\$1.70 per share, reflecting the strength of the Company and the support of our shareholders.

As of December 31, 2010, for our three China oilfields we had estimated net proved, proved+probable and proved+probable+possible crude oil reserves of approximately 32.9 million barrels, 52.5 million barrels and 66.4 million barrels respectively, an increase of 3.5 million barrels, 4.9 million barrels and 5.3 million barrels respectively, as compared to our reserve as of June 30, 2010 as stated in our prospectus dated December 1, 2010. Our net daily crude oil production increased by 22.4% from 7,637 barrels per day in 2009 to 9,349 barrels of crude oil per day in 2010.

During the year, we commenced infill drilling and successfully drilled six wells. Included in our reserves as at December 31, 2010 are 3.3 million barrels, 4.3 million barrels and 5.2 million barrels of proved, proved+probable, and proved+probable+possible crude oil reserves for infill drilling in the Daan Oilfield. To develop these reserves we plan to drill an additional 455 infill wells including 36 infill wells in 2011.

The success of our development and production activities is demonstrated by our high rig count and number of productive wells. In 2010, we concurrently operated 28 drilling rigs and as of December 31, 2010, we operated an aggregate 1,641 gross productive wells in our three oilfields.

Since the reserve report as at June 30, 2010 as set out in our prospectus dated December 1, 2010, our net proved and net proved+probable reserves increased by approximately 11.9% and 10.1%, respectively, mostly from infill drilling, indicating the Company has substantial continuing growth potential in its existing oilfields in China. We believe our oilfields in China offer strong growth potential, and we are continually expanding our operations by drilling more wells in the oilfields we operate, which we believe will substantially increase our net production of crude oil over the next several years. As of December 31, 2010, we had identified 2,623 potential locations including infill locations containing proved, probable and possible undeveloped reserves, respectively, for future drilling and within our estimated net reserves presented herein, we include estimated net proved, probable and possible undeveloped reserves of 12.4 million barrels, 12.0 million barrels and 8.8 million barrels, respectively, for these locations.

The Company continues to follow a prudent financial policy and strives to control cost in order to maintain its cost advantage over its competitors and a strong financial position.

For the year ended December 31, 2010, the Company's total revenue was RMB1,805.0 million, representing a 54.7% increase over the previous year. The Company's EBITDA increased substantially to RMB1,162.6 million, an increase of 69.2% over the previous year. The Company's net profit was RMB420.9 million, increasing almost four-fold from the previous year and exceeding our profit forecast as set out in our prospectus dated December 1, 2010, primarily as a result of significant increase in realized oil prices and sales volume.

The average realized oil price was US\$77.99 per barrel for the year ended December 31, 2010, compared to US\$58.58 per barrel for the year ended December 31, 2009.

Lifting cost per barrel was US\$7.09 per barrel for the year ended December 31, 2010, compared to US\$7.69 per barrel for the year ended December 31, 2009.

For the year ended December 31, 2010, the Company's basic and diluted earnings per share were both RMB0.19, representing an increase of 216.7% over the previous year.

In view of the stellar results for 2010, and given the low interest rate environment, the directors of the Company recommended the payment of a special final dividend of HK\$0.035 per share although there was no plan to pay any dividend for the year ended December 31, 2010 as stated in our prospectus dated December 1, 2010.

During 2010, we made net investments of RMB763.6 million and drilled 200 wells comprising 144 wells, 27 wells and 29 wells in Daan, Moliqing and Miao 3 oilfields, respectively, and our gross production and net production were 6.4 million barrels and 3.4 million barrels, respectively.

In 2011, the Company plans to increase its capital expenditure to support its production growth. We currently plan to spend net amounts of approximately RMB1.3 billion and plan to drill 367 wells in 2011 comprising 288 wells, 35 wells and 44 wells in the Daan, Moliqing and Miao3 oilfields, respectively. After 2011, there will be 2,256 remaining proved, probable and possible well locations to be drilled as we continue to develop additional reserves. We believe our oilfields have strong growth potential.

