MIE HOLDINGS CORPORATION
MI 能源控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1555

GLOBAL OFFERING

Sole Global Coordinator and Sole Sponsor

J.P.Morgan

Joint Bookrunners and Joint Lead Managers

J.P.Morgan

BOC INTERNATIONAL

Deutsche Bank
德意志银行

* *for identification purposes only*

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

MIE HOLDINGS CORPORATION
MI能源控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**662,000,000 Shares (comprising 441,334,000 New Shares to be offered by us and an aggregate of 220,666,000 Sale Shares to be offered by the Selling Shareholders, subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**66,200,000 New Shares (subject to adjustment)**
Number of International Offer Shares	:	**595,800,000 Shares (comprising 375,134,000 New Shares to be offered by us and an aggregate of 220,666,000 Sale Shares to be offered by the Selling Shareholders, subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	:	**HK$2.16 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**US$0.001 per Share**
Stock code	:	**1555**

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, with the documents specified in the section headed "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection" herein, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date. The Price Determination Date is expected to be on or around December 7, 2010 and, in any event, not later than December 13, 2010. The Offer Price will not be more than HK$2.16 and is currently expected to be not less than HK$1.70. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$2.16 for each Hong Kong Offer Share together with a brokerage of 1%, an SFC transaction levy of 0.003% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK$2.16 per Offer Share.

The Joint Bookrunners, on behalf of the Underwriters, may, with the Selling Shareholders' and our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.mienergy.com.cn**. If applications for Hong Kong Offer Shares have been submitted prior to the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us are unable to reach an agreement on the Offer Price by December 13, 2010, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Bookrunners (on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on the day on which trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirement under the U.S. Securities Act. The Offer Shares are being offered and sold (1) to qualified institutional buyers in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

* *For identification purposes only*

December 1, 2010

	Date[1]
Latest time to lodge **PINK** Application Forms	4:00 p.m. on Friday, December 3, 2010
Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website **www.hkeipo.hk**[2]	11:30 a.m. on Monday, December 6, 2010
Application lists of the Hong Kong Public Offering open[3]	11:45 a.m. on Monday, December 6, 2010
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Monday, December 6, 2010
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Monday, December 6, 2010
Latest time to give **electronic application instructions** to HKSCC[4]	12:00 noon on Monday, December 6, 2010
Application lists close	12:00 noon on Monday, December 6, 2010
Expected Price Determination Date[5]	Tuesday, December 7, 2010

Announcement of:

- the Offer Price;
- the indication of the level of interest in the International Offering;
- the level of applications under the Hong Kong Public Offering; and
- the basis of allotment of the Hong Kong Offer Shares,

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at **www.hkexnews.hk** and our company at **www.mienergy.com.cn** on or before	Monday, December 13, 2010
Announcement of results of allotment in the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) available through a variety of channels, including the websites of the Stock Exchange at **www.hkexnews.hk** and our company at **www.mienergy.com.cn**, as described in the paragraph headed "Publication of results; Despatch/collection of Share certificates/refund cheques/ e-Auto Refund payment instructions" in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus	Monday, December 13, 2010
Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** with a "search by ID" function	Monday, December 13, 2010
Despatch of Share certificates in respect of wholly or partially successful applications on or before[6]	Monday, December 13, 2010

Despatch the White Form e-Auto Refund payment instructions/ refund of cheques in respect of wholly or partially unsuccessful applications on or before(6)(7) . . . . Monday, December 13, 2010

Dealings in Shares on the Stock Exchange expected to commence on . . . Tuesday, December 14, 2010

Notes:

(1) All times refer to Hong Kong local time, except otherwise stated.

(2) You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 6, 2010, the application lists will not open on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares – Effect of bad weather on the opening of the application lists" in this prospectus.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares – Applying by giving electronic application instructions to HKSCC" in this prospectus.

(5) The Price Determination Date is expected to be on or about Tuesday, December 7, 2010, and in any event will not be later than Monday, December 13, 2010. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on or before Monday, December 13, 2010, the Global Offering will not proceed and will lapse.

(6) Applicants who have applied for 1,000,000 or more Hong Kong Offer Shares and have indicated in their Application Forms their wish to collect refund cheques (where applicable) and Share certificates (where applicable) in person may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on the date notified by our company as the date of despatch of Share certificates and refund cheques. The date of despatch of Share certificates and refund cheques is expected to be Monday, December 13, 2010. Applicants who are individuals and opt for personal collection must not authorize any other person to make collection on their behalf. Applicants that are corporations and opt for personal collection must attend by their authorized representatives, each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. Uncollected refund cheques and Share certificates will be despatched by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Applicants who apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** may collect their Share certificate(s) (where applicable) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, December 13, 2010, or such other date as notified by our company as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants who paid the application monies from a single bank account may have e-Refund payment instructions (if any) despatched to the application payment account on Monday, December 13, 2010. Applicants who used multi-bank accounts to pay the application monies may have refund cheque (if any) despatched to the address specified in their application instructions to the designated **HK eIPO White Form** Service Provider on Monday, December 13, 2010, by ordinary post and at their own risk.

(7) Share certificates are expected to be issued on Monday, December 13, 2010. Share certificates will only become valid certificates of title if the Hong Kong Public Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement has been terminated in accordance with its terms before 8:00 a.m. on the Listing Date, which is expected to be Tuesday, December 14, 2010. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

You should read carefully the sections headed "Underwriting", "How to Apply for Hong Kong Offer Shares", and "Structure of the Global Offering" in this prospectus for details relating to the structure of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable including, inter alia, applicable conditions, the effect of bad weather, and the despatch of refund cheques and Share certificates.

We will publish an announcement in case there is any change in the expected timetable of the Hong Kong Public Offering as described above.

This prospectus is issued by our company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorized anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Selling Shareholders, any of their respective directors or any other person or party involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.

There are risks associated with an investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

China's oil and gas industry is dominated by three national oil companies, namely, PetroChina, Sinopec and CNOOC. Independent Upstream Oil Companies currently own an insignificant market share but are increasingly participating in China's oil and gas industry. We are one of the leading Independent Upstream Oil Companies operating onshore in China as measured by gross production under production sharing contracts. We operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, the largest oil company in China. In addition, we pursue other development and production opportunities in China, and exploration, development and production opportunities internationally, both independently and in partnership with other major and independent oil companies.

As of June 30, 2010, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 29.4 million barrels, 18.3 million barrels and 13.5 million barrels of crude oil, respectively. Our daily crude oil production has grown significantly since 2001, when we took over the operations of the three oilfields. Our net production averaged 6,439 barrels, 8,150 barrels, 7,637 barrels and 10,042 barrels of crude oil per day in 2007, 2008, 2009 and the first half of 2010, respectively, representing a CAGR of 17.5%. Since FEEL acquired MIE in August 2003, our net production of crude oil grew from an average of 1,855 barrels per day in 2004 to 10,042 barrels per day in the first half of 2010, representing a CAGR of 35.9%. Our high level of development and production activities is demonstrated by our high rig count and number of productive wells. In 2007, 2008, 2009 and the first half of 2010, we concurrently operated 33, 24, 25 and 28 drilling rigs, respectively and operated an aggregate 827, 1,218, 1,383 and 1,592 gross productive wells in our three oilfields respectively.

As the operator of the Daan, Moliqing and Miao 3 oilfields, we hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts. GOC, a passive foreign contractor that is not directly involved in the operations of the oilfields, holds the remaining 10% participating interest. Under each of the production sharing contracts, we provide funding, technology and managerial experience for the development and production of oil resources in these oilfields. In exchange, we share in the production of crude oil with PetroChina after the successful development of oil reserves according to the formula set forth in the production sharing contracts. In a given period during the commercial production phase under the production sharing contracts, the revenue and operating costs may be allocated to the foreign contractors in the range of 48% to 80%, based on whether the foreign contractors have fully recovered their development costs. See "Business – Production Sharing Contracts" for more information on the revenue and cost allocations under the production sharing contracts. All of the oil produced in our three oilfields is sold to PetroChina. The production sharing contracts for the Daan, Moliqing and Miao 3 oilfields will expire in 2024, 2028 and 2028, respectively. We have already recovered our development costs in the Daan oilfield and expect to recover our development costs in the Moliqing and Miao 3 oilfields in 2013 and 2015, respectively.

Our operating success and effective application of know-how are evidenced by our strong track record and high success rates. From 2001 to June 30, 2010, we drilled 1,552 gross development wells in our oilfields, of which only seven were dry holes. As of December 31, 2007, 2008 and 2009 and June 30, 2010, we operated 827, 1,218, 1,383 and 1,592 gross productive wells, respectively. We believe our oilfields have 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 June 30, 2010, we had identified 614, 783 and 483 potential locations containing proved, probable and possible undeveloped reserves, respectively, for future drilling and had estimated net proved, probable and possible undeveloped reserves of 8.6 million barrels, 10.3 million barrels and 8.1 million barrels, respectively, for these locations.

Summary of Our Net Reserves

	As of June 30, 2010		
	Proved	Probable	Possible
	(In thousands of barrels)		
Daan oilfield	24,627	14,119	7,995
Moliqing oilfield	4,504	3,806	5,272
Miao 3 oilfield	278	346	199
Total	29,409	18,271	13,466

In 2007, 2008, 2009 and the first half of 2010, our revenue amounted to RMB1,221.6 million, RMB1,971.7 million, RMB1,166.8 million and RMB947.4 million, respectively. In 2007, 2008, 2009 and the first half of 2010, our EBITDA amounted to RMB797.8 million, RMB1,256.8 million, RMB687.0 million and RMB628.2 million, respectively, and our adjusted EBITDA amounted to RMB817.5 million, RMB1,127.9 million, RMB821.3 million and RMB662.0 million, respectively. Our net profit amounted to RMB308.9 million, RMB611.1 million, RMB110.5 million and RMB238.5 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

The structure of our production sharing contracts allows us to effectively recover our costs. Under the production sharing contracts, crude oil is distributed according to a production allocation provision and after deducting value-added tax and royalties, the remaining allocable oil is allocated 80% to the foreign contractors for the recovery of the operating, pilot-test and development costs. Our net entitlement of the remaining allocable oil is 72% (being 90% of the foreign contractor's interest) until we have recovered all development costs. If oil produced in a certain period is insufficient to recover all costs incurred by us in that period, the costs are carried forward to the next period until we recover such costs from future oil production. After the foreign contractors have recovered all operating, pilot-test and development costs (including any unrecovered operating, pilot-test and development costs from prior periods) from the oil revenue generated each period, the remainder of the allocable oil for that period is allocated 52% to PetroChina and 48% to the foreign contractors, and our net interest is 43.2% (being 90% of the foreign contractor's interest). Accordingly, the foreign contractors' interest ranges between 48% to 80%, and our net interest ranges between 43.2% to 72%. See "Business – Production Sharing Contracts."

We have recovered all of our past development costs in the Daan oilfield, but we have not reached the limit for the number of wells to be drilled and the amount of development investment approved under the original overall development plan and the supplemental overall development plan for the Daan oilfield. Since the maximum limits set out in the original overall development plan and supplemental overall development plan have not yet been reached, we continue to make additional investments in the Daan oilfield in accordance with development plans approved by the joint management committee. For the Moliqing and Miao 3 oilfields, as of June 30, 2010, we had recovered 78.0% and 42.8% of past development costs, respectively.

Key Operating Data

	Year Ended December 31,			Six-Month Period Ended June 30,
Volumes, Prices and Costs	**2007**	**2008**	**2009**	**2010**
Sales volume (million of barrels)	**2.33**	**2.72**	**2.92**	**1.81**
Net annual production volume (millions of barrels)	2.35	2.98	2.79	1.82
Average daily net crude oil production (in barrels)	**6,439**	**8,150**	**7,637**	**10,042**
Daan oilfield	5,295	6,492	6,000	7,665
Moliqing oilfield	1,003	1,505	1,453	1,831
Miao 3 oilfield	141	153	184	546
Average sales price (US$ per barrel of crude oil)	**69.00**	**104.78**	**58.58**	**76.72**
Daan oilfield	68.50	105.66	59.05	76.67
Moliqing oilfield	71.31	101.51	56.83	76.96
Miao 3 oilfield	70.43	102.03	56.57	76.64
Lifting costs (US$ per barrel of crude oil)	**7.24**	**6.52**	**7.69**	**6.37**
Daan oilfield	5.44	4.23	6.21	5.01
Moliqing oilfield	13.70	13.26	11.82	10.21
Miao 3 oilfield(1)	26.52	31.06	25.86	12.73

(1) Miao 3 oilfield has higher lifting costs than the other two oilfields because it is in the early stage of development with higher fixed cost per unit of production.

Commodity Price Risk Management

Oil Put Options

We use oil put options to manage our exposure to the downward movements of crude oil prices. In November 2007, we purchased oil put options to notionally sell to Standard Bank Plc 5,236,710 barrels of crude oil at a strike price of US$62.50 per barrel, in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010. During the time period from January 1, 2008 to June 30, 2010, our net production of crude oil totaled 7.6 million barrels. The price under these oil put options are based on the price of West Texas Intermediate crude oil. Under the same agreement, we also sold oil put options to Standard Bank Plc to notionally sell to us 5,236,710 barrels at a strike price of US$42.50 per barrel in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010 under the same terms and conditions as the options we purchased. In effect, the purchase and sale of the oil put options combine to lock-in the minimum price of oil at US$62.50 per barrel for each month during the period from January 1, 2008 to December 31, 2010 for an

amount ranging from 130,061 barrels to 154,378 barrels per month, with a maximum downside protection of US$20.00 per barrel. If the average price of West Texas Intermediate crude oil is higher than US$62.50 per barrel, the options will not be exercised. Each month during the period from January 1, 2008 to December 31, 2010, if the average monthly spot price of oil falls below US$62.50 per barrel, we receive from Standard Bank Plc the difference between the strike price of US$62.50 per barrel and the average price of the West Texas Intermediate crude oil, in respect of the notional volume of that month, provided that the maximum payout by Standard Bank Plc is limited to US$20.00 per barrel. We paid to Standard Bank Plc premium payments of US$2.3 million in 2008 and US$11.1 million in 2009 for a total premium payment of US$13.4 million for this oil put option arrangement, which payments were the only put option premiums we paid during the Track Record Period. In 2008, we recorded a non-cash unrealized gain of RMB129.8 million. In 2009 and the six month period ended June 30, 2010, we recorded a non-cash unrealized loss of RMB207.2 million and RMB14.0 million, respectively, due to the change in fair value of the unrealized portion of the oil put option, and we realized a cash inflow from oil put option contracts of RMB70.9 million and nil, respectively, causing our net losses on oil put options during these periods to total RMB136.3 million and RMB14.0 million, respectively. This non-cash unrealized gain or loss is included as other income or loss in our consolidated income statement.

In October 2010, we purchased oil put options to notionally sell to Merrill Lynch Commodities, Inc. 3,000,000 barrels of crude oil at a strike price of US$70.00 per barrel, in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012. The price under the option is based on the price of West Texas Intermediate crude oil. Under the same agreement, we simultaneously sold oil put options to Merrill Lynch Commodities, Inc. to notionally sell to us 3,000,000 barrels at a strike price of US$55.00 per barrel in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 under the same terms and conditions as the options we purchased. The oil put options expire on December 31, 2012. We estimate that during 2011 and 2012 our net oil production will be 3.8 million barrels and 4.5 million barrels, respectively. In effect, the purchase and sale of the oil put options combine to lock-in the minimum price of oil at US$70.00 per barrel for 150,000 barrels per month in 2011 and for 100,000 barrels per months in 2011, with a maximum protection of US$15.00 per barrel. If the average price of West Texas Intermediate crude oil is higher than US$70.00 per barrel, the options will not be exercised. Each month we will receive from Merrill Lynch Commodities, Inc. the difference between the strike price of US$70.00 per barrel and the average price of West Texas Intermediate crude oil, in respect of the notional volume of that month, if the average monthly spot price of oil falls below US$70.00 per barrel, provided that the maximum payout by Merrill Lynch Commodities, Inc. is limited to US$15.00 per barrel. Starting in April 2011, we will pay Merrill Lynch Commodities, Inc. premium payments over a period of eight quarters for the oil put option arrangement, paying US$3.29 million in 2011, US$4.36 million in 2012 and US$1.09 million in 2013 for a total premium payment of US$8.74 million. The oil put options do not qualify for hedge accounting under IAS 39 "Financial Instruments: Recognition and Measurement". We will record gains or losses from this oil put option as other income or loss, respectively, in our consolidated income statement. Any cash realized gain under the oil put option will be reflected in our consolidated cash flow statement. See "Risk Factors – Our results of operations are affected by the volatility of prices for crude oil."

Our Hedging Policy

Our hedging policy prohibits speculative oil hedging. When management makes oil hedging decisions, it takes into account factors including annual oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others. Our oil hedging transactions are restricted to cover a reasonable period when the oil prices can be determined with greater degree of certainty, usually up to two years. Our hedging transactions also focus on protection against downside risk. All oil hedging transactions must be approved by the Board. Management closely monitors the movement in oil prices, and Mr. Zhang and Mr. Forrest L. Dietrich, both of whom serve as executive directors and have over 20 years of experience in the oil industry, regularly monitor oil prices and recommend to the Board and management the suitable oil price and amount at which to enter into oil hedging transactions. We also may be exposed to counterparty risks in our hedging transactions, though we mitigate counterparty risk by choosing only large financial institutions with whom we have had prior dealings and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. See "Risk Factors – Risks Related to our Company and our Business – We may be exposed to risks in connection with our hedging transactions, including counterparty risks and significant fluctuation on our income statement from changes to the fair value of put option agreements."

For details on our hedging policy and the process of entering into, monitoring and exiting from hedging transactions, see "Business – Commodity Price Risk Management" and "Financial Information – Market Risks – Commodity Price Risk."

OUR COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our growth and differentiate us from our competitors:

- One of the leading Independent Upstream Oil Companies operating onshore in China with strong growth potential
- Proven track record of developing and operating low permeability oilfields
- Competitive cost structure and operational efficiency
- Effective recovery of development and operating costs through the production sharing contract structure
- Long-standing and strong relationship with PetroChina
- Strong management team with international experience and local knowledge

OUR STRATEGIES

We believe we can maintain our competitiveness and growth by implementing the following strategies:

- Increase production through the development of proved undeveloped reserves
- Increase our net reserves and net production by securing new production sharing contracts and acquiring existing production sharing contracts in China
- Continue to improve operational efficiency through the application of advanced technologies
- Selectively expand into emerging markets outside of China

We commissioned Ryder Scott, an independent petroleum engineering consulting firm based in the United States, to carry out an independent assessment of our oil reserves as of December 31, 2007, 2008 and 2009 and June 30, 2010. Ryder Scott is an oil industry consulting firm whose primary role is to evaluate oil and gas properties in the United States and internationally and independently certifies petroleum reserve quantities. The reserves and income data included therein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS).

OUR RELATIONSHIP WITH PETROCHINA

We have a long-standing relationship and a history of close cooperation with PetroChina, with which we currently have three production sharing contracts. PetroChina, the largest of the three state-owned oil companies, has the highest number of production sharing contracts covering onshore oilfields. We have worked closely with PetroChina since 2001, when we took over the operations of the three oilfields. In 2007, 2008, 2009 and the first half of 2010, PetroChina was our sole customer and accounted for all of our revenue. Our cooperation deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. Our strong relationship with PetroChina is one of the key factors that will contribute to our future growth, and we believe we are well positioned to further develop our working relationship with PetroChina in current and future projects.

Our dependence on our relationship with PetroChina is not without risks. Please see "Risk Factors – Risks Related to our Company and our Business" for a detailed discussion of the following risks:

- Our business operations depend on the production sharing contracts with PetroChina. If we fail to maintain a continued good working relationship with PetroChina, our business, financial condition and results of operations may be materially and adversely affected;
- PetroChina controls, to a significant extent, the volume of our net production through its status as our sole customer and the influence it has over the management of the three oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected; and
- PetroChina may take over from us the operational rights for the three oilfields under the production sharing contracts. If PetroChina takes over the operational rights for one or more of the three oilfields, our business, financial condition and results of operations may be adversely affected.

While we intend to leverage our relationship with PetroChina to secure future production sharing contracts with them, we also intend to selectively acquire existing production sharing contracts from other independent oil producers in China that may be capital-constrained or lack sufficient technical ability and expertise to successfully develop their areas under contract. We believe our proven track record in developing and operating low permeability oilfields, which represent approximately 31% of China's overall oil reserves according to the Ordos Basin Extra-low Permeability Oilfield Development publication published in March 2007, may help us secure new production sharing contracts or acquire existing production sharing contracts in China.

PRE-IPO INVESTMENTS

The particulars of the investments made by various investors in our Group prior to the Listing are set out below:

	TPG	Sino Link	Harmony Energy
Date of signing of share purchase agreement	June 19, 2009	October 26, 2009	February 5, 2010
Number of Series A Preferred Shares subscribed for or purchased, as the case may be	21,457,490[(1)]	3,643,730	–
Number of Series B Preferred Shares purchased	–	–	36,425,120
Total consideration	US$53 million	US$9 million	US$90 million
Time of settlement of consideration	July 9, 2009	October 29, 2009	March 10, 2010
Investment per Share (assuming conversion of Series A Preferred Shares and Series B Preferred Shares into ordinary Shares and completion of the Capitalization Issue)[(2)]	HK$1.06	HK$1.06	HK$2.12
Discount/(premium) to:			
(i) low-end of the Offer Price of HK$1.70	37.6%	37.6%	(24.7%)
(ii) high-end of the Offer Price of HK$2.16	50.9%	50.9%	1.9%
Shareholding in our company immediately before the Global Offering and the Capitalization Issue, and assuming conversion of Series A Preferred Shares and Series B Preferred Shares into ordinary Shares	17.7%[(3)]	3.0%	15.0%
Shareholding in our company immediately after the Global Offering and the Capitalization Issue and:			
(i) assuming that the Over-allotment Option is not exercised	10.6%[(4)]	–	10.8%
(ii) assuming that the Over-allotment Option is exercised in full	8.7%[(5)]	–	8.9%

Notes:

(1) Including 1,287,550 Series A Preferred Shares transferred by TPG to TPG LLC, an affiliate of TPG, on December 15, 2009.

(2) Based on an exchange rate of US$1.00 = HK$7.7583.

(3) Including 1.1% owned by TPG LLC.