On February 14, 2011, the Company announced another important milestone in agreeing to acquire all the issued and outstanding participation interests of Emir-Oil, LLC, an oil and natural gas exploration and production company in the Republic of Kazakhstan. The acquisition of Emir-Oil, LLC will be an important first step for the Company towards becoming an international oil and gas company. Based on Emir-Oil, LLC's reserve report as of March 31, 2010, the contracted area has proved reserves, proved+probable reserves, and proved+probable+possible reserves of approximately 22.7 million, 92.2 million and 127.6 million barrels of oil equivalent, respectively. In addition, based on Emir-Oil, LLC's evaluation as of July 1, 2010, four resource prospects in the contracted area contain estimated prospective resources of approximately 171 million barrels on an unrisksed basis and 51 million barrels on a risksed basis.

## FINANCIAL RESULTS

### Revenue

Our revenue increased by RMB638.2 million, or 54.7%, from RMB1,166.8 million for the year ended December 31, 2009 to RMB1,805.0 million for the year ended December 31, 2010. This increase was primarily due to an increase in the crude oil prices and our sales volume.

The average realized oil price was US\$77.99 per barrel for the year ended December 31, 2010, compared to US\$58.58 per barrel for the year ended December 31, 2009. Our sales volume was 3.42 million barrels for the year ended December 31, 2010, compared to 2.92 million barrels for the year ended December 31, 2009.

### Operating expenses

Our operating expenses increased by RMB245.4 million, or 26.5%, from RMB925.6 million for the year ended December 31, 2009 to RMB1,171.0 million for the year ended December 31, 2010, primarily due to an increase in special levy as a result of the increase in realized crude oil prices and sales volume.

- *Purchases, services and other expenses.* Our purchases, services and other expenses increased by RMB2.9 million, or 2.4%, from RMB123.6 million for the year ended December 31, 2009 to RMB126.5 million for the year ended December 31, 2010, primarily due to the increase in sales volume in 2010 which was offset by more stringent cost control.
- *Employee compensation costs.* Our employee compensation costs increased by RMB42.7 million, or 63.1%, from RMB67.7 million for the year ended December 31, 2009 to RMB110.3 million for the year ended December 31, 2010 primarily due to (i) increase in non-cash share-based compensation expenses arising from fair value of stock options and stock appreciation rights; (ii) higher compensation to employees because of the Company's improved financial performance in 2010 and (iii) increase in the number of our staff hiring in connection with our increased production.
- *Depreciation, depletion and amortization.* Our depreciation, depletion and amortization increased by RMB82.8 million, or 18.6%, from RMB445.8 million for the year ended December 31, 2009 to RMB528.6 million for the year ended December 31, 2010. The increase is mainly due to the increase in sales volume in 2010. Depreciation, depletion and amortization is calculated using unit of production based on proved developed producing reserves for the years ended December 31, 2009 and 2010.
- *Distribution and administrative expenses.* Our distribution and administrative expenses decreased by RMB5.5 million, or 6.5%, from RMB84.1 million for the year ended December 31, 2009 to RMB78.6 million for the year ended December 31, 2010 primarily due to improvements in cost controls.