(4) Including 0.8% owned by TPG LLC.

(5) Including 0.7% owned by TPG LLC.

On June 19, 2009, TPG, a leading global private investment firm, entered into a share purchase agreement with MIE, FEEL and us, pursuant to which TPG subscribed for 21,457,490 Series A Preferred Shares for a consideration of US$53.0 million. On December 15, 2009, TPG transferred 1,287,550 Series A Preferred Shares to TPG LLC, an affiliate of TPG.

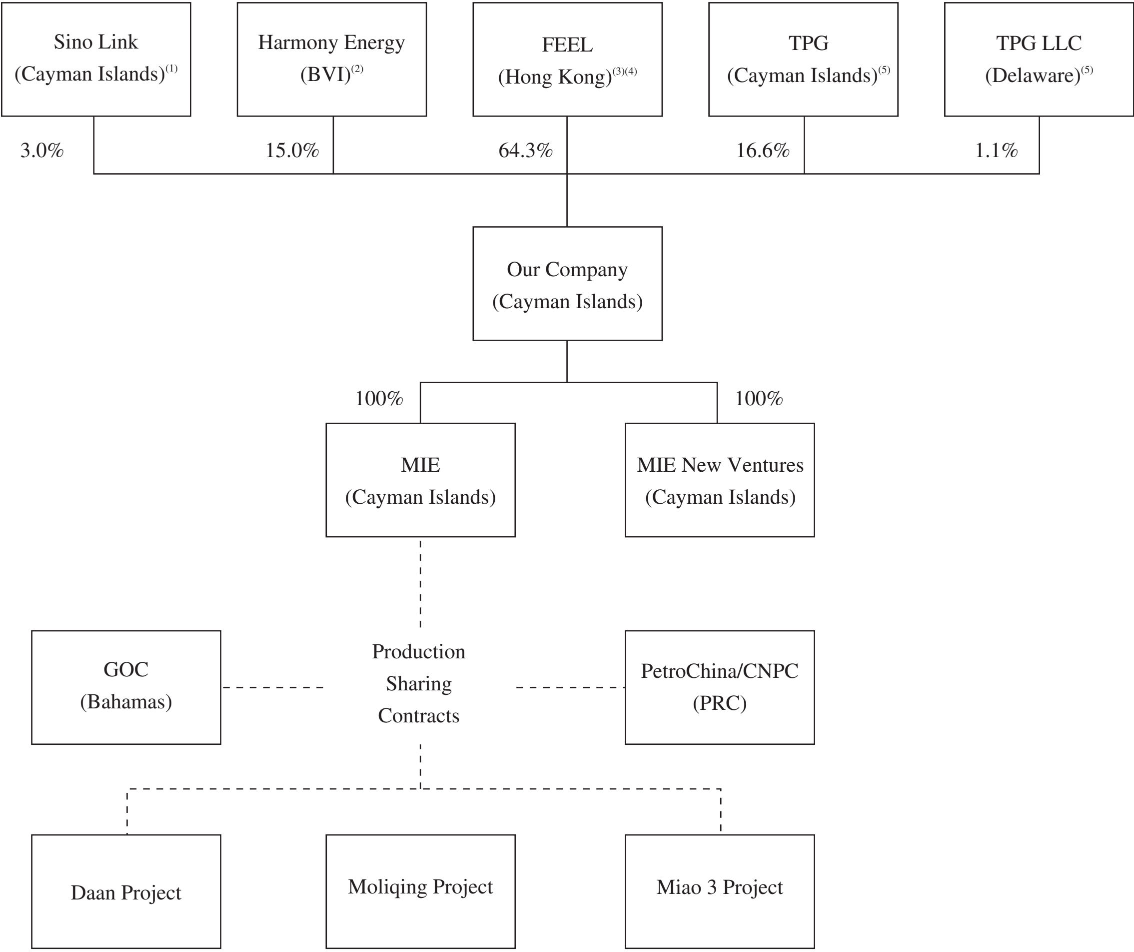
On October 26, 2009, Sino Link, an indirect subsidiary of CITIC Group, entered into a share purchase agreement with FEEL and its shareholders, MIE and us, pursuant to which FEEL transferred 3,643,730 Series A Preferred Shares to Sino Link for a consideration of US$9 million. CITIC Group is a large multinational conglomerate with core businesses in the financial industry, industrial industry and service industry.

On February 5, 2010, Harmony Energy, a direct wholly owned subsidiary of Ever Union Capital Limited, entered into a share purchase agreement with FEEL and its shareholders, MIE and us, pursuant to which FEEL transferred 36,425,120 Series B Preferred Shares to Harmony Energy for a consideration of US$90 million. Ever Union Capital Limited is an investment holding company whose principal activity is investments in companies principally engaged in the telecommunication, energy, commerce and finance industries.

Further details of the investments by TPG, Sino Link and Harmony Energy in us are set out in the section headed “History and Corporate Structure” of this prospectus.

OUR SHAREHOLDING STRUCTURE

The diagram below sets forth our shareholding and corporate structure immediately before the completion of the Global Offering and the Capitalization Issue and assuming conversion of the Series A Preferred Shares and Series B Preferred Shares into ordinary Shares:



(1) Sino Link is an indirect wholly owned subsidiary of the CITIC Group and is a holder of our Series A Preferred Shares.

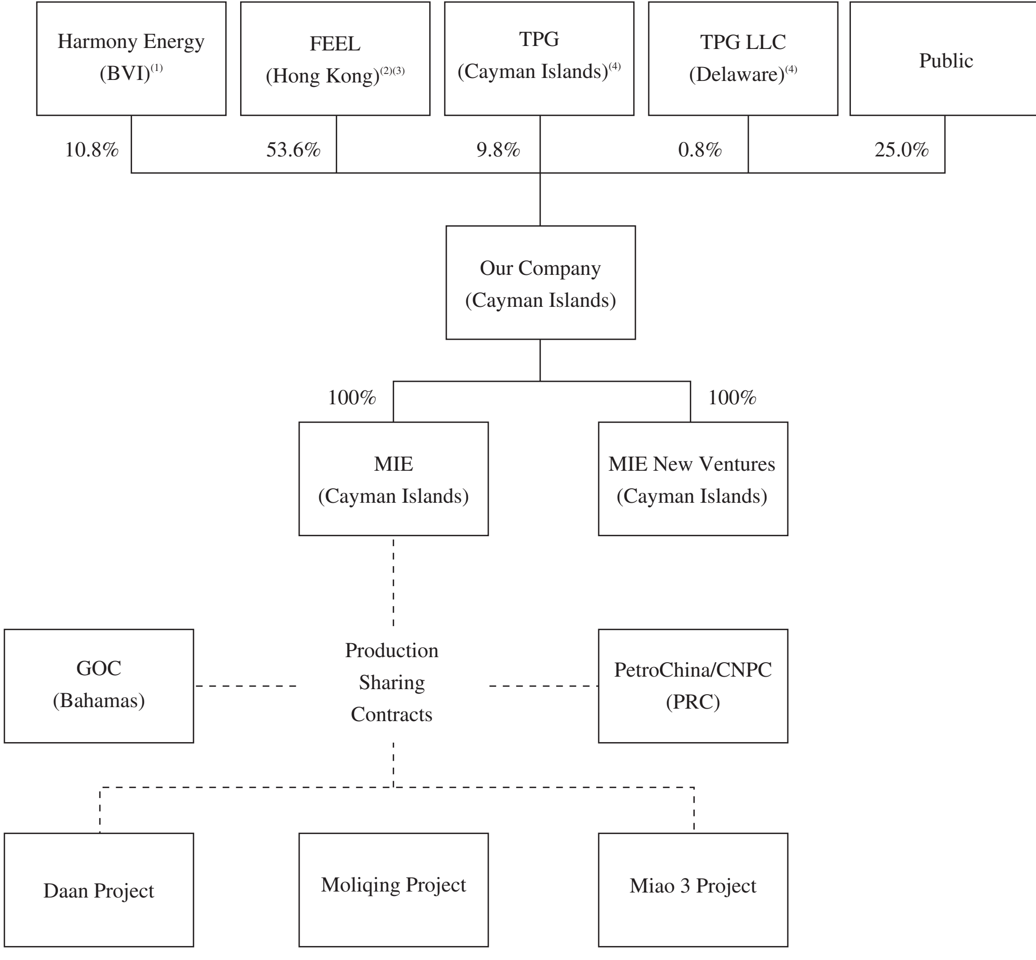
(2) Harmony Energy is a direct wholly owned subsidiary of Ever Union Capital Limited and is our sole holder of Series B Preferred Shares.

(3) FEEL is owned as to 9.99%, 90% and 0.01% by Mr. Zhang, Mr. Zhao and Mr. Shang, respectively. Mr. Zhang, our executive Director, chairman and chief executive officer, and Mr. Zhao, our executive Director and senior vice president, are the controlling shareholders of FEEL.

(4) FEEL is our sole ordinary shareholder.

(5) TPG is a leading global private investment firm and TPG LLC is an affiliate of TPG. Both TPG and TPG LLC are holders of our Series A Preferred Shares.

The diagram below sets forth our shareholding and corporate structure immediately after the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme):



(1) Harmony Energy is a direct wholly owned subsidiary of Ever Union Capital Limited.

(2) FEEL is owned as to 9.99%, 90% and 0.01% by Mr. Zhang, Mr. Zhao and Mr. Shang, respectively. Mr. Zhang, our executive Director, chairman and chief executive officer, and Mr. Zhao, our executive Director, vice chairman and senior vice president, are the controlling shareholders of FEEL.

(3) FEEL, Mr. Zhang and Mr. Zhao are our Controlling Shareholders.

(4) TPG is a leading global private investment firm and TPG LLC is an affiliate of TPG.

SUMMARY OF FINANCIAL INFORMATION

The following table summarizes our financial information and is extracted from, and is to be read in conjunction with, our audited consolidated financial statements, prepared in accordance with the IFRS, included in the section headed "Appendix I – Accountants' Report" in this prospectus. The basis of preparation is set forth in Note 2 of Section II of the section headed "Appendix I – Accountants' Report" in this prospectus.

Consolidated statements of comprehensive income

	Year Ended December 31,			Six Month-Period Ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	1,221,624	1,971,688	1,166,827	363,760	947,364
Operating expenses					
Purchases, services and other	(111,729)	(96,905)	(123,587)	(46,587)	(61,546)
Employee compensation costs	(52,996)	(69,014)	(67,651)	(24,756)	(57,596)
Depreciation, depletion and amortisation	(286,792)	(475,172)	(445,824)	(226,547)	(268,015)
Impairment of property, plant and equipment	–	(32,000)	–	–	–
Distribution expenses	(16,962)	(23,355)	(21,861)	(6,782)	(15,183)
Administrative expenses	(65,054)	(89,249)	(62,253)	(22,762)	(25,283)
Provision for impairment of other receivables	(49,843)	–	–	–	–
Taxes other than income taxes	(159,998)	(538,126)	(73,308)	(3,497)	(148,617)
Other income/(loss)	32,777	133,758	(131,124)	(85,774)	(10,960)
Total operating expenses	(710,597)	(1,190,063)	(925,608)	(416,705)	(587,200)
Profit/(loss) from operations	511,027	781,625	241,219	(52,945)	360,164
Finance income	11,897	45,673	1,552	930	7,260
Finance costs	(88,808)	(53,460)	(58,832)	(24,553)	(40,246)
Financial costs – net	(76,911)	(7,787)	(57,280)	(23,623)	(32,986)
Profit/(loss) before income tax	434,116	773,838	183,939	(76,568)	327,178
Income tax (expense)/benefit	(125,163)	(162,748)	(73,462)	2,909	(88,723)
Net profit/(loss) for the year/period	308,953	611,090	110,477	(73,659)	238,455
Total comprehensive income/(loss) for the year/period	308,953	611,090	110,477	(73,659)	238,455
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the company (expressed in RMB per Share)					
– basic	3.1	6.1	1.0	(0.7)	2.0
– diluted	3.1	6.1	1.0	(0.7)	2.0

Consolidated statements of financial position

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,707,106	2,486,943	2,665,143	2,931,523
Intangible asset	558	6,043	2,599	1,617
Derivative financial instruments	–	94,912	–	–
Amount due from shareholder	449,438	–	–	–
Trade and other receivables	–	71,805	70,360	114,567
	2,157,102	2,659,703	2,738,102	3,047,707
Current assets				
Inventories	36,582	73,858	76,078	48,408
Derivative financial instruments	–	132,761	20,307	6,243
Trade and other receivables	341,937	103,796	489,571	362,631
Amount due from shareholder	359,550	422,880	81,074	–
Pledged deposits	–	50,222	30,729	30,606
Cash and cash equivalents	77,166	382,119	290,271	268,329
	815,235	1,165,636	988,030	716,217
Total assets	2,972,337	3,825,339	3,726,132	3,763,924
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares	684	684	659	535
Preferred shares	–	–	171	420
Other reserves	(270)	49,023	403,909	424,311
Retained earnings	668,953	1,094,058	848,707	852,754
Total equity	669,367	1,143,765	1,253,446	1,278,020
LIABILITIES				
Non-current liabilities				
Asset retirement obligations	27,702	4,624	6,978	9,270
Deferred income tax liabilities – net	47,574	102,770	86,400	12,625
Trade and other payables	–	233,688	170,235	331,554
Borrowings	730,460	765,475	1,242,963	1,243,630
	805,736	1,106,557	1,506,576	1,597,079
Current liabilities				
Derivative financial instruments	–	25,257	–	–
Trade and other payables	1,497,234	1,495,083	863,687	786,962
Borrowings	–	54,677	102,423	101,863
	1,497,234	1,575,017	966,110	888,825
Total liabilities	2,302,970	2,681,574	2,472,686	2,485,904
TOTAL EQUITY AND LIABILITIES	2,972,337	3,825,339	3,726,132	3,763,924

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

In the absence of any unforeseen circumstances and on the bases and assumptions set out in the section headed "Appendix III – Profit Forecast" in this prospectus, certain forecast data for our company for the year ending December 31, 2010 are set out below:

Forecast consolidated profit for the year ending December 31, 2010 attributable to the equity holders of our company(1)	not less than RMB410 million (equivalent to approximately HK$478 million)
Unaudited pro forma forecast earnings per Share for the year ending December 31, 2010(2)	not less than RMB0.155 (equivalent to approximately HK$0.181)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2010 have been prepared are summarised in the section headed "Appendix III – Profit Forecast" in this prospectus. Our Directors have prepared the forecast consolidated profit for the year ending December 31, 2010 attributable to the equity holders of our company based on the audited consolidated results of our Group for the six months ended June 30, 2010, the unaudited management accounts of our Group for the four months ended October 31, 2010 and a forecast of the consolidated results of our Group for the remaining two months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our company as set out in note 2 of the section headed "Appendix I – Accountants' Report" in this prospectus.

(2) The calculation of unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit for the year ending December 31, 2010 attributable to equity holders of our company by a total of 2,641,334,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued under the Capitalization Issue and the Global Offering had been in issue on January 1, 2010 but without taking into account any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme).

Sensitivity analysis on average selling price

The following table illustrates the sensitivity of the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 to changes to the average selling price for crude oil from November 1, 2010 to December 31, 2010.

% change in average selling price per barrel for crude oil	-10%	-5%	+5%	+10%
Impact on forecast consolidated profit attributable to equity holders of our company for the year ending December 31, 2010 (RMB'000)	17,658	7,077	(5,161)	(9,596)

These numbers are significantly impacted by the put option we entered into in October 2010. Principally due to the impact of the put option, profits attributable to our shareholders decrease when oil prices increase, and profits increase when oil prices decrease. For details of our put option arrangements, please refer to the section headed "Financial Information – Oil Put Options" in this prospectus.

The sensitivity range has been selected with reference to historical movements in crude oil prices. The period from 2007 to the first half of 2010 has seen substantial volatility in crude oil prices, which typically reflects the global oil supply and demand balance. The price of the benchmark West Texas Intermediate (WTI) increased by approximately 38.3% from 2007 to 2008, primarily driven by the strong demand growth from emerging countries, in particular China. The WTI dropped by approximately 38.0% from 2008 to 2009, mainly caused by the global financial and economic crisis. In the first half of 2010, the WTI recovered by approximately 26.4% from 2009. The current range used for the price sensitivity analysis is +/- 10.0% for the period from November 1, 2010 to December 31, 2010. On an annualized basis, this equates to a range of +/- 60.8%, which is the largest annual move in the price of WTI since 2007. Taking into account the historical volatility of crude oil prices, this sensitivity appears to be sufficiently broad so as to properly capture historical price volatility.

GLOBAL OFFERING STATISTICS

We have calculated these offering statistics by translating Renminbi amounts into Hong Kong dollars at the rate of HK$1.00 = RMB0.8583, being the rate published by the PBOC on November 24, 2010.

	Based on offer price of HK$1.70 per Offer Share	Based on offer price of HK$2.16 per Offer Share
Our market capitalization upon completion of the Global Offering[(1)]	HK$4,490 million	HK$5,705 million
Prospective price/earnings multiple[(2)]	9.4 times	11.9 times
Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our company per Share[(3)]	HK$0.79	HK$0.86

(1) The calculation of the market capitalization is based on the assumption that 2,641,334,000 Shares will be in issue and outstanding immediately following the completion of the Global Offering and the Capitalization Issue, excluding any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme.

(2) The calculation of the prospective price/earnings multiple is based on each indicative offer price and the forecast earnings per Share for the year ending December 31, 2010 and the assumed number of Shares outstanding as set forth in note (1) above.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of our company per Share in the above table is calculated after the adjustments referred to in the section entitled "Appendix II – Unaudited Pro Forma Adjusted Net Tangible Assets" in this prospectus and on the basis of 2,641,334,000 Shares in issue and outstanding immediately following the completion of the Global Offering and the Capitalization Issue, excluding any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme.

DIVIDEND AND DIVIDEND POLICY

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. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our shareholders in a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Directors. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. 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. In addition, our Controlling Shareholders will be able to influence the approval by our shareholders in a general meeting for any payment of dividends.

On March 9, 2010, we distributed a cash dividend of US$20 million (HK$155.2 million) to our shareholders. FEEL, our Controlling Shareholder, and each Series A Preferred Shareholder participated in the dividend distribution on an as-converted basis and received approximately US$0.16 (HK$1.24) per share.

On March 31, 2010, we declared a deemed dividend in the amount of US$11.9 million (HK$93.3 million) to FEEL, our Controlling Shareholder. The deemed dividend was non-cash and was deemed to cancel out all remaining outstanding balances owed to us by FEEL. As of the Latest Practicable Date, none of FEEL, Mr. Zhang and Mr. Zhao had any outstanding loan or advance owed to us.

Subject to the factors above, we plan to pay annual dividends of up to 20% of our annual distributable profit attributable to our shareholders, commencing with respect to the financial year ending December 31, 2011.

USE OF PROCEEDS

Based on an Offer Price of HK$1.93 per Share, being the midpoint of the Offer Price range stated in this prospectus, we estimate that we will receive net proceeds from the Global Offering of approximately HK$693 million from the 441,334,000 Offer Shares to be offered by us, after deducting underwriting fees and expenses payable by us.

We intend to use these net proceeds for the following purposes:

- approximately HK$381 million (approximately 55% of the estimated net proceeds) will be used to expand our operations by acquiring interests in other oilfields or participating in cooperation or joint venture projects in relation to the development of oilfields which may include:

  (i) based on the current estimate of our Directors, approximately HK$58 million will be used for the cooperation with the Drilling Division of Zhongyuan Petroleum Exploration Bureau of the Sinopec group (中國石化集團中原石油勘探局鑽採處). A memorandum of understanding was signed on November 9, 2010, under which we agreed to cooperate and apply technologies towards the exploration and development of oilfields, including advanced technologies to drill and operate wells under low permeability conditions;

  (ii) based on the current estimate of our Directors, approximately HK$226 million will form part of the consideration for the purchase of a 10% participating interest in the production sharing contracts of the Daan, Moliqing and Miao 3 oilfields held by GOC. Under a memorandum of understanding signed on April 8, 2010, the consideration will be calculated based on a formula and will be paid in a combination of cash and shares to be agreed upon between the parties;

  (iii) based on the current estimate of our Directors, approximately HK$39 million will be used for the purchase of the entire interest held by Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司) in a production sharing contract covering four oil properties with a total area of 17.7 square kilometers in the Jilin oilfield. A memorandum of understanding was signed on April 2, 2010; and

  (iv) based on the current estimate of our Directors, approximately HK$58 million will be used for a joint venture with a state-owned oil and gas enterprise. We are currently negotiating to enter into a memorandum of understanding, under which we will agree to cooperate in the exploration and development of oilfields in the Shaanxi Province.

  As of the Latest Practicable Date, our company has not identified any acquisition targets, cooperation or joint venture projects other than the four memoranda of understanding in relation to GOC, Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司), the Drilling Division of Zhongyuan Petroleum Exploration Bureau of the Sinopec group (中國石化集團中原石油勘探局鑽採處) and the state-owned oil and gas enterprise. For further details of the memoranda of understanding, please refer to the paragraph headed “History and Corporate Structure – Memoranda of Understanding” in this prospectus;

- approximately HK$243 million (approximately 35% of the estimated net proceeds) will be used for:

  (i) drilling new wells in our existing Daan, Moliqing and Miao 3 oilfields; and

  (ii) the development of advanced technologies, which is required for drilling and operating wells under low permeability conditions, such as water injection and multi-layer fracturing, in order to improve the operational efficiency of our Group, the application of which will be required for drilling new wells; and

- approximately HK$69 million (approximately 10% of the estimated net proceeds) will be used for working capital and general corporate purposes.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK$2.16 per Share, the net proceeds to us from the Global Offering will increase by approximately HK$97 million. In such case, we intend to apply the additional net proceeds in the manner stated above on a pro-rata basis to the extent achievable.

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK$1.70 per Share, the net proceeds to us from the Global Offering will decrease by approximately HK$97 million. In such case, we intend to reduce the allocation of such net proceeds in the manner stated above on a pro-rata basis to the extent achievable.

Assuming an Offer Price of HK$1.93 per Offer Shares (being mid-point of the indicative Offer Price range of between HK$1.70 and HK$2.16 per Offer Share), the Selling Shareholders will receive net proceeds of approximately HK$383 million; assuming an Offer Price of HK$2.16 per Offer Share (being the highest point of the indicative Offer Price range), the Selling Shareholders will receive net proceeds of approximately HK$431 million; and assuming an Offer Price of HK$1.70 per Offer Share (being the lowest point of the indicative Offer Price range), the Selling Shareholders will receive net proceeds of approximately HK$334 million.

All of the Shares sold pursuant to the exercise of the Over-allotment Option will be sold by the Over-allotment Selling Shareholders. In the event that the Over-allotment Option is exercised in full and taking into account the effect of the Over-allotment Option only, assuming an Offer Price of HK$1.93 per Offer Share (being the mid-point of the indicative Offer Price range of between HK$1.70 and HK$2.16 per Offer Share), the Over-allotment Selling Shareholders will receive net proceeds of approximately HK$183 million; assuming an Offer Price of HK$2.16 per Offer Share (being the highest point of the indicative Offer Price range), the Over-allotment Selling Shareholders will receive net proceeds of approximately HK$205 million; assuming an Offer Price of HK$1.70 per Offer Share (being the lowest point of the indicative Offer Price range), the Over-allotment Selling Shareholders will receive net proceeds of approximately HK$161 million.

Our company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering nor from the sale of the Over-allotment Sale Shares by the Over-allotment Selling Shareholders in the event the Over-allotment Option is exercised. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering and the sale of the Over-allotment Sale Shares by the Over-allotment Selling Shareholders in the event the Over-allotment Option is exercised will be for the account of the Selling Shareholders and the Over-allotment Selling Shareholders, respectively.

To the extent that the proceeds from the Global Offering are not immediately applied for the above purposes, we intend to invest the proceeds, insofar as permitted by applicable laws and regulations, in a variety of capital preservation instruments, including short-term, investment-grade, and/or interest-bearing instruments. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

RISK FACTORS

Risks Related To Our Company and Our Business

- Our business operations depend on the production sharing contracts with PetroChina. If we fail to maintain a continued good working relationship with PetroChina, our business, financial condition and results of operations may be materially and adversely affected.
- PetroChina controls, to a significant extent, the volume of our net production through its status as our sole customer and the influence it has over the management of the three oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected.

- PetroChina may take over from us the operational rights for the three oilfields under the production sharing contracts. If PetroChina takes over the operational rights for one or more of the three oilfields, our business, financial condition and results of operations may be adversely affected.
- Our results of operations are affected by the volatility of prices for crude oil.
- We may be exposed to risks in connection with our hedging transactions, including counterparty risks and significant fluctuation on our income statement from changes to the fair value of put option agreements.
- Failure on our part to continue our performance under the production sharing contracts may adversely affect us, and our resources may not ultimately be extracted at a profit.
- If our operations exceed the scope outlined in the current overall development plan approved by the NDRC or the NEB, we may be subject to sanctions.
- Our operations may be adversely affected by the global and domestic economic conditions.
- The crude oil reserve data in this prospectus are only estimates and the actual production, revenue and expenditures with respect to our net reserves under each of the production sharing contracts may differ materially from these estimates.
- Any reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production), which will have an adverse effect on our results of operations.
- Control or significant influence by the Controlling Shareholders may limit your ability to affect the outcome of decisions requiring the approval of shareholders.
- We depend upon the services of key personnel and our business may be severely disrupted in the event that we lose their services and are unable to find replacements with comparable experience and expertise.
- Restrictive covenants and undertakings under the CITIC Bank Facility may limit the manner in which we operate and an event of default under the loan may adversely affect our operations.
- We will need substantial funding to maintain our operations and accomplish our growth strategy. We may be unable to raise capital on terms favorable to us or at all, which could increase our financing costs, dilute your ownership interests, affect our business operations or force us to delay, reduce or abandon our growth strategy.
- We may issue additional shares to GOC in order to acquire its interest in the production sharing contracts, which issuance would dilute the value of your Shares.
- Our business may be adversely affected if we cannot recruit and retain suitable staff for our operations.
- If we fail to obtain or maintain all required licenses, permits and approvals, or if we are required to take actions to obtain such licenses, permits and approvals which are time-consuming or costly, our business operations and development plans may be materially and adversely affected.
- We may experience difficulties in expanding our business in the PRC and overseas, which may adversely affect our growth and future profitability.
- Our continued business success depends on our ability to exploit our current reserves and develop newly discovered reserves within our contract areas.
- Our right and ability to continue to occupy and use the land under each of the production sharing contracts for our long-term use may be adversely affected if permanent use approval or formal land use rights certificates are not obtained by PetroChina or us.
- Under the terms of the production sharing contacts, all assets purchased, installed and constructed under the production sharing contracts will eventually become the property of PetroChina, which could have a material adverse effect on our ability to satisfy our obligations.

- Prepayments we provide to service providers and equipment suppliers expose us to the credit risks of such third parties and may increase our costs and expenses.
- The geographic concentration of our operations increases our exposure to acts of God and other disasters which are beyond our control and which may cause damage, loss or disruption to our business.
- Our operations may be affected by significant operating hazards and natural disasters and we have limited insurance coverage for any resulting losses.
- PRC regulations may limit our activities and adversely affect our business operations.
- Our business operations may be adversely affected by present or future environmental regulations.
- Our contractual dispute with Sinopec may negatively affect our ability to do business with Sinopec in the future.
- We face intense competition in the industry in which we operate, and if we fail to compete effectively, we may be unable to enter into new production sharing contracts and sustain our growth.
- Compliance with rules and requirements applicable to public companies may cause us to incur additional costs, and any failure by us to comply with such rules and requirements could negatively affect investor confidence in us and cause the market price of our Shares to decline.
- Failure to register the amendment with the local SAFE branch pursuant to the SAFE Notice No. 75 may adversely affect our ability to remit and exchange our PRC income into other foreign currencies.

Risks Related To Our Operations in China

- Political and economic policies of the PRC government affect our business and results of operations.
- We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income.
- Dividends payable by us to our foreign investors or capital gains realised by our foreign investors may become subject to taxes under PRC tax laws.
- Uncertainties with respect to the PRC legal system could limit the protections available to you and us.
- Future fluctuations in foreign exchange rates and government control in currency conversion may adversely affect our financial condition and results of operations, and our ability to remit dividends.
- Certain facts and statistics in this prospectus relating to the PRC economy and the oil industry in the PRC are derived from various governmental official publications and may not be fully reliable.
- Labor laws in the PRC may adversely affect our results of operations.
- Any future outbreak of H1N1 influenza, avian influenza or severe acute respiratory syndrome in China, or similar adverse public health developments, may severely disrupt our business and operations.

Risks Related To The Global Offering

- There has been no public market for our ordinary Shares prior to the Global Offering, and you may not be able to resell our ordinary Shares at or above the price you paid, or at all.
- The market price for our Shares may be volatile which could result in a substantial loss to you.
- Since the Offer Price is substantially higher than our net tangible book value per Share, you will incur immediate and substantial dilution.
- The exercise of share options and lower net income arising from stock appreciation rights granted may cause you to incur dilution.

- Substantial future sales or perceived sales of our Shares in the public market could cause the price of our Shares to decline.
- Future issuances of Shares may depress the trading price of our Shares.
- We are a Cayman Islands company and the laws of the Cayman Islands relating to the protection of the interests of the minority shareholders differ in some respects from those in Hong Kong.
- Your ability to bring an action against us or against our Directors and senior management, or to enforce a judgment against us or them, will be limited because we are incorporated in the Cayman Islands, because we conduct substantially all of our operations in China and because the majority of our Directors and senior management reside outside of Hong Kong.
- Due to a gap of up to five Business Days between pricing and trading of the Offer Shares and that our Offer Shares will not commence trading on the Stock Exchange until the Listing Date, the initial trading price of the Offer Shares could be lower than the Offer Price.
- You should not rely on any information contained in press articles or other media regarding the Group and the Global Offering.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms."

"Acting-in-Concert Agreement"	the acting-in-concert agreement dated November 20, 2009 between Mr. Zhang Ruilin and Mr. Zhao Jiangwei in respect to all matters that require the decisions of the shareholders of FEEL
"Application Form(s)"	**WHITE** application form(s), **YELLOW** application form(s), **GREEN** application form(s) and **PINK** application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	the articles of association of our company approved by the written resolutions of our shareholders on November 27, 2010, as amended or supplemented from time to time
"Board of Directors" or "Board"	our board of directors
"BOCI"	BOCI Asia Limited, a licensed corporation under the SFO for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalization Issue"	the issue of Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our company referred to in the paragraph headed "Appendix VII – Statutory and General Information – A. Further Information About Our Group – Written resolutions signed by all shareholders of our company" in this prospectus
"Cayman Companies Law"	the Companies Law (2010 Revision) (as consolidated and revised from time to time) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant

"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant
"CITIC Bank Facility"	a 5-year term loan and revolving credit facility entered into on July 28, 2009 between, among others, CITIC Ka Wah Bank (subsequently renamed as CITIC Bank International Limited) and CITIC Bank Guangzhou as lenders and MIE as borrower, in the amount of US$200 million
"CITIC Group"	中國中信集團公司, a state-owned investment company of the PRC established on October 4, 1979, which indirectly wholly owns Sino Link
"CNOOC"	CNOOC Limited, a company listed on the Stock Exchange and the NYSE, which was incorporated in Hong Kong in August 1999
"CNPC"	China National Petroleum Corporation, an Independent Third Party
"Companies Ordinance"	Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"company," "our company," "we," "us" or "our"	MIE Holdings Corporation, a company incorporated in the Cayman Islands on March 20, 2008 as an exempted company with limited liability
"Controlling Shareholders"	FEEL, Mr. Zhang and Mr. Zhao
"Deutsche Bank"	Deutsche Bank AG, Hong Kong Branch, a licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and a licenced bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
"Director(s)"	director(s) of our company
"FEEL"	Far East Energy Limited, a company incorporated in Hong Kong on May 16, 2003 with limited liability and our Controlling Shareholder
"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
"Global Offering"	the Hong Kong Public Offering and the International Offering
"GOC"	Global Oil Corporation, a company incorporated in the Bahamas and an Independent Third Party

"Green Application Form(s)"	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our company
"Group" or "our Group"	our company and our subsidiaries (or our company and any one or more of our subsidiaries, as the context may require), and where the context so requires, in respect of the period before our company became the holding company of our present subsidiaries, the present subsidiaries of our company
"Harmony Energy"	Harmony Energy Limited, a company incorporated in the BVI on July 31, 2009 with limited liability and one of our shareholders
"Harmony Series B Share Purchase Agreement"	the share purchase agreement dated February 5, 2010 entered into among, *inter alia*, FEEL, Harmony Energy and us in relation to the transfer of 36,425,120 Series B Preferred Shares by FEEL to Harmony Energy
"HK eIPO White Form"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of HK eIPO White Form (**www.hkeipo.hk**)
"HK eIPO White Form Service Provider"	the HK eIPO White Form service provider designated by our company, as specified on the designated website at **www.hkeipo.hk**
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"HK$," "HKD," or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	66,200,000 New Shares (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) being offered by our company for subscription at the Offer Price pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%), subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms
"Hong Kong Share Registrar"	Tricor Investor Services Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed "Underwriting – Hong Kong Underwriters" in this prospectus

"Hong Kong Underwriting Agreement"	the Hong Kong underwriting agreement dated November 30, 2010 relating to the Hong Kong Public Offering entered into among our company, the Controlling Shareholders, the Joint Bookrunners and the Hong Kong Underwriters
"IFRS"	International Financial Reporting Standards
"Independent Third Party(ies)"	party or parties that is or are not connected with any directors, chief executives or substantial shareholders of our company or its subsidiaries, or any of their respective associates
"Independent Upstream Oil Company(ies)"	non-integrated oil company which receives most of the revenue from oil production at the wellhead, is exclusively engaged in the upstream exploration and production segment of the oil industry, with no downstream refining or marketing operations
"International Offer Shares"	595,800,000 Shares (subject to adjustment and the exercise of the Over-allotment Option as described in the section headed "Structure of the Global Offering" in this prospectus), which are the subject of the International Offering, of which 375,134,000 New Shares are to be offered by our company and an aggregate of 220,666,000 Sale Shares are to be offered for sale by the Selling Shareholders
"International Offering"	the offer of the International Offer Shares at the Offer Price to institutional, professional, corporate and other investors (other than to retail investors in Hong Kong), as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering to be entered into among our company, the Controlling Shareholders, the Selling Shareholders, the International Underwriters and the Joint Bookrunners on or about December 7, 2010
"Jilin Guotai"	Jilin Guotai Petroleum Development Company (吉林省國泰石油開發有限公司), a company incorporated in the PRC on June 14, 2004 and held as to 70% by Zhao Jiangbo, the wife of Mr. Zhang, and 30% by Mr. Zhao
"Joint Bookrunners" and "Joint Lead Managers"	in respect of the Hong Kong Public Offering, J.P. Morgan, BOCI and Deutsche Bank, and in respect of the International Offering, J.P. Morgan Securities Ltd., BOCI and Deutsche Bank
"J.P. Morgan"	J.P. Morgan Securities (Asia Pacific) Limited, a licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO

"Latest Practicable Date"	November 26, 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"Listing Date"	the date, expected to be on or about December 14, 2010, on which dealings in the Shares first commence on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
"MIE"	MI Energy Corporation, a company incorporated in the Cayman Islands on May 22, 2001 with limited liability and our wholly owned subsidiary
"MIE New Ventures"	MIE New Ventures Corporation (previously known as MI Energy (Kazakhstan) Corporation), a company incorporated in the Cayman Islands on August 6, 2010 with limited liability and our wholly owned subsidiary
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Shang"	Mr. Shang Zhiguo, an individual who owns 0.01% of the issued share capital of FEEL
"Mr. Zhang"	Mr. Zhang Ruilin, an individual who owns 9.99% of the issued share capital of FEEL. Zhang Ruilin is an executive Director, chairman and chief executive officer of our company. He is also our Controlling Shareholder
"Mr. Zhao"	Mr. Zhao Jiangwei, an individual who owns 90% of the issued share capital of FEEL. Zhao Jiangwei is an executive Director, vice chairman and senior vice president of our company. He is also our Controlling Shareholder
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"NEB"	National Energy Bureau of the PRC (中華人民共和國國家發展和改革委員會能源局)

"New EIT Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
"New Shares"	441,334,000 Shares being offered by us for subscription at the Offer Price under the Global Offering
"Non-competition Deed"	a deed of non-competition dated November 23, 2010 executed by our Controlling Shareholders in favour of our company
"NYSE"	the New York Stock Exchange
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) of not more than HK$2.16 and expected to be not less than HK$1.70, such price to be agreed upon by us, the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters) on the Price Determination Date
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares, where relevant, with any Shares being issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by the Over-allotment Selling Shareholders to the International Underwriters exercisable by the Joint Bookrunners on behalf of the International Underwriters, pursuant to which the Over-allotment Selling Shareholders may be required to sell up to an aggregate of 99,300,000 Over-allotment Sale Shares (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocations in the International Offering, details of which are described in the section headed "Structure of the Global Offering" in this prospectus
"Over-allotment Sale Shares"	99,300,000 Shares comprising 48,016,000, 1,634,000 and 49,650,000 Shares to be sold by TPG, TPG LLC and Harmony Energy, respectively, in the event the Over-allotment Option is exercised
"Over-allotment Selling Shareholders"	TPG, TPG LLC and Harmony Energy, which are offering certain Over-allotment Sale Shares for sale in the event the Over-allotment Option is exercised
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PetroChina"	PetroChina Company Limited, an Independent Third Party
"PRC" or "China"	the People's Republic of China. References in this prospectus to the PRC or China exclude Hong Kong, Macau and Taiwan

"Price Determination Date"	the date, expected to be on or about December 7, 2010 and in any event no later than December 13, 2010, on which the Offer Price is to be fixed by agreement between us, the Selling Shareholders, and the Joint Bookrunners (on behalf of the Underwriters)
"PRMS"	The Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007 as amended, supplemented or otherwise modified from time to time
"Regulation S"	Regulation S under the U.S. Securities Act
"Renminbi" or "RMB"	the lawful currency of the PRC
"Ryder Scott"	Ryder Scott Company, L.P., the independent technical consultant
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Sale Shares"	a total of 220,666,000 Shares held by the Selling Shareholders, namely TPG, TPG LLC, Harmony Energy and Sino Link as to 106,703,000, 3,630,000, 44,333,000 and 66,000,000 Shares respectively, initially offered for sale by the Selling Shareholders at the Offer Price under the International Offering
"SEC"	the U.S. Securities and Exchange Commission
"Selling Shareholders"	TPG, TPG LLC, Harmony Energy and Sino Link
"Series A Preferred Shares"	series A preferred share(s) of nominal value of US$0.001 each in the capital of our company
"Series B Preferred Shares"	series B preferred share(s) of nominal value of US$0.001 each in the capital of our company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of nominal value of US$0.01 each (prior to the share split) or US$0.001 each (after the share split) in the capital of our company
"Share Option Scheme"	the share option scheme conditionally adopted by our company pursuant to a resolution of our Directors on November 23, 2010, further details of which are described in the section headed "Appendix VII – Statutory and General Information" in this prospectus

"Sino Link"	Sino Link Limited, a company incorporated in Cayman Islands on August 13, 2009 with limited liability and one of our shareholders
"Sino Link Series A Share Purchase Agreement"	the share purchase agreement dated October 26, 2009 entered into among, *inter alia*, FEEL, Sino Link and us in relation to the transfer of 3,643,730 Series A Preferred Shares by FEEL to Sino Link
"Sinopec"	China Petroleum & Chemical Corporation, a company listed on the Shanghai, Hong Kong, New York and London Stock Exchanges which was incorporated in February 2000 under the laws of the PRC
"Sole Global Coordinator" or "Sole Sponsor"	J.P. Morgan
"Stabilization Manager"	BOCI
"Standard Bank"	Standard Bank Plc.
"Standing Committee of the National People's Congress"	the Standing Committee of the National People's Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Stock Incentive Plan"	the stock incentive compensation plan adopted by our Board of Directors on November 20, 2009, under which share options and share appreciation rights are awarded to eligible participants, further details of which are described in the section headed "Appendix VII – Statutory and General Information" in this prospectus
"subsidiary(ies)"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as approved by the SFC and as amended, supplemented or otherwise modified from time to time
"TPG"	TPG Star Energy Ltd., an exempted company incorporated in Cayman Islands on November 15, 2007 with limited liability and one of our shareholders
"TPG LLC"	TPG Star Energy Co-Invest, LLC, a limited liability company formed in the State of Delaware on August 28, 2009 and one of our shareholders

"TPG Series A Share Purchase Agreement"	the share purchase agreement dated June 19, 2009 entered into among, *inter alia*, TPG and our company in relation to TPG's subscription of 21,457,490 Series A Preferred Shares
"Track Record Period"	the three financial years ended December 31, 2009 and the six months ended June 30, 2010
"USD" or "US$"	United States dollars, the lawful currency of the United States
"U.S. persons"	U.S. persons as defined in Regulation S
"U.S. Securities Act"	the U.S. Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"%"	per cent

the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

This glossary contains explanations of certain terms used in this prospectus in connection with our company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"API gravity"	an indication of the density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute, measured in degrees. The lower the API gravity, the heavier the compound.
"barrel"	equivalent to approximately 0.135 tons of oil (assuming an API gravity of 35.2 degrees).
"contract area"	an area demarcated by geographical coordinates as set out in the production sharing contract for the cooperative exploitation of oil resources.
"developed reserves"	under the PRMS, developed reserves are reserves of any category that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well, and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
"development costs"	for a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil.
"development well"	a well drilled in proven territory in a field to complete a pattern of production.
"dry hole" or "dry well"	an exploration well that is not commercial, i.e. economically feasible to develop. The full costs incurred in such drillings are charged as an expense.
"infill drilling"	addition of new wells in an existing field within the original well patterns to accelerate recovery or to test recovery methods.
"injector"	well used as a conduit to pump water into the reservoir as part of the waterflood process.
"lifting costs"	for a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. Also known as production costs.

"net"	as used in "net development wells," "net productive wells" and "net production," represents a party's interest in wells or the production under the production sharing contracts.
"net proved reserves"	a party's interest in proved reserves under the production sharing contracts.
"oil operations"	the development, production, operation and other related activities conducted in carrying out a production sharing contract.
"participating interest"	the proportion of production costs each party will bear and the proportion of production each party will receive, as set out in a production sharing contract.
"permeability"	a measure of the ability of a porous mass such as rocks to transmit oil or natural gas.
"porosity"	a measure of the void spaces in a material and generally refers to the fraction of the total volume in which flow of oil is effectively taking place.
"possible reserves"	additional reserves that are less certain to be recovered than probable reserves.
"primary recovery"	the first stage of oil production, in which natural reservoir energy, such as gasdrive, waterdrive or gravity drainage, displaces oil from the reservoir, into the wellbore and up to surface.
"probable reserves"	additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.
"proved developed reserves"	under the PRMS, proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

"proved reserves"	under the PRMS, proved reserves are estimated quantities of crude oil, natural gas, and natural gas liquids 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.
"proved undeveloped reserves"	under the PRMS, proved undeveloped reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage is limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.
"reserve-to-production ratio"	for any given well or oilfield, the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas.
"reservoir"	an underground accumulation of oil or natural gas. Analysis of reservoirs at the simplest level requires an assessment of their porosity (to calculate the volume of in situ oil or natural gas) and their permeability (to calculate how easily oil or natural gas will flow out of them).
"secondary recovery"	the second stage of oil production during which an external fluid such as water or gas is injected into the reservoir through injection wells located in rock that has fluid communication with production wells. The purpose of secondary recovery is to maintain reservoir pressure and to displace oil toward the wellbore.
"ton", "tons", "tonne" or "tonnes"	a unit of measure for weight, equal to 1,000 kilograms

"undeveloped reserves" under the PRMS, undeveloped reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.

"water cut" for given production volume of crude oil, the percentage that water constitutes of all fluids extracted from wells.

"waterflood" a method of secondary recovery of oil in which water is injected into an oil reservoir to force additional oil out of the reservoir rock and into producer wells.