- Taxes other than income taxes.* Our taxes other than income taxes increased by RMB216.0 million, or 294.6%, from RMB73.3 million for the year ended December 31, 2009 to RMB289.3 million for the year ended December 31, 2010. This increase was primarily due to (i) an increase in the special levy we paid to the PRC government in 2010 due to (a) increased realized crude oil prices of year 2010 as the special levy is calculated and charged at progressive ad valorem rates based on the price of crude oil and (b) an increase in sales volume; and (ii) PetroChina's payment of the special levy to the PRC government on our behalf during the first half of 2009 as compensation for special levy payments we had paid in 2008 on the excess entitlement. In 2009, PetroChina paid RMB41.8 million of the special levy due on settlement of the excess entitlement. In 2008, due to the excess entitlement, we paid PetroChina's portion of the special levy. In 2009, we settled the excess entitlement with PetroChina by letting PetroChina take more oil and pay the special levy associated with such oil. As a result, in 2009, we paid less special levy. Special levy is payable starting at US\$40 per barrel and the rate increases according to the crude oil price.
- Other losses.* Our other losses decreased by RMB93.5 million, or 71.3%, from approximately RMB131.1 million for the year ended December 31, 2009 to approximately RMB37.6 million for the year ended December 31, 2010. We had other losses of RMB37.6 million for the year ended December 31, 2010, primarily due to a non-cash loss of RMB20.3 million from Standard Bank Oil Hedge which expired on December 31, 2010 and a non-cash unrealized loss of RMB24.4 million from the MLCI Oil Hedge purchased in October 2010 due to the movement in the fair value of the oil put option. The Standard Bank Oil Hedge which had a carrying value of RMB20.3 million as at December 31, 2009 expired at December 31, 2010. The accounting standard requires us to perform a fair value valuation on the unexpired portion of any oil hedge 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. The spot price of WTI as at December 31, 2010 was US\$90.8 per barrel and the forward curve for WTI for that date was higher than the spot price and upward sloping. Given WTI spot price and forward curve for WTI was higher than strike price for the new MLCI Oil Hedge, the fair value valuation requires us to book a non-cash unrealized loss of RMB24.4 million for the MLCI Oil Hedge to write down the derivative financial instruments.

We had other losses of RMB131.1 million for the year ended December 31, 2009, primarily due to non-cash unrealized loss of RMB207.2 million from the movement in the fair value of the oil put option, which was partially offset by a realized gain of RMB71.0 million on the oil put option. WTI spot price was at US\$44.1 per barrel and the forward curve was downward sloping as at December 31, 2008. Given the WTI spot price and forward curve was below the strike price for the Standard Bank Oil Hedge, we recognized a non-cash unrealized gain and wrote up the derivative financial instruments by RMB129.8 million for the year end December 31, 2008. However, by December 31, 2009, the WTI spot price was approximately US\$79.49 per barrel and the forward curve was upward sloping above the strike price of the Standard Bank Oil Hedge, so we had to book a non-cash unrealized loss and write down the derivative financial instrument by approximately RMB207.2 million.

## **Profit from operations**

Our profit from operations increased by RMB392.8 million, or 162.8%, from RMB241.2 million for the year ended December 31, 2009 to RMB634.0 million for the year ended December 31, 2010. This increase was primarily due to an increase in revenue, partially offset by a increase in special levy.

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

Our finance net cost decreased by RMB5.9 million, or 10.3%, from RMB57.3 million for the year ended December 31, 2009 to RMB51.4 million for the year ended December 31, 2010. This decrease was primarily due to our foreign exchange translation gain of RMB35.2 million in 2010 compared to a foreign exchange translation loss of RMB2.2 million in 2009, caused by the appreciation of the Renminbi against the U.S. dollar in 2010 as our borrowings were denominated and settled in U.S. dollars. The exchange gain was partially offset by the increase in interest expenses due to an increase in our outstanding borrowings after replacing the Standard Bank loan with the CITIC Facility in July 2009 and fully drawing down the CITIC Facility shortly thereafter.

## **Profit before income tax**

Our profit before income tax increased by RMB398.7 million, or 216.7%, from RMB183.9 million for the year ended December 31, 2009 to RMB582.6 million for the year ended December 31, 2010. This increase was primarily due to the cumulative effects of the above factors.

## **Income tax expense**

We had income tax expense of RMB73.4 million for the year ended December 31, 2009, compared to income tax expense of RMB161.7 million for the year ended December 31, 2010. This increase was primarily due to an increase in profit before income tax in 2010.

## **Net profit for the year**

As a result of the foregoing, our net profit for the year increased by RMB310.4 million, or 281.0%, from RMB110.5 million for the year ended December 31, 2009 to RMB420.9 million for the year ended December 31, 2010.

## **EBITDA and Adjusted EBITDA**

We provide a reconciliation of EBITDA and adjusted EBITDA to net profit for the year, our most directly comparable financial performance calculated and presented in accordance with IFRS. EBITDA refers to earnings before finance income, finance costs, income tax and depreciation, depletion and amortization. Adjusted EBITDA refers to EBITDA adjusted to exclude non-cash items such as share-based compensation expense, net loss/(gain) on forward foreign exchange contract and realized and unrealized loss/(gain) on the oil put option.