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. At present, since our main operations are conducted in China, all of our executive Directors except Mr. Allen Mak ordinarily reside outside of Hong Kong. We do not and will not, in the foreseeable future, have sufficient management presence in Hong Kong as required under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, subject to the following conditions:

(a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that the Group complies with the Listing Rules at all times. We have appointed Mr. Allen Mak, our executive Director and joint company secretary, who is ordinarily resident in Hong Kong, and Mr. Forrest Dietrich, our executive Director, as our two authorized representatives. The authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and they will be readily contactable by telephone, facsimile and email;

(b) the authorized representatives have means of contacting our Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters;

(c) we will, in accordance with Chapter 3A of the Listing Rules, retain Guotai Junan Capital Limited as our compliance adviser, who will, among other things, in addition to the two authorized representatives, act as our company's additional channel of communication with the Stock Exchange;

(d) the Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents or can apply for valid travel documents to visit Hong Kong, and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period of time; and

(e) to enhance the communication between the Stock Exchange, the authorized representatives and the Directors, we have implemented a policy where all the Directors will provide their respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the authorized representatives as well as the Stock Exchange.

WAIVER FROM RULE 8.17 OF THE LISTING RULES

Pursuant to Rule 8.17 of the Listing Rules, the secretary of our company must be a person who is ordinarily resident in Hong Kong, and who has the requisite knowledge and experience to discharge the functions of a company secretary and is either (i) a member of The Hong Kong Institute of Chartered Secretaries, a solicitor or a barrister or a professional accountant, or (ii) an individual who, by virtue of his academic or professional qualification or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

Our company has appointed Mr. Allen Mak as one of the joint company secretaries. Mr. Mak is a chartered accountant certified by the Canadian Institute of Chartered Accountants. He has over 26 years of experience as a professional accountant and in investment banking and private equity. Further details of Mr. Mak's qualification and experience are set out in the section "Directors and Senior Management – Directors" in this prospectus. However, Mr. Mak does not possess a qualification as stipulated in Rule 8.17 of the Listing Rules and may not be able to fulfill the requirements as stipulated under Rule 8.17 of the Listing Rules on his own. As such, our company has appointed Ms. Chu Man Yee as another joint company secretary who is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and possesses the professional qualification as required under Rule 8.17(2) of the Listing Rules. Further details of Ms. Chu's qualification and experience are set out in the section "Directors and Senior Management – Joint Company Secretaries".

Over a period of three years from the Listing Date, our company proposes to implement the following measures to assist Mr. Mak to become a company secretary who possesses all the requisite qualifications and experience as required under the Listing Rules:

- Ms. Chu will communicate regularly with Mr. Mak on matters relating to corporate governance, the Listing Rules and other applicable laws and regulations and assist Mr. Mak in organizing board meetings and shareholders' meetings of our company and other matters which are incidental to the duties of a company secretary; and
- Mr. Mak will be assisted by our compliance adviser during its term of appointment, particularly in relation to Hong Kong corporate governance practices and compliance issues, and the Hong Kong legal advisers of our company, on matters concerning our company's ongoing compliance with the Listing Rules and the applicable laws and regulations.

Accordingly, we have applied to the Stock Exchange for and obtained a waiver from strict compliance with the requirements under Rule 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the Listing Date. Upon expiry of the three year period, the Stock Exchange will re-visit the situation in the expectation that our company should then be able to demonstrate to the Stock Exchange's satisfaction that Mr. Mak, having had the benefit of Ms. Chu's assistance for three years, would have acquired relevant experience within the meaning of Rule 8.17(3) such that a further waiver will not be necessary.

CONNECTED TRANSACTIONS

Members of our Group have entered, and are expected to enter, into certain transactions that would constitute non-exempt continuing connected transactions of our company under the Listing Rules after the Listing. We have applied to the Stock Exchange for a waiver from strict compliance with the shareholders' approval and/or announcement requirements as set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such waivers are set out in the section headed "Relationship with Controlling Shareholders and Connected Transactions" in this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to our current expectations and views of future events. These forward-looking statements are contained principally in the sections entitled "Summary," "Risk Factors," "Future Plans and Use of Proceeds," "Financial Information," "Industry Overview" and "Business." These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under "Risk Factors," which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as "may," "will," "expect," "anticipate," "aim," "estimate," "intend," "plan," "believe," "potential," "continue," "is/are likely to" or other similar expressions. These forward-looking statements include, among other things, statements relating to:

- our business strategies and plan of operations;
- our operations and business prospects;
- timing and completion of our oilfield development;
- our capital expenditures and funding plans;
- expected growth in the demand for oil;
- expected challenges facing the oil and gas industry;
- expected trends in global and PRC crude oil prices; and
- our dividend policy.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in the section entitled "Risk Factors."

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus completely and with the understanding that our actual future results or performance may be materially different from what we expect.

Investing in our Shares involves risks. Before deciding to invest in the Shares, you should carefully consider all of the information in this prospectus, including the following risk factors, in light of the circumstances and your own investment objectives. The occurrence of any of the following events could have a material adverse effect on our business, financial condition or results of operations, in which case the trading price of our Shares could also decline, and you could lose part or all of your investment. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that may differ significantly from that of other countries.

The risks described below are those that we believe are material, but these may not be the only risks and uncertainties that we face.

RISKS RELATED TO OUR COMPANY AND OUR BUSINESS

Our business operations depend on the production sharing contracts with PetroChina. If we fail to maintain a continued good working relationship with PetroChina, our business, financial condition and results of operations may be materially and adversely affected.

Our business operations are based on the production sharing contracts among our company, GOC, CNPC and PetroChina. GOC and CNPC entered into the original production sharing contracts for the oilfields at Daan and Miao 3 on December 16, 1997, and for the oilfield at Moliqing on September 25, 1998. In 1999, CNPC assigned to PetroChina most of its commercial and operational rights and obligations under the production sharing contracts, although CNPC remains a party to these contracts. On October 25, 2000, each of the three production sharing contracts was amended to effect the transfer and assignment of certain interests and obligations under the contracts from GOC to Microbes, Inc. On August 11, 2003, FEEL acquired an equity interest in MIE, then a subsidiary of Microbes, Inc., and held the interests in the three production sharing contracts. MIE is the sole operator and one of the two foreign contractors of the oilfields at Daan, Moliqing and Miao 3. The other foreign contractor, GOC, continues to hold a 10% interest of the foreign contractors' entitlement and obligations under each of our production sharing contracts but does not directly participate in operational decisions. See "History and Corporate Structure".

The success of our business and our growth depend to a significant extent on our working relationship with PetroChina. However, we cannot assure you that we will be able to maintain a good working relationship with PetroChina. For instance, if we experience any material disagreement with PetroChina in the interpretations of any of the terms of the production sharing contracts, or if we fail to comply with the terms of the production sharing contracts in a timely manner or at all, our working relationship with PetroChina may be adversely affected. Furthermore, we may have disagreements over payment with PetroChina from time to time. If PetroChina terminates the production sharing contracts, or decides not to enter into any new production sharing contract with us, we cannot assure you that we will be able to secure a new production sharing arrangement in a timely manner or at all. In addition, any failure or undue delay by PetroChina to comply with the terms of any of the production sharing contracts, or its unwillingness to cooperate with us for any reason, may also have a material adverse impact on the success of our operations.

PetroChina controls, to a significant extent, the volume of our net production through its status as our sole customer and the influence it has over the management of the three oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected.

Microbes, Inc. and CNPC entered into a crude oil sale contract on December 28, 2000, which was subsequently amended on March 5, 2004, to include MIE as the seller in place of Microbes, Inc. and PetroChina as the purchaser in place of CNPC. The sales contract requires us to sell to PetroChina, and PetroChina to purchase from us, the crude oil produced from the projects at Daan, Moliqing and Miao 3, subject to the approval of the production budget from the joint management committee. The joint management committee, which consists of eight members, four each appointed by PetroChina and us, performs supervisory functions for each oilfield, including the approval of our annual production budget for each oilfield. See "Business – Production Sharing Contracts – Management and Operations" for more information regarding the joint management committee. The sales contract stipulates that we can export our oil production to offshore customers. However, we need PetroChina's assistance in obtaining relevant governmental approvals for oil exportation. We cannot assure you that such approvals can be obtained in a timely manner or at all, if we decide to export our oil production. To date, PetroChina has been our sole customer, accounting for all of our sales in 2007, 2008, 2009 and the six months ended June 30, 2010.

We cannot assure you that PetroChina will continue to purchase our crude oil in the future in the same quantity. In the first quarter of 2009, due to the decrease in demand for oil in China as a result of the global economic downturn and excess crude oil supply in the market, we and PetroChina agreed to curtail the amount of oil produced at the Daan oilfield. As a result, our net production of crude oil decreased to an average of 6,449 barrels per day in the first half of 2009. In contrast, our net production averaged 8,150 barrels of crude oil per day in 2008. The production curtailment ended in March 2009 and our net production improved in subsequent months, rebounding to an average of 8,806 barrels per day in the second half of 2009. Our oil production has not been curtailed since the first half of 2009 and our net production averaged 10,042 barrels per day in the first half of 2010. Had the curtailment in the first quarter of 2009 not occurred, and based on the average net production rate of 8,386 barrels of crude oil per day for the second through fourth quarters of 2009, our total net production for 2009 would have been 3.06 million barrels, or US$179.3 million as calculated using the 2009 average realized oil price of US$58.58 per barrel. Our actual production for 2009 was 2.79 million barrels, or US$163.3 million based on the 2009 average realized oil price. Future curtailments may slow our net production and materially and adversely affect our results of operations. Furthermore, we currently have facilities capable of storing up to 282,000 barrels of oil. We may not have adequate or sufficient storage capacity for unsold oil if PetroChina significantly reduces or discontinues its purchases of crude oil from us for any reason.

PetroChina may take over from us the operational rights for the three oilfields under the production sharing contracts. If PetroChina takes over the operational rights for one or more of the three oilfields, our business, financial condition and results of operations may be adversely affected.

Under the production sharing contracts, PetroChina may take over the operational rights from us at the earlier of (i) the expiration of the production sharing contracts, (ii) when all the development costs have been recovered by the foreign contractors in full and no additional overall development plan under which additional development costs will be incurred by the foreign contractors has been approved, or (iii) if agreed to by the joint management committee, before the full recovery of the development costs by the foreign contractors. The Directors believe that scenarios (i) and (iii) above do not pose any risk to our continued operations of the oilfields because, concerning scenario (i) above, the production sharing contracts for the Daan, Moliqing and Miao 3 oilfields do not expire until 2024, 2028 and 2028, respectively, which is expected to be sufficient for our company to recover all development costs in the Moliqing and Miao 3 oilfields (we have already recovered all development costs in the Daan oilfield), and, concerning scenario (iii) above, under the production sharing contracts the foreign contractors appoint

four out of the eight members of the joint management committee and any action taken by the joint management committee must be made unanimously. Concerning scenario (ii) above, we have recovered all of our past development costs in the Daan oilfield, including all development costs under the original overall development plan and all initial development costs under the supplemental overall development plan. However, we have not reached the limit for the number of wells to be drilled and the amount of investment approved under the supplemental overall development plan for the Daan oilfield, and we continue to make additional investments and development costs in the Daan oilfield in accordance with the supplemental overall development plan approved by the joint management committee. Therefore, PetroChina does not have the right to take over the Daan oilfield as of the date of this prospectus. In the event that PetroChina takes over the operations of the oilfields after (i) the maximum limits as set out under the original overall development plan and supplemental overall development plan have been reached, and (ii) we have recovered all of the pilot tests and development costs, we will remain entitled to our share of the oil produced for the remaining term of the relevant production sharing contract and continue to participate on the joint management committee. Further, we will focus our efforts on entering into new production sharing contracts, both with PetroChina and with third parties, and on expanding into emerging markets outside of China. See "Business – Our Strategies – Increase our net reserves and net production by securing new production sharing contracts and acquiring existing production sharing contracts in China" and "Business – Our Strategies – Selectively expand into emerging markets outside of China." However, if PetroChina took over production of the oilfields, we would not be able to invest in additional capital expenditures to generate more production and revenue and, accordingly, our strategy and results of operations would be adversely impacted. In addition, our results of operations would be dependent on PetroChina's ability to operate the oilfields and produce profit-sharing oil after such takeover.

Our results of operations are affected by the volatility of prices for crude oil.

Our results of operations are significantly affected by crude oil prices. We sell our portion of crude oil produced in accordance with prices of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, which closely tracks the international prices for crude oil. See "Business – Sales and Marketing" for details. International prices for crude oil have fluctuated widely in recent years in response to changes in the supply of and demand for oil, market uncertainty and a variety of additional factors that are beyond our control, including political developments in petroleum-producing regions, the ability of the Organization of Petroleum Exporting Countries and other petroleum-producing nations to set and maintain production levels and prices, the price and availability of other energy sources, such as coal, domestic and foreign government regulation, and overall economic conditions. We do not and will not have control over the factors affecting international prices for crude oil. For example, crude oil prices reached a historical high in July 2008 but declined precipitously in the fourth quarter of 2008 and the first half of 2009 as a result of the global economic and financial crisis. As a result, our revenue has fluctuated significantly. Furthermore, our rate of recovery under our production sharing contracts, depreciation, depletion and amortization, and the amount of special levy paid or payable to the PRC government are affected by movements in crude oil prices. For more details, see "Financial Information – General Factors Affecting Our Results of Operations – Crude Oil Price." Crude oil prices recovered in the second half of 2009, but there is no guarantee that international prices for crude oil will remain stable and any future declines in international prices for crude oil will reduce our revenue. If crude oil prices increase in the future, the costs of materials and well drilling services may also increase beyond our anticipation as a result of higher demand, which will materially and adversely affect our capital expenditures and results of operations.

We may be exposed to risks in connection with our hedging transactions, including counterparty risks and significant fluctuation on our income statement from changes to the fair value of put option agreements.

We enter into hedging transactions in order to protect against downward movements in the price of oil. Our maximum potential exposure under any purchased option agreement is the amount of the paid premium. Our hedging policy prohibits speculative oil hedging. When management makes oil hedging decisions, it takes into account factors including annual production of oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others. Our oil hedging transactions are restricted to cover a reasonable period when the oil prices can be determined with a greater degree of certainty, usually up to two years. All oil hedging transactions must be approved by the Board. Management closely monitors the movement in oil prices, and Mr. Zhang and Mr. Forrest L. Dietrich, both of whom serve as executive directors and have over 20 years in the oil industry, regularly monitor oil prices and recommend to the Board and management the suitable oil price and amount at which to enter into oil hedging transactions. Only large international financial institutions are active in the oil hedging market, and we only enter into oil hedging transactions with reputable and well-capitalized banks and financial institutions and we do not purchase from small brokers or on the secondary market. We mitigate counterparty risk by choosing only reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. After entering into a hedging transaction, we monitor oil prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management team also holds frequent meetings to review trends in oil prices and the effectiveness of our hedging positions and strategy. However, we cannot be certain that those banks and financial institutions will not default or otherwise fail to perform their obligations under these oil hedging transactions.

The Company's option arrangements do not qualify for hedge accounting, IFRS requires that any change in the fair value of a purchased option agreement is included as a profit/loss on our income statements. The fair value of the purchased option changes due to fluctuations in the price of oil and the shortening of the remaining term of the option agreement. In 2008, we recorded a non-cash unrealized gain of RMB129.8 million. In 2009 and the six month period ended June 30, 2010, we recorded a non-cash unrealized loss of RMB207.2 million and RMB14.0 million, respectively, due to the change in fair value of the unrealized portion of the oil put option. Although our maximum potential exposure under any purchased option agreement is the amount of the paid premium, changes in the fair value of that agreement may give rise to a non-cash gain or loss that may materially affect our comprehensive income.

Failure on our part to continue our performance under the production sharing contracts may adversely affect us, and our resources may not ultimately be extracted at a profit.

Our success to date is driven by our performance at the Daan oilfield, the Moliqing oilfield and the Miao 3 oilfield. The Daan oilfield, the Moliqing oilfield and the Miao 3 oilfield respectively accounted for approximately 80.0%, 17.8% and 2.2% of our revenue in 2009, 79.2%, 18.9% and 1.9% of our revenue in 2008, and 81.0%, 16.7% and 2.2% of our revenue in 2007. In the first half of 2010, the Daan oilfield, the Moliqing oilfield and the Miao 3 oilfield accounted for approximately 76.4%, 18.2% and 5.4% of our revenue, respectively. Each of our production sharing contracts for the oilfields contains requirements on the performance of the foreign contractors and operator, such as quality of services, timeframe of development plan as well as minimum capital expenditure. In the event that we are unable to obtain sufficient funding to continue with the development in accordance with the timeframe prescribed in the relevant production sharing contracts, or any failure or undue delay by our subcontractors or service providers to deliver the products or services that meet the quality requirements under the production sharing contracts, our performance under the production sharing contracts and profitability will be

adversely affected. In addition, if our investment in any of the oilfields exceeds the envisaged amount as approved by the NDRC by 20%, we are required to obtain approvals from the NDRC and PetroChina in respect of such additional investment. Any failure or delay on the part of the NDRC or PetroChina in approving such proposal may also affect our performance and operations under the production sharing contracts.

If our operations exceed the scope outlined in the current overall development plan approved by the NDRC or the NEB, we may be subject to sanctions.

We carry out the development and production activities at the three oilfields we operate in accordance with overall development plans, all of which were approved by the NDRC or the NEB, an agency established in 2008 under the NDRC to regulate China's energy sector. The overall development plans for the oilfields at Daan, Moliqing and Miao 3 contemplate an annual total designed production capacity of 723,000 tons, 571,200 tons, and 237,000 tons of oil, respectively. Although the overall development plan and the supplement thereto we entered into with CNPC do not limit the amount of reserves we may develop, our current projections indicate that we may exceed the scope of the development plan in the second half of 2012 for Daan Oilfield. Under the Verification and Approval of Foreign-invested Projects Tentative Administrative Procedures issued by the NDRC on October 9, 2004, should the total investment amount in a foreign-invested project approved by the NDRC exceeds the original approved investment amount by 20%, an amendment application shall be submitted to the NDRC for approval. We are currently operating within the limits set forth in the respective overall development plan and supplemental overall development plan for each of the oilfields we operate. We, along with PetroChina, may need to submit a new proposal to the NDRC or NEB and obtain approval once our plan to develop and produce oil exceeds the scope of our current overall development plans. We cannot assure you that we can obtain such approval in a timely manner or at all. If we fail to obtain approval from the NDRC or NEB for a new supplemental overall development plan, we may be subject to penalties and fines, as well as stop-work orders, and our results of operations may be materially and adversely affected as a result. The law does not currently specify as to the type or amount of penalties or fines that may be imposed on operators that have not obtained approval for a supplemental overall development plan.

Our operations may be adversely affected by the global and domestic economic conditions.

Our results of operations are materially affected by economic conditions in China and elsewhere around the world. The oil and gas industry is sensitive to macroeconomic trends as oil and gas prices tend to decline in recessionary periods. Substantially all of our revenue is derived from sales of crude oil produced in the PRC. A global recession or an economic downturn in the PRC, as well as uncertainties regarding the future economic prospects of the PRC or major economies in the world, could depress oil and gas prices, and would likely have an adverse effect on our results of operations and financial condition.

Recent global economic conditions have been characterized by tight credit and recessionary trends in most major economies in 2009 and 2010. The negative economic outlook has affected business and consumer confidence. Any decline in oil and gas prices as a result of the economic downturn may negatively affect our results of operations. Turbulence in the international energy markets, as well as any slowdown of economic growth in China, may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

The crude oil reserve data in this prospectus are only estimates and the actual production, revenue and expenditures with respect to our net reserves under each of the production sharing contracts may differ materially from these estimates.

The oil reserve estimates are important data to us for making future development and production plans and estimating our expected recovery of operating costs incurred and profit-sharing oil. The crude oil reserve data in this prospectus are only estimates. The reliability of reserve estimates depends on the following factors, some of which are beyond our control and may fluctuate or prove to be incorrect over time:

- the quality and quantity of technical and economic data;
- the prevailing oil prices applicable to our net production;
- the production performance of the reservoirs;
- estimation of future costs;
- extensive engineering judgments; and
- consistency in the PRC government's oil policies.

There are numerous uncertainties inherent in estimating quantities of proved oil reserves, and in the timing of development expenditures and the projection of future rates of production. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our net reserves may likely vary from these estimates. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserve data. Our actual production, revenues and expenditures with respect to our net reserves may differ materially from these estimates because of these revisions.

Any reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production), which will have an adverse effect on our results of operations.

Under IFRS, our accounting of unit of production for depreciation, depletion and amortization is based on the reserve definition as set out in the PRMS. We apply the unit of production rates based on net proved developed producing oil reserves estimated to be recoverable from existing facilities in accordance with the terms of the respective production sharing contracts.

Estimated proved reserves are important elements in determining the depreciation of capitalized development costs. Any reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges (assuming constant production) and therefore will reduce net income.

Control or significant influence by the Controlling Shareholders may limit your ability to affect the outcome of decisions requiring the approval of shareholders.

Immediately after the Global Offering, our Controlling Shareholder, FEEL, will own approximately 53.6% of our issued share capital. Mr. Zhang, our executive Director, chairman and chief executive officer, and Mr. Zhao, our executive Director, vice chairman and senior vice president, are the controlling shareholders of FEEL, and have significant control over our business, including matters relating to our management and policies and certain matters requiring the approval of our shareholders, such as election of directors, approval of significant corporate transactions including mergers, consolidations and the sale of all or substantially all of our assets, and the timing and distribution of dividends. Furthermore, our Articles of Association, which will take effect upon the Listing, contain a quorum requirement of at least two shareholders present in person or by proxy. FEEL, with an aggregate shareholding sufficient to constitute a quorum, could approve actions that require a majority vote at shareholder meetings if there is a lack of sufficient attendance, which may not be in the best interests of our other shareholders. To the extent the

interests of Mr. Zhang, Mr. Zhao and FEEL conflict with our interests and those of our other shareholders, we and our other shareholders may be disadvantaged or harmed. Furthermore, if any dispute arises between Mr. Zhang and us, we cannot assure you that we will be able to find a suitable director and chief executive officer replacement in a timely manner or at all, or whether Mr. Zhang and Mr. Zhao exercising their shareholder rights through FEEL, will challenge such board and management changes, and our business may be materially adversely affected as a result.

This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our shares. In addition, unless we obtain the consent of FEEL, we could be prevented from entering into transactions that could be beneficial to us.

We depend upon the services of key personnel and our business may be severely disrupted in the event that we lose their services and are unable to find replacements with comparable experience and expertise.

Our future success depends heavily upon the continued services of our senior executives, including Mr. Zhang, our chairman and chief executive officer, and other key employees. We rely on their expertise in developing business strategies, managing business operations and strengthening our relationships with PetroChina and service providers. We carry key person insurance for six persons, including four of our executive directors. However, if one or more of our senior management or key employees were unable or unwilling to continue in their present positions, we may not be able to replace them in a timely manner or at all. If any dispute arises between our key employees and us, we cannot assure you of the extent to which any of the employment agreements that we have entered into with our key employees could be enforced, particularly in the PRC, where most of these key employees reside, in light of the uncertainties within the PRC legal system. See "– Uncertainties with respect to the PRC legal system could limit the protections available to you and us" below. If one or more of our senior management or key employees were unable or unwilling to continue in their present positions, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may have to incur additional expenses to recruit, train and retain personnel. We may not be able to attract or retain replacement personnel that we will need to achieve our strategic objectives at costs similar to our current costs.

Restrictive covenants and undertakings under the CITIC Bank Facility may limit the manner in which we operate and an event of default under the loan may adversely affect our operations.

On July 28, 2009, MIE entered into the CITIC Bank Facility. The CITIC Bank Facility does not require principal repayments for the first three years, and the principal repayments are made starting from the 37th month with an interest rate of LIBOR plus 4.50% per annum. The CITIC Bank Facility contains certain restrictive covenants that limit our ability to, among other things, incur additional indebtedness (not including certain permitted indebtedness in the form of intercompany loans with respect to the company and borrowings from PRC institutions with respect to MIE), declare cash dividends of more than 15% of our annual consolidated net profit prior to the Global Offering (not including a cash dividend of no more than US$20 million that may be declared immediately prior to the Global Offering) or 30% of our annual consolidated net profit after the Global Offering, create or incur liens, acquire, merge or consolidate with others and dispose of assets. The CITIC Bank Facility also includes certain financial covenants that, among other things, require us to maintain certain tangible net worth and leverage ratios and also limit our total capital expenditures to RMB1,000 million in any financial year. Under the facility agreement, we agreed to procure that FEEL and the shareholders of FEEL would continue to beneficially own not less than 51% of the entire issued share capital of our company or MIE. The CITIC Bank Facility was secured by, among other things, 100% of the ordinary shares in MIE held by us, 51% of the ordinary shares in us held by FEEL and 51% of the ordinary shares in FEEL held by shareholders of FEEL.

On November 27, 2010, we entered into a supplemental deed to the CITIC Bank Facility to restructure our security arrangement with CITIC Bank International Limited and CITIC Bank Guangzhou in order for our company to list on the Stock Exchange, for which CITIC Bank International Limited and CITIC Bank Guangzhou required us to pay a work fee of US$300,000 (or HK$2,327,490), a waiver fee of US$6,000,000 (or HK$46,549,800), which waiver fee will be reduced by an amount equal to the above work fee provided that such work fee is paid before one Business Day after the Listing Date, and 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. Under the supplemental deed, the lenders agreed to release the share mortgages of 51% of the ordinary shares in us 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 Listing. We have also agreed to procure FEEL to continue to be our largest shareholder, holding not less than 35% of the issued share capital in our company, and maintain management control of our company. Under the supplemental deed, the lenders also agreed to increase the capital expenditures allowable for 2011 from RMB1,000 million to RMB1,288 million. Concurrently our company agreed to provide a corporate guarantee for MIE's obligations under the CITIC Bank Facility. The lenders have also approved any sale of existing shares by FEEL up to 7% of our issued share capital immediately upon the occurrence of the Global Offering (including the Sale Shares of FEEL) either in or after the Global Offering, provided that FEEL shall continue to hold not less than 35% of the issued share capital in our company. For more information about the CITIC Bank Facility, see "Financial Information – Liquidity and Capital Resources." Any failure to maintain any of the covenants or undertakings pursuant to the CITIC Bank Facility or the supplemental deed could result in an acceleration of obligations under the CITIC Bank Facility, which would have a material adverse effect on our business and FEEL will not sell any of its Shares under the Global Offering. As a result, we are limited in the manner in which we conduct our business and may be unable to engage in certain business activities or finance future operations or capital needs.

We are required to maintain a debt service reserve account to ensure the payment of interest and principal due under the CITIC Bank Facility. Our ability to make scheduled payments depends on our financial condition and operating performance. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal and interest on our indebtedness. For example, for the six-month period ended June 30, 2010, we had net cash generated from operating activities of RMB559.0 million, net cash used in investing activities of RMB444.5 million and net cash used in financing activities of RMB136.5 million resulting in a net decrease in cash and cash equivalents of RMB21.9 million from the six-month period ended June 30, 2009. Although the debt service reserve account only requires us to fund interest payments for the first three years and principal and interest payments starting from the 37th month, if our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay planned investments and capital expenditures, or to sell assets, seek additional financing in the debt or equity markets or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

We will need substantial funding to maintain our operations and accomplish our growth strategy. We may be unable to raise capital on terms favorable to us or at all, which could increase our financing costs, dilute your ownership interests, affect our business operations or force us to delay, reduce or abandon our growth strategy.

Oilfield operations are a capital-intensive business. Our ability to maintain and increase our revenue, net profits and cash flows depends upon continued capital spending. Our current business strategy contemplates gross capital expenditures of approximately RMB877 million (of which RMB575 million had been incurred as of June 30, 2010) and RMB1,432 million for 2010 and 2011, respectively. Our expected net capital expenditure is 90% of the gross amount and may vary significantly from these planned

amounts due to various factors, including but not limited to our ability to generate sufficient cash flows from our operations and investments to finance our capital expenditures, our ability to obtain external financing, oil prices and approval by the joint management committee. See "Business – Production Sharing Contracts" for a description of the functions of the joint management committee. In addition, one of our growth strategies is to develop our net proved undeveloped reserves, as well as probable and possible reserves. To implement this growth strategy successfully, we will need to raise substantial additional funds.

Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- the availability of credit from banks or other lenders;
- investor confidence in us; and
- the continued performance of our projects.

Our operations may not generate sufficient cash flows to fund our capital investment requirements, and we may be required to finance our cash needs through public or private equity offerings, bank loans or other debt financing, or otherwise. We cannot assure you that international or domestic financing for our future expansion will be available on terms favorable to us or at all, which could force us to delay, reduce or abandon our growth strategy, increase our financing costs, or both.

Additional funding from debt financings may make it more difficult for us to operate our business because we would need to make principal and interest payments on the indebtedness and may be obligated to abide by restrictive covenants contained in the debt financing agreements, which may, among other things, limit our ability to make business and operational decisions and pay dividends. Furthermore, raising capital through public or private sales of equity to finance acquisitions could cause earnings or ownership dilution to your shareholding interests in our company.

In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or as to the success of these projects if completed. In the event that we fail to obtain sufficient funding for our operations or development plans, our business, results of operations and financial condition could be materially and adversely affected.

Further, although we had a deficiency of net current assets of RMB172.6 million as at June 30, 2010 and RMB85.1 million as at October 31, 2010, we have taken certain steps to enable us to continue as a going concern. The working capital deficit was anticipated as we accelerated our capital program. We believe we have the ability to manage these positions due to the anticipated monthly positive cash flows generated from our operations and the ability to negotiate and modify the terms with our trade creditors. However, we cannot assure you that our business will generate sufficient cash flow from operations in the future to make necessary capital expenditures and to service our debt, in which case we may seek additional financing, dispose of certain assets or seek to refinance some or all of our debts. We cannot assure you that any of these alternatives can be implemented on satisfactory terms, if at all. We may also have difficulty converting our long-term assets into current assets to repay our creditors and may suffer losses upon the sale of our long-term assets, which would adversely affect our operations and prevent us from successfully implementing our business strategy.

We may issue additional shares to GOC in order to acquire its interest in the production sharing contracts, which issuance would dilute the value of your Shares.

On April 8, 2010, we signed a memorandum of understanding with GOC indicating our interest in purchasing GOC's entire 10% participating interest in the three production sharing contracts. The consideration will be paid in a combination of cash and shares, the proportion of which shall be negotiated and agreed between the parties. The transaction is subject to the parties entering into a definitive purchase agreement detailing the terms of the assignment of GOC's interest to us. Under the memorandum of understanding, the parties plan to complete the transaction when the closing conditions set forth in the purchase agreement are met or 180 days after the Global Offering, whichever occurs later. Pursuant to the Listing Rules, we may not issue shares to GOC under any definitive purchase agreement, or for any other reason, prior to 6 months after the Global Offering. If we enter into a definitive purchase agreement with GOC and issue shares as consideration for their participating interest in the three production sharing contracts, such issuance could dilute the interests of our existing shareholders and decrease the trading price of our Shares. The amount of dilution you experience will depend upon the number of shares issued to GOC as consideration and the number of shares to be issued will be determined based on the Offer Price.

Our business may be adversely affected if we cannot recruit and retain suitable staff for our operations.

Our continued growth depends in part on our ability to recruit and retain suitable staff. As we expand our oil operations, we will need to hire experienced staff who are knowledgeable about the oil industry to manage and operate our oil facilities and properties. We face increasing competition for management and skilled personnel with significant knowledge and experience in the oil industry in the PRC. In addition, we have seen an upward trend in labor costs in the PRC recently, which has had a direct impact on our staff costs. We may need to offer better compensation and other benefits in order to attract and retain key personnel in the future, which may materially affect our expenses and profitability. We cannot assure you that we will have the resources to satisfy fully our staffing needs as we continue to grow our business in the future or that our operating expenses will not significantly increase.

If we fail to obtain or maintain all required licenses, permits and approvals, or if we are required to take actions to obtain such licenses, permits and approvals which are time-consuming or costly, our business operations and development plans may be materially and adversely affected.

Oil operations such as ours are subject to a significant number of licenses, permits and approvals in the PRC, such as those relating to environmental protection and work safety. Please refer to the section headed "Regulations" of this prospectus. In particular, our projects and any expansion plans are subject to extensive governmental review and approval. Our ability to continue to conduct our existing operations and to successfully implement our expansion strategies is dependent upon our obtaining, maintaining and renewing, where necessary, the relevant regulatory approvals under PRC law. We are also dependent on PetroChina's ability to obtain governmental approvals and licenses. These approvals include, but are not limited to, environmental approvals, workplace safety approvals, land use rights allocation and approvals from SAFE. If we or PetroChina fail to obtain or renew such approvals on a timely basis or at all, we may be subject to fines, ordered to take corrective measures, or subject to other administrative penalties. We may even be prohibited from continuing or expanding our operations due to a failure to obtain or renew such approvals, and we may have to expend considerable time and costs in order to sustain our business.

We may experience difficulties in expanding our business in the PRC and overseas, which may adversely affect our growth and future profitability.

We plan to secure future production sharing contracts with PetroChina and selectively acquire existing production sharing contracts from other independent oil producers in China that may be capital-constrained or lack sufficient technical ability and expertise to successfully develop their areas under contract. In April 2010, we signed a memorandum of understanding with Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司), an oil and gas development company based in Songyuan, Jilin Province, to acquire the participating interests it holds in its production sharing contracts with PetroChina, which cover oil properties located in Jilin oilfield. On April 8, 2010, we also signed a memorandum of understanding with GOC to purchase GOC's 10% participating interest in our production sharing contracts. As the parties are in preliminary discussions regarding these transactions, we cannot assure you that any of these acquisitions will be successfully negotiated and completed. Such acquisitions may pose risks of diverting management's attention and resources from our existing business. Furthermore, in the case of acquiring interests in new oilfields, we may not be able to integrate successfully the acquired company or business into our existing business.

We also plan to explore new investment opportunities overseas, with a particular focus on emerging markets in Southeast and Central Asia. We have limited experience conducting oil operations outside Jilin Province and there can be no assurance that we will be successful in venturing into such new business opportunities or geographic areas. Furthermore, these new projects would likely have significant capital requirements and would expose us to additional risks, including but not limited to approvals from regulatory authorities that we may not have dealt with in the past as well as economic and legal risks associated with operating projects in other countries. We therefore cannot assure you that taking on such business expansion would not have an adverse impact on our future profitability.

Our continued business success depends on our ability to exploit our current reserves and develop newly discovered reserves within our contract areas.

Our ability to achieve our growth objectives is dependent in part on our level of success in identifying additional crude oil reserves in our contract areas and further exploiting our current reserve base. Our development and production activities expose us to inherent risks associated with drilling, including the risk that no additional economically productive oil reservoirs will be discovered in our contract areas. Developing additional reserves is a highly risky and capital-intensive activity. As of June 30, 2010, the reserves life index of our net proved reserves was 8.1 years, meaning that based upon current estimates if none of our probable or possible reserves prove to be recoverable and we are unable to identify any additional reserves, our production will cease during the second half of 2018. We plan to prevent this from happening by maximizing recovery from our probable and possible reserves and by locating additional reserves. However, without locating additional reserves in our current contract areas or acquiring new reserve bases through acquisitions or new production sharing contracts, our net reserves and net production will decline over time, which would materially and adversely affect our results of operations and financial condition.

Our right and ability to continue to occupy and use the land under each of the production sharing contracts for our long-term use may be adversely affected if permanent use approval or formal land use rights certificates are not obtained by PetroChina or us.

We are entitled to use various parcels of land in the PRC pursuant to the provisions of the production sharing contracts and approvals from the relevant PRC land administration authorities. Under the production sharing contracts, PetroChina has the obligation to procure or assist in procuring land use rights. Parcels of land totaling approximately 644,292 square meters have been allocated to PetroChina and us for permanent use, including a parcel of land of 37,060 square meters allocated directly to us by the Ministry of Land and Resources for the central collection station at Daan, for which we obtained the

Letter of State-owned Construction Land Allocation Decision from the Daan Municipal Land and Resource Bureau on August 17, 2010. These parcels of land are used for our development facilities, central collection stations, offices, ancillary facilities and dormitories for our workers. However, formal land use rights certificates have not been obtained by PetroChina or us from the relevant PRC governmental authorities for these lands. Please refer to the section headed "Business – Properties" of this prospectus for further details. PRC law provides that the user of the development project shall apply with the relevant land administration authority for issuance of the land use rights certificates for these allocated land parcels within 30 days after the completion of the construction thereon or after being notified by the relevant land administration authority. Failure to apply for the land use rights certificates may subject us to regulatory actions, of which, as at the Latest Practicable Date, no details or interpretations have been released. Land use rights certificates and building ownership certificates are evidence of real property registration under PRC law. They permit the holder of land use rights certificates to transfer, mortgage and lease the land use rights and permit the holder of building ownership certificates to transfer and mortgage buildings as well as protect the holder from third party claims. Without land use rights certificates and building ownership certificates, we may not be able to transfer, mortgage or lease the land use rights to these allocated land parcels and may not be able to transfer or mortgage buildings, and they may be susceptible to claims from third parties, which could materially and adversely affect our ability to use the allocated land parcels and buildings as security or protect them from third party claims.

In addition, approximately 1.6 million square meters of land parcels have been approved by relevant PRC governmental authorities for temporary use by us. For those parcels of land among this 1.6 million square meters that we decide to convert for production use, we or PetroChina will need to obtain permanent use approvals and land use rights certificates after the expiry of the temporary use approvals or any extension of these approvals. As of the Latest Practicable Date, the temporary use approvals for approximately 1.58 million square meters of land have expired, all of which have been submitted for conversion to permanent use, which submission gives us the right to continue to use these lands until the conversion process is complete. There is no assurance that we or PetroChina will be able to obtain permanent use approvals and the land use right certificates for these lands. Failure to obtain permanent use approvals or land use right certificates will affect our ability to use the land parcels after the expiry of temporary use approvals and their extension and we may be subject to fines and/or ordered to take corrective measures, such as restoring the land and returning it to its original users, should we refuse to return the land. We may also be prohibited from using these parcels of land for production or unable to protect them from third party claims, which would have an adverse impact on our expansion plans and our future profitability.

Under the terms of the production sharing contacts, all assets purchased, installed and constructed under the production sharing contracts will eventually become the property of PetroChina, which could have a material adverse effect on our ability to satisfy our obligations.

Under the terms of the production sharing contracts and in compliance with PRC law, all of the assets purchased, installed and constructed under the production sharing contracts will change ownership after the earlier of (i) full recovery by the foreign contractors of their development costs or (ii) expiration of the production sharing contracts. Before either of these occurrences, we and PetroChina jointly control the assets under the production sharing contracts and neither we nor PetroChina can dispose of assets at our or its sole discretion. After either of these occurrences, PetroChina will own all of the assets purchased, installed or constructed under the production sharing contracts. Our assets under the production sharing contracts therefore are not under our sole control and may not be available for sale, transfer, encumbrance or other disposition by us without PetroChina's approval or at all, which could have a material adverse effect on our ability to satisfy our obligations to our creditors and our shareholders.

Prepayments we provide to service providers and equipment suppliers expose us to the credit risks of such third parties and may increase our costs and expenses.

Under existing contracts with the majority of our drilling service providers and equipment suppliers, we are required to make prepayments to our service providers and suppliers consistent with industry practice. In many such cases, we make prepayments without receiving collateral for such payments. As a result, our claims for such payments would rank as unsecured claims and expose us to the credit risks of our suppliers and service providers in the event of their insolvency or bankruptcy. We would rank below secured creditors, which would undermine our chances of obtaining the return of our prepayments. If there is a breach of contract, we may need to make a provision for the liability. We made such a provision for impairment of receivables of RMB11.2 million in 2007 because certain advances paid to drilling service providers and equipment suppliers were not collectible. We may not prevail in our claims against the defaulting service providers or suppliers, and even if we prevail, we may not be able to recover damages for our loss. Any of the above scenarios may have a material adverse effect on our financial condition and results of operations.

The geographic concentration of our operations increases our exposure to acts of God and other disasters which are beyond our control and which may cause damage, loss or disruption to our business.

As of June 30, 2010, all of our gross proved crude oil reserves were located in Jilin Province, China. The geographic concentration of our crude oil reserves exposes our business to natural disasters, including floods and earthquakes, and other acts of God, in a single area which could adversely affect the development or production of our crude oil, such as catastrophic damage to pipelines or reservoir structures or events that could result in a material loss or delay of our operations. Acts of terrorism may also cause damage or disruption to us, our employees or our facilities, any of which could materially impact our sales, cost of sales, overall operating results and financial condition.

Our operations may be affected by significant operating hazards and natural disasters and we have limited insurance coverage for any resulting losses.

Developing, producing and transporting crude oil involve many hazards. These hazards may result in fires, explosions, spillages, blow-outs and other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations. Significant operating hazards and natural disasters may cause interruption to our operations, property and/or environmental damage as well as personal injuries, and each of these incidents could have a material adverse impact on our financial condition and results of operations. Though it did not impact us materially, on September 1, 2009, there was a fatal accident at the Miao 3 oilfield involving one of our workers who was caught by the piston while adjusting the oil drilling rig. Jilin Foreign Enterprise Service Co., Ltd. (the "FESCO") paid the worker's death compensation. We conducted a thorough investigation of the incident according to our internal policy and the relevant laws, policies and procedures of PetroChina and the PRC government. The investigation concluded that the accident was caused by the employee's improper operation of machinery, and not a lack of adequate workplace safety and occupational health measures on our part. The worker's family signed a release for any accident claims, and there was no litigation associated with this accident. We are constantly improving our safety and occupational health measures to protect our employees and reduce the risk of accidents. However, our preventive measures may not always be effective, particularly due the hazardous nature of our industry.

As protection against operating hazards, we maintain insurance coverage on our properties, including pipelines, terminals, machinery, equipment, materials and supplies. We also maintain insurance against the risk of breakdown on all machinery and equipment. We carry business interruption insurance and workplace injury insurance for our operations. We also implement safety standards in compliance with ISO9000 and ISO9001 and our agreements with PetroChina, as well as PRC laws and regulations. Although we have not been materially affected by any of the operating hazards mentioned herein or any failure to comply with safety standards or PRC law, our preventative measures may not be effective and our insurance coverage may not be sufficient to cover all the financial losses caused by the operation risks and natural disasters. Losses incurred or payments required to be made by us due to operating hazards or natural disasters that are not fully insured may have a material adverse effect on our financial condition and results of operations.

PRC regulations may limit our activities and adversely affect our business operations.

Our operations, like those of other oil and gas companies in the PRC, are subject to extensive regulations and control by the PRC government. Although the PRC government has been gradually liberalizing its regulations of the oil and gas industry in recent years, it continues to exercise a certain degree of control over this industry by, among other measures, licensing the right to explore and produce crude oil, assessing and imposing taxes and fees payable in respect of crude oil produced and setting safety, environmental and quality standards. For instance, since March 26, 2006, we have been subject to a crude oil special gain levy imposed by the PRC government. As a result, we recorded special levy payments in aggregate of RMB160.0 million, RMB538.1 million, RMB73.3 million and RMB148.6 million in relation to our sales of crude oil in 2007, 2008, 2009 and the first half of 2010, respectively. These regulations and controls, including any future changes in tax rules or policies, may affect material aspects of our operations and profitability, which may in turn constrain our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability.

Our business operations may be adversely affected by present or future environmental regulations.

We are subject to extensive environmental protection laws and regulations in the PRC. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments for damages for serious environmental offenses; and
- the government, at its discretion, to close any facility that fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our operations produce substantial amounts of waste water, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution. As of June 30, 2010, we were not involved in any incident of violation of any environmental protection laws or regulations which we had failed to remedy within the timeframe stipulated by the relevant PRC authorities.

The PRC government has moved, and may move further, towards more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards. As we seek to expand our operations and explore overseas opportunities, we may also be subject to domestic and international environmental protection laws of other jurisdictions that may be more stringent than those in the PRC. In such event, we may be required to incur additional expenditures for environmental compliance matters.

Our contractual dispute with Sinopec may negatively affect our ability to do business with Sinopec in the future.

On August 28, 2000, we entered into a 25-year production sharing contract with Sinopec for exploration and development of contract area at the Shengli oilfield in Shandong Province. The Shengli oilfield is one of the largest oil production bases in China. In 2000, we began the trial-development phase of our operations at the Shengli oilfield and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, we requested an extension from Sinopec to restart the project at the Shengli oilfield. On September 27, 2006, we received a letter from Sinopec denying our request to restart the project and seeking to terminate the production sharing contract on the grounds that the one-year extension period of the trial-development phase had expired on December 31, 2003, and we had not met our investment commitment of at least US$2 million under the production sharing contract prior to such expiration. We believe our initial investment of RMB23.1 million in the Shengli oilfield, which investment was made prior to December 31, 2003, had met the required commitment amount under the production sharing contract. We had drilled two wells at Luojiayi Block 64 at the Shengli oilfield, one of which was a dry well, the other was never completed after Sinopec requested operations be suspended in September 2006. Due to geologic factors, the chance of drilling a dry well is greater in Luojiayi Block 64 than in our other oilfields and the development and operating costs are higher. We continue to consider the economic and contractual feasibility of making further investments to develop Luojiayi Block 64, which consideration also takes into account the price of crude oil. We intended to negotiate in good faith with Sinopec to resolve this issue. Therefore, we have chosen not to pursue the termination of this PSC with Sinopec.