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 year indicated.

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
Net profit for the year	420,864	110,477
Income tax expenses	161,705	73,462
Finance Income	(35,344)	(1,552)
Finance Cost	86,788	58,832
Depreciation, depletion and amortization	528,582	445,824
	<u>1,162,595</u>	<u>687,043</u>
EBITDA	<u>1,162,595</u>	<u>687,043</u>
Share-based compensation expenses	29,429	3,484
Net gain on forward foreign exchange contract	–	(5,478)
Loss on oil put option	44,692	136,252
	<u>44,692</u>	<u>136,252</u>
Adjusted EBITDA	<u>1,236,716</u>	<u>821,301</u>

Our EBITDA increased by approximately RMB475.6 million, or 69.2%, from approximately RMB687.0 million for the year ended December 31, 2009 to approximately RMB1,162.6 million for the year ended December 31, 2010. The increase was primarily due to the increase in realized oil price and sales volume.

Our adjusted EBITDA increased by approximately RMB415.4 million, or 50.6%, from approximately RMB821.3 million for the year ended December 31, 2009 to approximately RMB1,236.7 million for the year ended December 31, 2010. 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 and gas prices, exchange rates and interest rates.

### **Oil price risk**

As our realized oil prices are mainly determined by reference to oil prices in the international market, changes in international oil prices 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**

All of the Group's 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. Limitations on 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.

### **Interest rate risk**

The Group's income and operating cash flows are substantially independent of the changes in market rates. The Group's interest rates risk arises from borrowings.

## **EMPLOYEES**

As at December 31, 2010, the Company had 1,610 employees.

On November 27, 2010, we adopted a new share option scheme for directors, senior management and other eligible grantees of the Company. The Board has not granted any options under such share option scheme. We have also adopted a market-oriented employment system and a more competitive remuneration scheme by improving our employment policy.

## **CONTINGENCIES**

On August 28, 2000, MIE entered into a PSC with Sinopec for exploration and development of the Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations at the Shengli oilfield and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, MIE requested an extension from Sinopec to restart the project at the Shengli oilfield. On September 27, 2006, MIE received a letter from Sinopec denying the request to restart the project and seeking to terminate the PSC on the grounds that the extension period of the trial-development phase had expired and MIE had not met its investment commitment of at least US\$2 million under the PSC. MIE believes its investment in the project at Shengli oilfield had met the required commitment amount under the PSC. The PSC with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings.

## **DIVIDEND**

The Board recommends the payment of a final dividend of HK\$0.035 per share in respect of 2010 to shareholders whose names appear on the register of members of the Company on May 6, 2011. The proposed final dividend will be paid on or about June 3, 2011, following approval at the Annual General Meeting.

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

## **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the Group's consolidated financial statements for the year ended December 31, 2010, 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, 2010.

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

The net proceeds from the Global Offering, after deducting the relevant costs of the Global Offering, were approximately RMB503.8 million (without taking into account the partial exercise of the over-allotment option). As at the date of this announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the prospectus of the Company dated December 1, 2010.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from May 4, 2011 (Wednesday) to May 6, 2011 (Friday) (both dates inclusive) during which no transfer of shares of the Company can be registered. In order to qualify for the dividend and determine the entitlement to attend and vote at 2011 annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on May 3, 2011 (Tuesday).

## **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 since its listing on December 14, 2010, except for deviations from Code Provision A.2.1. The following summarizes the requirement under the relevant code provision 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.

## **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 the period from December 14, 2010 (the date of listing of the shares of the Company on the Stock Exchange) to December 31, 2010.

## **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, 2010 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 May 6, 2011 (Friday). 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 9, 2011

*As at the date of this announcement, the Board comprises (1) the executive directors namely Mr Zhang Ruilin, Mr Zhao Jiangwei, Mr Forrest L. 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.*