As of the date of this prospectus, the production sharing contract with Sinopec has not been formally terminated and the dispute has not entered any judicial proceedings. However, our investment in the Shengli oilfield project was completely written off in 2004. We had accounted for losses and liabilities in connection with the production sharing contract for the project at the Shengli oilfield and we believe there are no additional liabilities and claims in relation to the Shengli oilfield project. Furthermore, because there has not been any further development relating to this project since the end of 2004, we did not include any operating or reserve data relating to Luojiayi in this prospectus. We cannot assure you that we can resolve this dispute with Sinopec in a timely manner or at all. However, on November 9, 2010, we signed a memorandum of understanding with the Drilling Division of Zhongyuan Petroleum Exploration Bureau of Sinopec group (中國石化集團中原石油勘探局鑽採處), a subsidiary of Sinopec, to cooperate on the development of technologies in connection with the exploration and development of oilfields. We believe this memorandum indicates that we are likely to have a constructive business relationship with Sinopec going forward. Nevertheless, our failure to resolve the dispute may impair our ability to do business with Sinopec in the future.

We face intense competition in the industry in which we operate, and if we fail to compete effectively, we may be unable to enter into new production sharing contracts and sustain our growth.

We are the sole operator of the three oilfields at Daan, Moliqing and Miao 3 through contractual arrangements with PetroChina. We do not compete with other operators in our contract areas. However, we encounter competition when we seek to acquire properties, secure additional production sharing contracts with state-owned oil and gas companies or hire trained personnel. As an independent oil contractor and operator, we are required to conduct our operations in accordance with the Regulation on the Exploitation of Onshore Petroleum Resources in Cooperation with Foreign Enterprises. We may face competition from both existing players and new emerging players for the contractual right to cooperate with CNPC and Sinopec, which are the only entities permitted to cooperate with foreign companies in onshore crude oil and natural gas exploration and production in the PRC, and for the development and production of oil resources in the PRC. Some of our competitors include ROC Oil, Central Asia Oil, Bright Oceans and Ivanhoe Energy. Factors that could affect our competitiveness may include, among others, technical capability, financial resources, experience and track record, and our relationship with CNPC and Sinopec.

Our competitors include market players that may be more experienced and/or may have greater financial and personnel resources available to them. In addition, many large oil companies with dominant positions in the PRC, such as PetroChina, Sinopec, and CNOOC, are themselves able to conduct oil development and production operations. Our ability to successfully enter into new production sharing contracts and sustain our growth therefore will, to a significant extent, depend upon our ability to out-perform other market players in an increasingly competitive market. In addition, the oil and gas industry is characterized by rapid and significant technological advancements. As new technologies develop, we may be placed at a competitive disadvantage, and competitive pressures may force us to implement those new technologies at a substantial cost. We may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at all. If we are unable to utilize the most advanced commercially available technologies, our ability to compete in securing additional production sharing contracts could be adversely affected. Furthermore, if demand for oil in China decreases, we may need to compete with other competitors for reduced amount of oil purchased by PetroChina.

We also intend to acquire oil properties outside of the PRC and may face competitors that are able to pay more for productive oil properties and exploratory prospects. Our ability to acquire additional prospects in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a competitive environment.

Compliance with rules and requirements applicable to public companies may cause us to incur additional costs, and any failure by us to comply with such rules and requirements could negatively affect investor confidence in us and cause the market price of our Shares to decline.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. We expect rules and regulations applicable to us as a public company to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. Complying with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in the PRC with experience and expertise relating to IFRS and Hong Kong public company reporting requirements, and such personnel may command high salaries. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be costly. In addition, we will incur additional costs associated with our public company reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

Failure to register the amendment with the local SAFE branch pursuant to the SAFE Notice No. 75 may adversely affect our ability to remit and exchange our PRC income into other foreign currencies.

According to the Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Person Resident in the People's Republic of China Through Offshore Special Vehicles ("SAFE Notice No. 75"), which was issued by SAFE on October 21, 2005 and effective on November 1, 2005, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required upon the injection of equity interests or assets of an onshore enterprise into the offshore company, if funds are raised overseas by such offshore company, or any other material change involving a change in the capital of the offshore company.

In respect of the establishment of FEEL and MIE, Mr. Zhao, Mr. Zhang and Mr. Shang have completed the relevant registration procedures with the SAFE Jilin Provincial Branch pursuant to SAFE Notice No. 75. However, the SAFE Jilin Provincial Branch has refused their application for amendment of the registration in respect of TPG's investment in MIE and the establishment of the company, as it considered the offshore reorganization of MIE to be outside the scope of SAFE No. 75.

Notwithstanding the foregoing, there can be no assurance that SAFE will share this view or the principals of the SAFE Jilin Provincial Branch will continue to hold this view. If SAFE challenges the decision of the SAFE Jilin Provincial Branch or if the principals of the SAFE Jilin Provincial Branch change their prior decision, the ability to remit and exchange PRC income into other foreign currencies may be adversely and materially affected.

RISKS RELATED TO OUR OPERATIONS IN CHINA

Political and economic policies of the PRC government affect our business and results of operations.

At present, the PRC is a developing economy. It differs from developed economies in many respects, including:

- its structure;
- the level of governmental involvement;
- the level of development;
- the growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has grown significantly in the past two decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow or will do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. Due in part to the impact of the global economic and financial crisis and other factors, the growth rate of China's gross domestic product as measured against the same period of the previous year decreased to 7.1% in the first half of 2009, down from 10.4% in the first half of 2008, before rebounding to 11.1% in the first half of 2010. It is uncertain whether the various macroeconomic measures, monetary policies and economic stimulus packages adopted by the PRC government will be effective in restoring or sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments.

Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of investments and expenditures in China, which in turn could lead to a reduction in demand for oil and consequently have a material adverse effect on our businesses.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions and credit availability from lending institutions. The PRC government has from time to time articulated the need to control economic growth again and to tighten lending. Stricter lending policies in the PRC may affect our ability to obtain financing, thus reducing our ability to fund our business and implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten lending, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability. Furthermore, we cannot assure you that our historical economic and market conditions will continue, or that we will be able to sustain our growth.

We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income.

The New EIT Law, which became effective on January 1, 2008, provides that enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the Implementation Rules of the New EIT Law, issued by the State Council, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. At present, the PRC tax authorities have not issued any guidance on the application of the New EIT Law and its Implementation Rules on offshore entities which are not controlled by Chinese enterprises or Chinese group enterprises. As a result, it is unclear what factors will be used by the PRC tax authorities to determine whether we have a "de facto management body" in the PRC. A substantial number of our management personnel are located in the PRC, and all of our revenues arise from our operations in the PRC. However, we do recognize some interest income and other gains from our financing activities outside the PRC. We are currently subject to enterprise income tax on our PRC activities. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may have an adverse impact on our financial condition and results of operations.

Dividends payable by us to our foreign investors or capital gains realised by our foreign investors may become subject to taxes under PRC tax laws.

Under the previous PRC tax laws and regulations, dividends paid by us to our overseas investors or capital gains realized by our overseas investors through transfer or disposition of our shares were not subject to PRC withholding tax or income tax. If we are deemed to be a PRC "resident enterprise" under the "de facto management body" test of the New EIT Law and Implementation Rules, dividends on our shares or capital gains through transfer or disposition of our shares may be regarded as income from "sources within the PRC." Therefore, the dividends payable to or capital gains realized by our investors that are "non-resident enterprises," which do not have an establishment or place of business in China or which have an establishment or place of business in China but the dividends or capital gains are not substantially related to such establishment or place of business in China, may be subject to a 10% withholding tax. However, it is unclear whether the dividends we pay or capital gains would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the New EIT Law and Implementation Rules to withhold PRC income tax on any dividends we pay to or capital gains realized by our foreign shareholders, the value of your investment in our shares may be materially and adversely affected.

Uncertainties with respect to the PRC legal system could limit the protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract.

Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in China as compared to more developed legal systems. These uncertainties may impede our ability to enforce our contracts with PetroChina, future partners, our service providers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the oil and gas industry in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

Future fluctuations in foreign exchange rates and government control in currency conversion may adversely affect our financial condition and results of operations, and our ability to remit dividends.

A substantial portion of our revenue and most of our expenditures are denominated in Renminbi, which is currently not a freely convertible currency. We will require foreign currencies for dividend payment, if any, to our shareholders. We will therefore be exposed to foreign currency fluctuations.

The value of the RMB depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. For over 10 years from 1994, the conversion of RMB into foreign currencies, including the U.S. dollar, was based on exchange rates set and published daily by People's Bank of China in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the U.S. dollar was largely stable until July 2005 when the People's Bank of China allowed the official RMB exchange rate to float against a basket of foreign currencies, including the U.S. dollar. In July 2008, the China central bank established a narrow band within which the RMB could fluctuate against these currencies, the practical effect of which has been to re-peg the RMB to the U.S. dollar. From July 21, 2005 to June 30, 2010, the RMB appreciated by 21.7% against the U.S. dollar. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the RMB exchange rate regime and increase the flexibility of the exchange rate. Since then, the average exchange rate between the RMB and the U.S. dollar has increased, but it is difficult to predict how this new policy may impact the RMB exchange rate in the future. Fluctuation of the value of RMB will affect the amount of our non-RMB debt service in RMB terms since we have to convert RMB into non-RMB currencies to service our foreign debt. Any appreciation of the RMB will also increase the value of, and any dividends payable on, our shares in foreign currency terms. Conversely, any depreciation of the RMB will decrease the value of, and any dividends payable on, our shares in foreign currency terms.

Certain facts and statistics in this prospectus relating to the PRC economy and the oil industry in the PRC are derived from various governmental official publications and may not be fully reliable.

Certain facts and statistics in this prospectus relating to the PRC, the PRC economy, the oil industry and other related sectors of the PRC are derived from various governmental official publications. However, we cannot guarantee the quality or reliability of such governmental official publications. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced and extracted from such governmental official publications, they have not been independently verified by us, the underwriters, or any of their or our affiliates or advisors. We therefore make no representation as to the accuracy of such facts and statistics from governmental official publications, which may not be consistent with other information compiled within or outside the PRC.

Possibly due to inadequate or ineffective collection methods or discrepancies between governmental official publications and market practice and other problems, the official statistics in this prospectus relating to the PRC economy and the oil industry and other related sectors in the PRC may be inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official facts or official statistics.

Labor laws in the PRC may adversely affect our results of operations.

On June 29, 2007, the PRC government promulgated the Labor Contract Law of the PRC, which became effective on January 1, 2008. The Labor Contract Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. Even though we hire our PRC employees through Jilin Foreign Enterprise Services Co., Ltd. in accordance with PRC laws and regulations, we are still affected by the changes in labor law. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

Any future outbreak of H1N1 influenza, avian influenza or severe acute respiratory syndrome in China, or similar adverse public health developments, may severely disrupt our business and operations.

In 2009, occurrences of H1N1 influenza were reported throughout China. Since 2005, there have been reports on the occurrences of avian influenza in various parts of China, including a number of confirmed human cases that resulted in fatalities. In addition, from December 2002 to June 2003, China and other countries experienced an outbreak of a highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. During May and June of 2003, many businesses in China were temporarily closed by the PRC government to prevent transmission of SARS. Any prolonged recurrence of H1N1, avian influenza, SARS or other adverse public health developments in China could require the temporary closure of our development and production facilities. Such closures could severely disrupt our business operations and materially and adversely affect our results of operations.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no public market for our ordinary Shares prior to the Global Offering, and you may not be able to resell our ordinary Shares at or above the price you paid, or at all.

Prior to the Global Offering, there has been no public market for our ordinary shares. We have applied to have our Shares listed on the Stock Exchange. The Offer Price for our Shares will be determined by negotiations between us, the Joint Bookrunners (on behalf of the Underwriters) and the Selling Shareholders and may bear no relationship to the market price for our Shares after the Listing. We cannot assure you that an active trading market for our Shares will develop or that the market price of our Shares will not decline below the Offer Price. If an active trading market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares will be materially and adversely affected.

The market price for our Shares may be volatile which could result in a substantial loss to you.

The market price for our Shares is likely to be highly volatile and subject to wide fluctuations in response to a number of factors, including the following:

- the movement in oil prices and its impact on our oil reserves;
- announcements of competitive developments;
- regulatory developments in the PRC affecting us, PetroChina or our competitors;
- announcements regarding litigation or administrative proceedings involving us;
- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by securities research analysts;
- addition or departure of our senior management;
- release or expiry of lock-up or other transfer restrictions on our outstanding Shares; and
- sales or perceived sales of additional Shares.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. For example, in 2008, exchanges in Hong Kong, the United States and other countries and regions, including the PRC, experienced sharp declines in response to the global economic and financial crisis. Prolonged volatility in the global capital markets may affect overall investor sentiment towards our ordinary shares, which could also negatively affect the trading prices for our Shares.

Since the Offer Price is substantially higher than our net tangible book value per Share, you will incur immediate and substantial dilution.

If you purchase our Shares in the Global Offering, you will pay more for your Shares than the amount paid by our existing shareholders for their Shares on a per share basis. As a result, you will experience immediate and substantial dilution of approximately HK$1.10 per Share, representing the difference between an assumed Offer Price of HK$1.93 per Share, the midpoint of the estimated Offer Price range set forth on the cover of this prospectus, and our net tangible book value per Share as of June 30, 2010.

The exercise of share options and lower net income arising from stock appreciation rights granted may cause you to incur dilution.

You may experience further dilution to the extent that our Shares are issued upon the exercise of share options and lower net income arising from stock appreciation rights granted. There may be significant cash outflow required for settlement of stock appreciation rights obligations. Assuming all of the outstanding stock options under the Stock Incentive Plan are exercised at the date of listing, 28,084,179 new shares will be issued, representing 1.1% of the total issued capital at that date. Based on an assumed Offer Price of HK$2.16, being the high end of the Offer Price range, there will be additional cash outflow of RMB15.0 million, RMB15.0 million, RMB15.0 million and RMB0.01 million for the financial years ending December 31, 2010, 2011, 2012 and 2013, respectively, assuming all the stock appreciation rights are exercised.

Substantial future sales or perceived sales of our Shares in the public market could cause the price of our Shares to decline.

Sales of our Shares in the public market after the Global Offering, or the perception that these sales could occur, could cause the market price of our Shares to decline. Upon completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme), we will have 2,641,334,000 outstanding Shares. All Shares sold in the Global Offering will be freely transferable without restriction or additional registration. The remaining outstanding Shares after the Global Offering will be available for sale upon the expiration of certain lock-up arrangements entered into among us, the Underwriters and other shareholders as further described under "Underwriting." In addition, Shares that certain option holders will receive when they exercise their share options will not be available for sale until the expiration of any relevant lock-up periods, subject to any applicable volume and other restrictions. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our Shares.

Future issuances of Shares may depress the trading price of our Shares.

Any issuance of Shares after the Global Offering could dilute the interests of our existing shareholders and could substantially decrease the trading price of our Shares. We may issue Shares in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions and other transactions), to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons.

We are a Cayman Islands company and the laws of the Cayman Islands relating to the protection of the interests of the minority shareholders differ in some respects from those in Hong Kong.

Our corporate affairs are governed by our memorandum of association and Articles of Association, the Cayman Islands Companies Law (2010 Revision), as amended, and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, the rights of minority shareholders to institute actions, and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the latter of which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in the Hong Kong and other jurisdictions. A summary of the relevant laws and regulations of the Cayman Islands and of our constitution is set out in the section headed "Appendix VI – Summary of the Constitution of the Company and Cayman Islands Companies Law" to this prospectus.

Your ability to bring an action against us or against our Directors and senior management, or to enforce a judgment against us or them, will be limited because we are incorporated in the Cayman Islands, because we conduct substantially all of our operations in China and because the majority of our Directors and senior management reside outside of Hong Kong.

We are incorporated in the Cayman Islands, and we conduct substantially all of our operations in the PRC. Most of our directors and senior management reside, and substantially all of the assets of those persons are located, outside Hong Kong. As a result, it may be difficult or impossible for you to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been violated under Hong Kong securities laws or otherwise. Even if you are successful in bringing an action of this kind, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of Hong Kong courts against us or such persons predicated upon the civil liability provisions of the securities laws of Hong Kong, and it is uncertain whether such courts in the Cayman Islands or the PRC would be competent to hear original actions brought in the Cayman Islands or the PRC against us or such persons predicated upon the securities laws of Hong Kong. We have been advised by our Cayman Islands legal advisers, Maples and Calder, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the Hong Kong predicated upon the civil liability provisions of the securities laws of Hong Kong and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the securities laws of the Hong Kong, on the grounds that such provisions are penal in nature. For more information regarding the relevant laws of the Cayman Islands and the PRC, please refer to the section headed “Appendix VII – Statutory and General Information” and the section headed “Regulations” in this prospectus, respectively.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in Hong Kong.

Due to a gap of up to five Business Days between pricing and trading of the Offer Shares and that our Offer Shares will not commence trading on the Stock Exchange until the Listing Date, the initial trading price of the Offer Shares could be lower than the Offer Price.

The Offer Price will be determined on the Price Determination Date. However, our Offer Shares will not commence trading on the Hong Kong Stock Exchange until the Listing Date, which is expected to be up to five Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Offer Shares during such period, and thus are subject to the risk that the market price of our Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments occurring during this period.

You should not rely on any information contained in press articles or other media regarding the Group and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding the Group and the Global Offering, including those in (i) the Sun, the Apple Daily, the HK Economics Times and the Oriental Daily, all dated November 23, 2010, (ii) the Ming Pao Daily News and the Headline Daily, all dated November 24, 2010, which included certain information about the Group that does not appear in this prospectus. We have not authorized the disclosure of any such information in the press or media and does not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any information appearing in any publication is inconsistent or conflicts with the information in this prospectus, we disclaim it. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Shares.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Cap. 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering. Details of the terms of the Global Offering are described in the section headed "Structure of the Global Offering" in this prospectus.

The Listing is sponsored by the Sole Sponsor.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date.

The Global Offering is managed by the Sole Global Coordinator.

For details of the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

Each person acquiring the Offer Shares will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any

jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Shares in issue, the Offer Shares, the Shares to be issued under the Capitalization Issue and any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan and any options to be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on or around December 14, 2010.

None of our Shares or loan capital are listed on or dealt in on any other exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(l) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our company by the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

OVER-ALLOCATION AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilization Manager and/or its affiliates and agents, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, being January 5, 2011. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilization Manager or its agent to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilization Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering, being January 5, 2011. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 99,300,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules (Cap. 571W of the laws of Hong Kong). Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for or agreeing to purchase the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase or subscribing for, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in our Shares should note that:

- the Stabilization Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilization Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilization Manager may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on January 5, 2011, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Joint Bookrunners may over-allocate up to and not more than an aggregate of 99,300,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Joint Bookrunners or its agent on behalf of the International Underwriters, or by making purchases in the secondary market at prices that do not exceed the Offer Price.

REGISTER OF MEMBERS AND STAMP DUTY

Our company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited. The company's principal register of members will be maintained by Maples Finance Limited in the Cayman Islands.

Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in HK$ and US$ have been translated, for the purpose of illustration only, into Renminbi, and vice versa, in this prospectus at the following rates:

HK$1	:	RMB0.8583
US$1	:	RMB6.6589
HK$7.7583	:	US$1

This is the PBOC rate prevailing on November 24, 2010, being the noon buying rate in the City of New York for cable transfer as certified for customs purposes by the Federal Reserve Bank of New York on November 24, 2010.

No representation is made that any amounts in RMB, US$ or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Zhang Ruilin	N2-3-2902, Xinghewanlang Garden Shijixinghe Road Chaoyang North Road Chaoyang District Beijing PRC	PRC
Mr. Zhao Jiangwei	Room 2102, Unit 2, Block 11, Donghuwan District Wangjinglize West Street Chaoyang District Beijing PRC	PRC
Mr. Forrest L. Dietrich	404 Hui Xin Apartments Hui Zhong Road Chaoyang District Beijing 100101 China	USA
Mr. Allen Mak	Flat F, 11th Floor Phase 1, Blessings Garden 95 Robinson Road, Mid-levels Hong Kong	Chinese
Non-executive Director		
Mr. Wang Sing	House No. 29 Lafite Avenue The Vineyard 23 Ngan Tam Mei Road Yuen Long Hong Kong	Chinese
Mr. Stephen Law (alternate to Mr. Wang Sing)	Flat C, 6/F, Block 1 Ronsdale Garden 25 Tai Hang Drive Hong Kong	British

Independent non-executive Directors

Mr. Mei Jianping	10 Landing Lane Princeton JCT NJ 08550 USA	USA
Mr. Jeffrey W. Miller	4455 Camp Bowie Blvd. Suite 114-PMB 2 Fort Worth TX 76107 USA	USA
Mr. Cai Rucheng	A5, No. 50, Cuiyuanxinqu Zibo Road, Dongying District Dongying City Shandong Province 257000 PRC	PRC

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Global Coordinator and Sole Sponsor

J.P. Morgan Securities (Asia Pacific) Limited
Level 28, Chater House
8 Connaught Road
Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

Hong Kong Public Offering:
J.P. Morgan Securities (Asia Pacific) Limited
Level 28, Chater House
8 Connaught Road
Central
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
62/F, International Commerce Centre
No. 1 Austin Road West
Kowloon
Hong Kong

International Offering:
J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
62/F, International Commerce Centre
No. 1 Austin Road West
Kowloon
Hong Kong

Reporting Accountants	PricewaterhouseCoopers *Certified Public Accountants* 22/F, Prince's Building Central Hong Kong
Legal advisers to our company	*As to Hong Kong law and United States law:* Latham & Watkins 41st Floor, One Exchange Square 8 Connaught Place Central Hong Kong *As to PRC law:* Zhong Lun Law Firm 36-37/F, SK Tower Jianguomenwai Avenue Beijing 100022 China *As to Cayman Islands law:* Maples and Calder 53rd Floor The Center 99 Queen's Road Central Hong Kong
Legal advisers to the Underwriters	*As to Hong Kong law and United States law:* Shearman & Sterling 12th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Central Hong Kong *As to PRC law:* Jingtian & Gongcheng 34/F, Tower 3 China Central Place 77 Jianguo Road Beijing China

Property Valuer	Jones Lang LaSalle Sallmanns Limited 17/F Dorset House Taikoo Place 979 King's Road Quarry Bay Hong Kong
Independent Technical Consultant	Ryder Scott 1100 Louisiana, Suite 3800 Houston, Texas 77002-5218 USA
Receiving Banker	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong

Registered Address	Maples Corporate Services Limited P.O. Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Headquarters	Suite 406, Block C Grand Place 5 Hui Zhong Road Chaoyang District Beijing 100101 China
Principal Place of Business in Hong Kong	Level 28, Three Pacific Place 1 Queen's Road East Hong Kong
Website Address	http://www.mienergy.com.cn/[1]
Joint Company Secretaries	Mr. Allen Mak (CA) Ms. Chu Man Yee (ACS, ACIS)
Authorized Representatives	Mr. Allen Mak Flat F, 11th Floor Phase 1, Blessings Garden 95 Robinson Road, Mid-levels Hong Kong Mr. Forrest Dietrich 404 Hui Xin Apartments Hui Zhong Road Chaoyang District Beijing 100101 China
Members of Audit Committee	Mr. Jeffrey Miller *(Chairman)* Mr. Mei Jianping Mr. Cai Rucheng
Members of Remuneration Committee	Mr. Mei Jianping *(Chairman)* Mr. Jeffrey Miller Mr. Cai Rucheng
Members of Nomination Committee	Mr. Mei Jianping *(Chairman)* Mr. Jeffrey Miller Mr. Cai Rucheng

Note:

(1) The information contained on the website of our company does not form part of this prospectus.

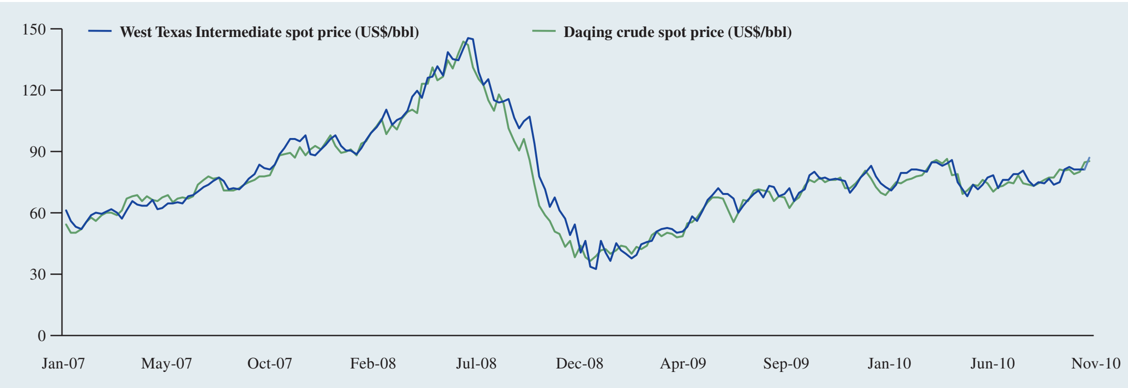
Compliance Adviser	Guotai Junan Capital Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Cayman Islands Principal Share Registrar and Transfer Agent	Maples Finance Limited P.O. Box 1093, Queengate House Grand Cayman KY1-1102 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal Bankers	CITIC Bank International Limited 9/F, Tower 1, Lippo Centre 89 Queensway Hong Kong
	China CITIC Bank Corporation Limited (Guangzhou) 48/F, CITIC Plaza 233 Tianhe Road North Guangzhou 510613 PRC

The information set forth in this section has been derived from various government and private publications.

We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Selling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or their respective directors or advisers or any other party involved in the Global Offering and no representation is given as to its accuracy or completeness.

OVERVIEW

Growing energy demand and robust oil prices are driving growth in the global oil and gas industry. Crude oil remains a core source of global energy demand, with oil consumption representing 34.8% of total global fuel consumption in 2009, according to the BP Statistical Review (June 2010). Global oil consumption has historically grown at a steady pace, representing a CAGR, of 1.1% from 1999 to 2009. Oil prices have fluctuated in recent years in response to global economic conditions, and on the back of improved macroeconomic conditions, West Texas Intermediate spot oil prices have recovered from the lows of US$31.41 per barrel in December 2008 to US$75.28 per barrel on June 30, 2010. This compares with a peak of US$145.29 per barrel reached on July 3, 2008. The chart below illustrates the West Texas Intermediate spot prices and Daqing crude spot prices from January 1, 2007 to November 12, 2010. Going forward, the oil and gas industry is expected to experience continued growth in order to meet growing demand for oil.



Source: Bloomberg

In particular, the global oil demand growth outlook is increasingly dependent on the economic growth in China. Rapid economic growth over the past three decades has generated significant growth in demand for oil in China. From 1999 to 2009, China's gross domestic product, or GDP, grew at a CAGR of 9.9%, and its industrial production grew at a CAGR of 13.8%, according to the Economist Intelligence Unit (the "EIU"). Over the same period, oil consumption grew at a CAGR of 6.8%. Robust economic growth in China is expected to continue to drive oil consumption, with the International Energy Agency (the "IEA"), estimating that oil consumption in China will grow at a CAGR of 3.2% during the period from 2009 to 2015, compared to a CAGR of only 0.8% globally.

In 2009, China consumed approximately 8.6 million barrels of oil per day, ranking after the United States as the second largest consumer of oil globally. However, oil consumption in China on a per capita basis still lags far behind that in OECD nations, indicating significant further growth potential for oil consumption in China. The table below sets forth an overview of energy consumption data for China and selected OECD nations in 2009.

	Primary Energy Consumption	Crude Oil Consumption	Per Capita Crude Oil Consumption
	(Million tons of equivalent)	(Thousands of barrels per day)	(Barrels per day per 1,000 people)
Canada	319	2,195	65.9
United States	2,182	18,686	61.5
Australia	119	941	43.9
Japan	464	4,396	34.4
United Kingdom	199	1,611	26.2
China	2,177	8,625	6.5

Source: BP Statistical Review (June 2010)

As consumption growth outpaces production growth, China's domestic oil production is increasingly insufficient to meet the demand for oil. Domestic oil production in China grew at a CAGR of 1.7% from 1999 to 2009, compared to a CAGR of 6.8% for oil consumption in the same period. China has been a net importer of oil since 1993 as domestic supply is insufficient to meet strong demand for oil, and oil imports grew rapidly at a CAGR of 14.4% from 1999 to 2009, according to the Energy Information Administration (the "EIA"). In 2009, the net importation of oil in China amounted to 4.0 million barrels per day, or 46.3% of the total oil consumption of 8.6 million barrels per day. In December 2009, China overtook the United States, for the first time, as the largest importer of Saudi Arabia's oil, exceeding 1 million barrels per day, according to the Financial Times. Imports will be increasingly critical to meeting China's domestic oil demand in the future. According to the Oil and Gas Journal, by 2030 imported oil may account for nearly 70% of the forecasted oil demand in China.

As a result, there is a strong impetus by the Chinese government to encourage both onshore and offshore oil production activities in China. In 2009, China's domestic crude oil production totaled 3.8 million barrels per day, ranking as the world's fifth largest producer. Governmental initiatives to stimulate domestic oil production are expected to drive growth of large National Oil Companies (the "NOCs"), as well as for independent oil companies operating in China, including foreign contractors. An indication of the level of investment and growth experienced in the oil and gas sector in China is the strong capital expenditure growth by China's three largest NOCs, namely PetroChina, Sinopec and CNOOC. The following table sets forth the capital expenditure on oil and gas exploration and production by these three NOCs for the periods indicated.

	2004	2005	2006	2007	2008	2009	CAGR (2004 to 2009)
	(RMB in millions)						
PetroChina	70,217	92,233	115,024	146,855	168,569	138,396	14.5%
Sinopec	21,234	23,095	35,198	54,498	57,646	51,550	19.4%
CNOOC	13,958	17,898	24,998	31,003	35,858	42,714	25.1%

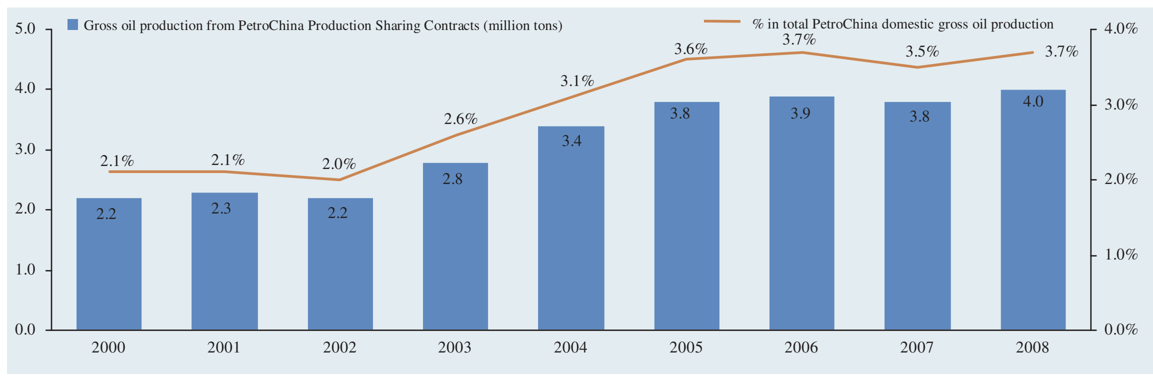
Source: Annual reports (Form 20-F) for PetroChina, Sinopec and CNOOC (2004-2009)

OVERVIEW OF THE PRC OIL AND GAS INDUSTRY

Industry Structure

China's oil and gas industry is dominated by the three NOCs. PetroChina is the largest among the three by proved reserves and net production. As of December 31, 2009, PetroChina has proved crude oil reserves in China of 11,263 million barrels, compared to 2,820 million barrels for Sinopec and 1,668 million barrels for CNOOC, based on their respective annual reports. In addition to these three NOCs, there are also other state-owned oil and gas companies, such as Shaanxi Yanchang Petroleum (Group) Co., Ltd.

There is increasing participation from independent oil companies in China's oil and gas industry, where major NOCs (namely PetroChina, Sinopec and CNOOC) and foreign independent oil and gas companies jointly develop certain oilfields in the upstream sector through the form of production sharing contracts. Only PetroChina and Sinopec can enter into production sharing contracts with foreign independent oil and gas companies for onshore oilfields in China. Historically, upstream cooperation with foreign oil and gas companies has been more prevalent in the offshore sector, which is characterized by the involvement of large foreign oil and gas companies, such as Husky and Anadarko, in partnership with CNOOC. Upstream cooperation in onshore China is also becoming increasingly active. However, this has been characterized generally by the involvement of smaller foreign oil and gas companies, and involves specific operating regions where these foreign participants are able to introduce advanced technologies and expertise, such as operating and developing low-permeability oilfields, which are categorized as more difficult marginal oilfields with low recovery rates and low reservoir pressure. In order to optimize production and extract commercial returns from low-permeability oilfields, it requires strong and international expertise in drilling and operating wells under low permeability conditions through the effective use of advanced technologies, such as water injection and multi-layer fracturing. Foreign participants who are able to best apply advanced technologies and streamline operating costs, and who have strong relationships with PetroChina and Sinopec, are best positioned to leverage on the trend of growing foreign participation in onshore China. The following chart demonstrates the growth in oil production from production sharing contracts with PetroChina, representing an increasing share of PetroChina's overall domestic gross production.



Source: China National Petroleum Corporation (CNPC) Yearbooks (2001-2009)

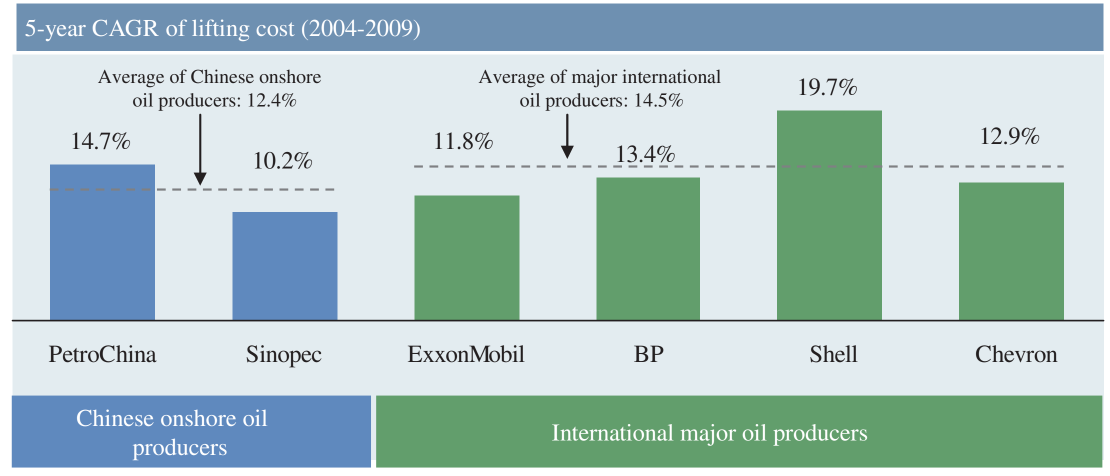
The NOCs remain primarily focused on production optimization of large and mature oilfields such as the Daqing oilfield complex for PetroChina and the Shengli oilfield complex for Sinopec, as well as major onshore and offshore discoveries. We believe there remains many smaller but significant oilfields that independent oil companies are well-positioned to develop in cooperation with the NOCs. Independent oil companies such as MIE, often characterized by their streamlined management structure and operating expertise in specific field conditions, are often best able to operate and extract commercial returns from these smaller oilfields. As a result, there are a number of independent oil companies operating onshore in China, including MIE, ROC Oil and Central Asia Oil, representing approximately 51% of the total gross

oil production under production sharing contracts with PetroChina in 2008. The other 12 smaller players, including Bright Oceans and Ivanhoe Energy, accounted for the remaining gross oil production. As disclosed in Sinopec Yearbook 2009, Sinopec had two production sharing contracts as at the end of 2008. The following table sets forth an overview of the largest independent oil companies by gross production, operating onshore oilfields in China under production sharing contracts with PetroChina, as listed in the China National Petroleum Corporation (CNPC) Yearbook 2009:

Company	Production Sharing Contract Area	Oilfield Complex	Gross Oil Production in 2008
			(Thousand tons)
ROC Oil	**Zhaodong**	**Dagang**	**1,040**
MIE	Daan	Jilin	595
	Moliqing	Jilin	114
	Miao3	Jilin	12
	Total MIE	**Jilin**	**721**
Central Asia Oil	Zhou13	Daqing	307
	Zhao413	Daqing	4
	Total Central Asia Oil	**Daqing**	**311**

Source: China National Petroleum Corporation (CNPC) Yearbook 2009

An important feature of the onshore oil and gas sector in China is the general availability of oilfield service providers and the related ability to control costs, making onshore operations in China a commercially attractive option for independent oil companies. From this perspective, operating onshore in China compares favorably to operating offshore in China as well as internationally. The average 5-year CAGR of lifting costs for PetroChina and Sinopec, the two largest onshore upstream producers in China, was 12.4% from 2004 to 2009. In contrast, four of the largest international oil companies, including ExxonMobil, BP, Shell and Chevron, experienced a average lifting cost increase of 14.5% over the same period. The following chart shows lifting cost growth at PetroChina, Sinopec, and four of the largest international oil companies globally.



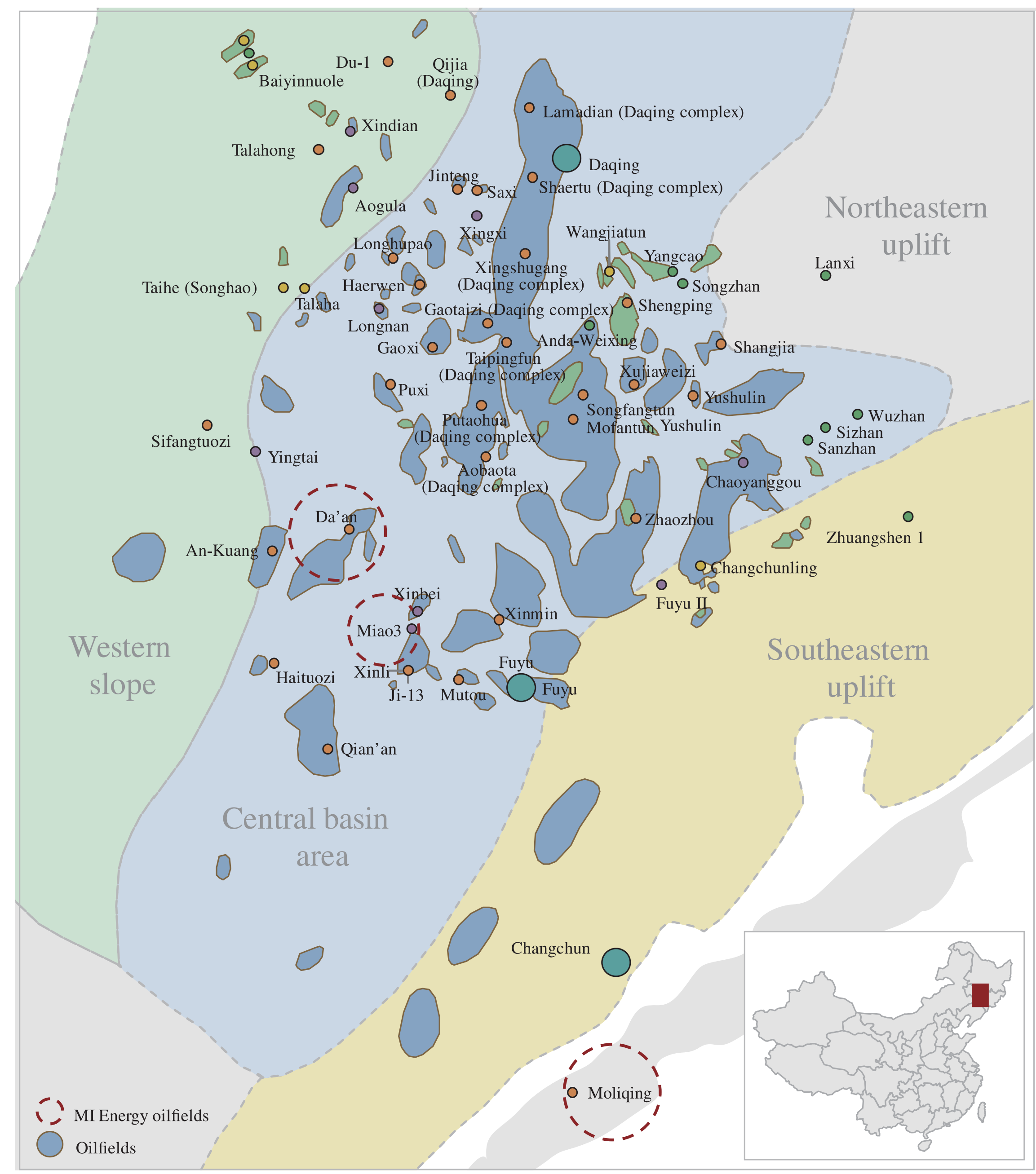
Source: Annual reports for PetroChina, Sinopec, ExxonMobil, BP, Shell and Chevron (2004-2009)

We believe certain oilfield operators in China with experience and expertise in developing low permeability and low pressure oilfields are well-positioned to grow given that oil reserves at low permeability oilfields represent 31% of China's overall oil reserves, as compared to 8% in the U.S. and world average level of 20%. According to the Ordos Basin Extra-low Permeability Oilfield Development publication, it is estimated that the reserve additions in low permeability oilfields as a percentage of total reserve additions in China increased from approximately 27% before 2000 to approximately 70% between 2001 and 2005. There are major low permeability oilfields across different regions in China, such as Daqing, Jilin, Changqing and Xinjiang oilfields.

Expansion of International Cooperation

The NOCs and other independent upstream oil producers in China are increasingly exploring overseas investment and acquisition opportunities. The PRC government encourages outbound investment by oil companies to secure strategic resources, particularly in the context of China's increasing reliance on imported oil. According to Dealogic, between January 1, 2005 and June 30, 2010, there were 56 announced cross-border acquisitions and investments involving Chinese oil and gas companies, with an aggregate transaction size of US$46.0 billion. The targeted geographic areas of China's outbound oil and gas investments are broad, spanning from Central and Southeast Asia to North America, Latin America and Africa. Oil companies operating in China are increasingly participating in overseas investment opportunities in various forms, including acquiring control of assets, forming joint ventures, participating as operators, or even acquiring minority non-operated interests.

OVERVIEW OF THE SONGLIAO BASIN



Source: U.S. Geological Survey

The Songliao Basin spans the Heilongjiang, Liaoning and Jilin Provinces in northeastern China covering an area of 64.2 million acres (260,000 square kilometers). It is one of the most important oil-producing regions in China, representing a significant share of crude oil reserves and production in onshore China. In 2007, onshore crude oil production at the Songliao Basin totaled 47.6 million tons, second only to the Bohai Bay Basin.

The main oilfields located in the Songliao Basin are the Daqing and Jilin oilfield complexes. Since its discovery in the 1950's, the Daqing oilfield complex has consistently experienced significant production levels and reserve additions to become China's most prolific onshore oil-producing region, where over 50 million tons of oil had been produced annually for 27 consecutive years since 1976. The table below contains the historical oil production and reserve additions by PetroChina at the Daqing and Jilin oilfield complexes located in the Songliao Basin, demonstrating the prolific and long life nature of these oilfields.

	Production from Daqing complex	**Reserve additions from Daqing complex**	**Production from Jilin complex**	**Reserve additions from Jilin complex**
		(Million tons)		
2000	53.0	65.6	3.8	33.5
2001	51.5	66.1	4.0	61.7
2002	50.1	52.8	4.4	50.2
2003	48.4	67.3	4.8	43.0
2004	46.4	104.1	5.1	51.2
2005	45.0	over 100.0	5.5	51.3
2006	43.4	over 100.0	5.9	54.9
2007	41.7	over 100.0	6.2	55.5
2008	40.2	over 100.0	6.6	54.0

Source: China National Petroleum Corporation (CNPC) Yearbook (2001-2009)

As a result of the long history of production and development at the Songliao Basin, oil industry-related services and infrastructure are readily available in this region. Many of the oilfield services companies are subsidiaries of PetroChina, which offer services such as oil and gas exploration and development, engineering services, facility manufacturing, chemical engineering, operation sustenance, field services and others.

There are also extensive established pipelines, refineries and other storage infrastructure in place in the Songliao Basin, facilitating the development of oilfields in the region. PetroChina plans to expand its domestic network of oil and gas pipelines with a total investment of RMB100 billion over the next five years, and plans to expand the crude oil storage capacity to 9.4 million barrels by 2010 at the Daqing oilfield complex. The extensive pipeline network, storage facilities, and large-scale refineries in the region provide important points of sale and price benchmarks for crude oil produced in the Songliao Basin. The following map shows the oil and gas infrastructure network that connects major refineries across China, including the Songliao Basin.

Source: PetroChina 2009 Interim Results Presentation; CNPC and Sinopec corporate websites

Many oilfields in the Songliao Basin can be characterized by low reservoir pressure and permeability, as well as relatively low production levels and recovery rates. For example, approximately 73% of oil reserves in the Jilin complex are categorized as low permeability oilfields. As a result, there is an emphasis on the specific application of best-available technologies and local knowledge in order to optimize production and commercial returns, providing a strong base in terms of technology application and international expertise in oilfield development in this region. According to the Songliao Basin presentation by PetroChina, some of the advanced technologies already in use at the Songliao Basin include seismic imaging, wireline logging, advanced drilling and stimulation. These technologies help improve depth imaging, volcanic reservoir prediction and economic drilling.

The level of oil production activities at the Songliao Basin is expected to remain strong. In November 2008, PetroChina announced substantial work plans at the Daqing oilfield complex, where the production level is expected to remain over 40 million tons per year until 2020. PetroChina believes it can extract a further 7 billion barrels of oil from the Daqing oilfield complex through the use of advanced technologies to extend the life of the oilfield. Conventional technologies provide access to only 20% of oil-bearing layers in this area. There are various enhanced oil recovery methods that are being tested and implemented at the Daqing oilfield complex, including waterflooding, alkaline-surfactant-polymer flooding and polymer flooding. In November 2008, PetroChina outlined the use of polymer flooding and other technologies in reservoir engineering, recovery process and surface engineering at the Daqing oilfield complex to improve recovery rates. This again is an indication of the strong technology expertise available locally, and industry best practices being applied to optimize the development of onshore fields in the Songliao Basin.

FISCAL REGIME AND REGULATORY FRAMEWORK

Overview

The Chinese government has enacted legislation and implemented policies to support continued foreign participation in the domestic oil and gas industry. The Rules on the PRC Sino-Foreign Cooperative Exploitation of Onshore Petroleum Resources, or the Petroleum Regulations, are the primary regulations that govern the exploration and development activities of foreign oil companies operating onshore in China.

Background of Production Sharing Contracts

In countries with large or potentially large oil and gas deposits, the resource and its extraction tend to become vital cornerstones of the economy. However, uncertainties involved in finding commercial quantities of oil and gas and the intensive capital required for undertaking exploration and production result in significant business risks. Considerable time may elapse between investment in the mineral industry and the realisation of profits. Investment is therefore long-term. The government may find it difficult to gain access to risk capital and may be unwilling to take the business risks. It may also lack the expertise needed for resource exploration and development. The petroleum fiscal systems in many developing countries are opting for production-sharing contracts as a model of agreement for the exploration and production of oil and gas resources. To avoid these uncertainties and asymmetric information, the principal (i.e. the national oil company) needs to design an incentive contract that induces the agent (i.e. the foreign oil company) to undertake actions that will maximise the principal's welfare. Under a production sharing contract, the state has to offer contract terms that are attractive enough for the foreign oil company to enter into an agreement. At the same time, the terms must allow the state to receive maximum economic returns from the venture.

Production sharing contracts are among the most common types of contractual arrangements for petroleum exploration and development. Under a production sharing contract the state as the owner of mineral resources engages a foreign oil company as a contractor to provide technical and financial services for exploration and development operations. The state is traditionally represented by the government or one of its agencies such as the national oil company. The foreign oil company acquires an entitlement to a stipulated share of the oil produced as a reward for the risk taken and services rendered. The state remains the owner of un-produced minerals, but the state and contractor share in the ownership of the minerals as they are produced.

The government or its national oil company usually has the option to participate in different aspects of the exploration and development process. In addition, production sharing contracts frequently provide for the establishment of a joint committee where both parties are represented and which monitors the operations.

Production sharing contracts also address the important issue of ownership of oil reserves which has made this contract form politically acceptable in most developing countries.

The production sharing contract is attractive to foreign firms because they own the reserves after they are produced. The rationale is that the company is entitled to produce for a long period of time, in many cases for as long as the field is alive. During this time it can book the reserves because of long term entitlement to share in the reserves as they are produced.

Production sharing contracts do not divide profits out of market proceeds but instead divide the physical production after allowing a portion of output to be retained by the foreign oil company for the recovery of pre-production and production costs. This means that costs can only be recovered once oil is produced.

Production Sharing Contracts in China

Many foreign companies have had successful participation in China's oil and gas industry under production sharing contracts. Since the 1990's, the Chinese government has encouraged foreign participation in the oil and gas industry, particularly with a focus on low-permeability oilfields in the Songliao Basin and other areas that PetroChina did not find it commercially feasible to develop. Under the Foreign Investment Industry Guidance Catalog issued in 2007 by MOFCOM that divides industries into those that are prohibited, restricted, permitted and encouraged, the development of low-permeability oil fields is classified as an encouraged industry where foreign participation is welcomed. Foreign participants have introduced new technologies and expertise in operating low-permeability oilfields to China's oil and gas industry. They have also helped improve industry standards in terms of increasing efficiency and streamlining management, as well as provided personnel training and working team development.

Between 2000 and 2008, according to the CNPC Yearbooks, CNPC entered into 15 new production sharing contracts with foreign contractors. By the end of 2008, CNPC had a total of 23 operating production sharing contracts. We believe that independent oil development production operations under the production sharing contract arrangement are becoming increasingly important to the oil and gas sector in onshore China.

As part of this industry development, there has also been increased acquisitions and merger activities by independent oil and gas companies relating to onshore production sharing contracts. For example, in January 2009, China Era Energy, which entered into a production sharing contract with CNPC to develop the North Kashi Block in the Tarim Basin, was acquired by the China Energy Development, a company listed in Hong Kong. We believe that this trend towards increasing market activity will continue to facilitate the development of independent oil companies operating onshore in China.

In China, production sharing contracts are generally entered into through bilateral negotiation instead of competitive bidding. Onshore production sharing contracts in China are structured on the basis of a royalty-based regime, which we believe provides attractive commercial terms when compared to those in many other countries. In China, royalties are calculated based on annual gross production and are payable in kind by installments to PRC tax authorities.

In addition, the enforceability of onshore production sharing contracts in China has remained strong since these contracts are governed under the Petroleum Regulations and usually receive direct approval from the MOFCOM and other central government agencies.

In 1995, the Interim Regulation on the Payment of Mining Royalty of the Sino-Foreign Cooperative Exploitation of Onshore Petroleum was amended to raise the minimum amount of annual production under which enterprises are exempt from royalties from 50,000 tons to 500,000 tons or 1,000,000 tons, as an added incentive for foreign cooperation in oil exploitation.

Since 2006, the drafting of the new energy law in China has been commissioned and is scheduled to be enacted by the end of 2010. According to the draft new energy law, the concept of "diversified investment structure in the energy sector" (能源領域實行多元化投資產權制度) will be explicitly set forth, and the energy industry will be more open to foreign capital and investment from non state-owned entities. We believe it will allow greater participation by independent oil producers in the upstream oil and gas industry in China, and MIE will benefit from such policy.

This section sets forth a summary of the most significant laws and regulations that affect our business in China and the industry in which we operate in. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

REGULATORY FRAMEWORK FOR SINO-FOREIGN COOPERATION IN THE EXPLOITATION OF ONSHORE PETROLEUM RESOURCES

The PRC Constitution and the Mineral Resources Law provide that all mineral and oil resources in the territory of the People's Republic of China belong to the state. Therefore, China's oil and gas industry is subject to extensive government regulation. In 1993, the State Council promulgated the Rules on the PRC Sino-Foreign Cooperative Exploitation of Onshore Petroleum Resources (amended in 2001 and 2007), or the Petroleum Regulations, to regulate onshore crude oil and natural gas exploration and production in China by foreign entities.

Under the Petroleum Regulations, foreign companies may conduct onshore oil and gas exploration, development and production only in areas approved by the State Council. Foreign enterprises must enter Sino-foreign cooperation projects with either CNPC or Sinopec in order to conduct onshore exploitation of petroleum resources in the areas approved by the State Council. CNPC and Sinopec have the exclusive right to negotiate, sign and execute production sharing contracts with foreign enterprises. Production sharing contracts provide foreign enterprises with exclusive rights, subject to supervision by CNPC or Sinopec, to explore oil in a defined cooperative block approved by the State Council. These contracts also regulate the exploration, development, and production processes of the cooperative exploitation. All production sharing contracts are subject to the approval of the MOFCOM.

The Petroleum Regulations in conjunction with the Plan on Reform of State Council Organs, approved by the National People's Congress in 2008, provide that the NEB, established under the administration of the NDRC, is responsible for dividing and assigning cooperative blocks for Sino-foreign cooperation projects based on the areas approved by the State Council, determining the forms of cooperation, organizing the formulation of relevant plans and policies, and reviewing and approving the overall development plans for the oil or gas fields submitted by the foreign contractors.

Investment Protection for Foreign Contractors

The Petroleum Regulations protect the cooperative exploitation activities, investments, profits and lawful interests of foreign contractors in order to promote Sino-foreign cooperation projects for the exploitation of onshore petroleum resources. Under PRC law, the state cannot lawfully expropriate the investments and incomes of foreign contractors except when required by public policy. Under these special circumstances, the state may expropriate a part or all of the oil receivable by foreign contractors from the cooperative exploitation for adequate compensation and in accordance with legal procedures.

Production Sharing Contracts

Foreign enterprises must cooperate with CNPC or Sinopec in order to conduct exploitation of onshore oil and gas resources in China. Foreign enterprises generally enter into these cooperative relationships by means of a bidding process or bilateral negotiations with CNPC or Sinopec. The foreign entity and its cooperative Chinese petroleum company must set out the terms of their cooperation and the cooperative project in a production sharing contract. Under the production sharing contract, CNPC or Sinopec, on behalf of the state, grants the foreign enterprise exclusive rights, subject to supervision by CNPC or Sinopec, to explore oil in a defined cooperative block within the areas approved by the State Council. The NDRC, or a department designated by the State Council, may periodically adjust the pre-defined cooperative block, subject to the conditions of the production sharing contract. All production sharing contracts are subject to MOFCOM's approval. Foreign contractors and its cooperative Chinese petroleum company may also enter into other cooperative contracts relating to the exploitation of onshore oil resources in the approved cooperative blocks. These contracts must be filed with the MOFCOM.

Under the current PRC law, PetroChina, a subsidiary of CNPC, does not have the right to negotiate and execute production sharing contracts directly with foreign oil and gas companies. However, CNPC may assign its commercial and operational rights and obligations under a production sharing contract to PetroChina, subject to the approval of MOFCOM.

Development Plans and Operatorship of Petroleum Fields

Under the Petroleum Regulations, the operator is responsible for formulating the overall development plans for the oil and gas fields assigned under the production sharing contract. The overall development plans should discuss the economical, environmental, geological, geophysical, legal and technological aspects of the proposed development. All overall development plans are subject to NDRC or NEB's approval.

Unless otherwise provided in PRC law or the production sharing contract, the foreign contractor is solely responsible for implementing the overall development plans until the cooperative Chinese petroleum company takes over the operation. The foreign contractor must provide the full investment for prospecting the cooperative block and is solely responsible for the prospecting operations and all related risks. If the foreign contractor discovers an oil or gas field of commercial exploitation value, the cooperative Chinese petroleum company shall then jointly invest in the cooperative development of the field with the foreign contractor. As provided in the production sharing contract, the foreign contractor will remain solely responsible for the development and production operations of the cooperative block until the cooperative Chinese petroleum company takes over the operation of the oil or gas field, as agreed in the production sharing contract. Production sharing contracts typically provide that the cooperative Chinese petroleum company may replace the foreign contractor as the operator of the cooperative project once the foreign contractor has fully recovered its developmental costs. The investments of foreign contractors shall be in U.S. dollars or other freely convertible currencies.

Sale of Petroleum Production and Compensation of Foreign Contractors

In accordance with the production sharing contract, the foreign contractor may recover its expenses and investments in the cooperative block and may be entitled to returns from the cooperative petroleum production. The foreign contractor may send its recovered investment, profits, and other lawful income abroad in accordance with PRC law and the production sharing contract. The foreign contractor may also ship abroad its petroleum receivable or any purchased petroleum, in accordance with PRC law. If the foreign contractor wants to sell its petroleum receivable within the PRC, the sale will generally be made either to CNPC or Sinopec or be made in a manner mutually agreed upon by the foreign contractor and CNPC or Sinopec, as long as such sale is in accordance with state laws governing the sale of petroleum products in the PRC.

Ownership of Data and Assets

In accordance with the Petroleum Regulations and the terms of the production sharing contracts, foreign contractors are required to timely and accurately report the status of their cooperative petroleum operations to the cooperative Chinese petroleum company. The foreign contractor must obtain and submit data, records, samples, evidence and other similar original materials from its petroleum operations to the cooperative Chinese petroleum company. The foreign contractor must also submit technological, economic, administrative, financial and accounting reports to the cooperative Chinese petroleum company. The ownership of all data, evidence, reports, and other information belongs to the cooperative Chinese petroleum company. Any use, transfer, donation, exchange, sale, publication, or shipment of such data, records, samples, evidence, reports, or other original materials submitted by the foreign contractor must be conducted in accordance with PRC laws.

All assets purchased and created by foreign contractors pursuant to their performance of a production sharing contract, except for equipment leased from a third party, shall vest in the cooperative Chinese petroleum company once the foreign contractor has been fully compensated in accordance with the terms of the production sharing contract or upon the expiration of the production period for the cooperative oil or gas fields. During the term of the contract, use of the assets by the foreign contractor is governed by the terms of the production sharing contract.

Foreign Exchange Issues Relating to Implementing the Production Sharing Contracts

Capital account items, such as direct equity investments, loans, and repatriation of investments, require prior approval from SAFE, or its local counterpart for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Currently, PRC laws and regulations do not provide clear criteria for obtaining SAFE approval. Generally speaking, SAFE and its local branches have broad discretion on the issuance of approval. On August 10, 2006, SAFE issued Reply No. 222 on the topic of the Settlement and Surrender of Foreign Exchange for the CNPC relating to the Exploitation of Onshore Oil Resources in Cooperation with Foreign Parties to provide further guidance regarding obtaining SAFE approvals. Reply No. 222 states that foreign contractors may apply to SAFE or its local branches for approval of a foreign exchange settlement plan by providing required and valid documentation; upon receiving approval from SAFE, foreign contractors may then apply for foreign exchange settlements with an Authorized Financial Institution.

LAND REMEDIATION

The Mineral Resources Law and its supplementary regulations govern the exploring and mining of mineral resources within the PRC. These laws also regulate the process of closing down mines to promote land recovery and environmental protection. In order to close down a mine, the mine operator must develop and submit a geological report and an application to the relevant governmental authorities one year prior to the proposed closing-down date. Upon receiving approval of the closure report, the mine operator must either take land remediation actions to promote soil conservancy, land recovery and environmental protection of the mined area or pay the full cost for land remediation. After remediation of the mined area is complete, the mine operator can apply for a revocation of its mining license to the original licensing authorities upon presentation of evidence of completed land remediation. Under the terms of the production sharing contracts, the operator of the cooperative block shall level, restore or reclaim the exploitation sites upon completion of petroleum production in accordance with the Mineral Resources Law and relevant local rules and regulations.

EXPLORATION LICENSES AND PRODUCTION LICENSES

The Mineral Resources Law authorizes the Ministry of Land and Resources to exercise administrative authority over the exploration and production of mineral resources within the PRC, including the authority to issue exploration and production licenses. Applicants for exploration and production licenses must be approved by the State Council as companies which may engage in oil and gas exploration and production activities in the PRC.

In order to receive a license to explore a specified block of land, applicants for exploration licenses must register their intended exploration blocks with the Ministry of Land and Resources. Holders of exploration licenses are required to make progressively increasing annual minimum exploration investments in their registered exploration blocks. The required minimum investment in an exploration block is RMB2,000 per square kilometer for the first year of exploration, RMB5,000 per square kilometer for the second year, and RMB10,000 per square kilometer for subsequent years. Additionally, each license holder has to pay an annual exploration license fee that starts at RMB100 per square kilometer for each of the first three years of exploration and increases by an additional RMB100 per square kilometer each subsequent year up to

a maximum of RMB500 per square kilometer. The maximum term of an oil and natural gas exploration license is seven years, but the license holder may renew the license twice, each time for a two-year term, upon the expiration of the previous term. At the exploration stage, an applicant may also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proven.

Once the exploration license holder has detected and confirmed the quantity of reserves in its block of land, the holder must in a timely manner submit reserve reports to the relevant authorities for approval and apply for a production license. The Ministry of Land and Resources grants production licenses to applicants based on their approved reserve reports, which present economic evaluations of the reserves, market conditions, and plans for development of the land. Production license holders must pay an annual production right usage fee of RMB1,000 per square kilometer. Administrative rules issued by the State Council provide that the maximum term for a production license is 30 years. With special approval from the State Council, the Ministry of Land and Resources can issue production licenses for terms that are coextensive with the productive life of assessed proved reserves as projected in the reserve reports. Generally, the holders of a full production license must also obtain a land use rights certificate for industrial land use in order to use a block of land for development and production of mineral resources.

SUPERVISION AND ADMINISTRATION OVER BRANCHES OF FOREIGN COMPANIES

Under the PRC Company Law, in order for a foreign company to establish a local branch in the PRC, the foreign company must submit an application to the relevant authorities in the PRC for the establishment of such local branch and provide the required documentation, for example, articles of incorporation and the company's registration certificate issued by the jurisdiction in which the foreign company was established. Once the application is approved, the foreign company shall register with the applicable branch of the state administration for industry and commerce and obtain a business license. The foreign company will be fully liable for the business operations of its local branches in China as PRC law does not recognize the local branch of a foreign company as a distinct legal entity.

LABOR LAWS AND SOCIAL INSURANCE

The major sources of labor laws and regulations in the PRC include the PRC Labor Law, the PRC Labor Contract Law, the Implementation Regulations of the PRC Labor Contract Law, the Regulations of Insurance for Work-related Injury, the Interim Provisions on Registration of Social Insurance and the Interim Regulations on the Collection and Payment of Social Insurance Premiums.

Pursuant to the PRC Labor Law and the PRC Labor Contract Law, employers must execute written labor contracts with employees in order to establish an employment relationship. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with a relevant training of workplace safety. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative liabilities. Criminal liability may arise for serious violations.

Foreign enterprises in China are entitled to hire employees through labor dispatch enterprises, such as FESCO, which are authorized to enter into employment contracts with local employees and dispatch employees to foreign enterprises. Labor dispatch enterprises and foreign enterprises have certain responsibilities to employees according to the PRC laws and dispatching agreements they entered into.

As required under the Regulation of Insurance for Labor Injury, Provisional Insurance Measures for Maternity of Employees, Interim Regulation on the Collection and Payment of Social Insurance Premiums and Interim Provisions on Registration of Social Insurance, employers in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

PRODUCTION SAFETY

The PRC Production Safety Law and its implementation rules provide stringent production safety requirements for mining operations, including: (i) mining entities shall establish an administrative organ for production safety or have full-time personnel for the administration of production safety; (ii) these persons in charge of production safety must have passed production safety examinations; (iii) safety appraisals shall be made for mining construction projects according to the relevant regulations; (iv) the safety facility designs of the mining construction projects shall be subject to the examination and approval of the relevant departments according to the relevant regulations; (v) safety facilities shall be constructed according to the approved safety facility designs and the mining entities shall be responsible for the quality of these constructions; (vi) after a mining construction project is completed, but before it is put into production or use, the safety facilities constructed for the project shall be subject to review and approval according to the relevant laws and administrative regulations; and (vii) mining entities shall establish emergency rescue organizations. If a production or business operation is small in scale, it may designate part-time emergency rescue persons instead of establishing an emergency rescue organization. The mining entities shall always be equipped with regularly serviced and maintained rescue and emergency equipment.

According to the PRC Safety Production Permit Regulation and the implementation rules for non-coal mining enterprises, a mining enterprise shall obtain a safety production license for its operation. According to the Temporary Regulation for Safety Expense Financial Management of High Risk Industries, enterprises engaged in high-risk industries must set aside funds as a safety fee. For a mineral enterprise which produces petroleum, a safety fee equal to RMB17 per ton of crude oil produced must be set aside monthly. If the balance in the safety fee account for the previous year amounts to 5% for small or medium-sized enterprises, or 2% for large enterprises, of sales revenue for the previous year or more, such an enterprise may defer contributions to the safety fee or reduce the amount set aside in the current year, subject to approval by relevant government authorities. Local regulations that set more stringent requirements than the national-level regulations for safety fees may also apply. According to the local regulations applicable in Jilin Province, the safety fees set aside by non-coal mineral enterprises must be no less than 2% of annual sales revenue.

ENVIRONMENTAL PROTECTION

China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials.

According to the Environmental Protection Law of the PRC, The Law of the PRC on Appraising Environmental Impacts, the Law of the PRC on Appraising Environmental Impacts, Measures for Environmental Protection Check and Acceptance of Completed Construction Projects, a company is required to register or file an environmental impact report with the relevant environmental bureau for approval before it undertakes any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau finds that the facility has installed sufficient environmental equipment to meet its environmental protection requirements. A company that wishes to discharge pollutants, whether it is in the form of emission, water or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. After reviewing the pollutant discharge declaration, the relevant environmental bureau will determine the amount of discharge permitted under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If a company discharges more than what is permitted in the pollutant discharge license, the relevant environmental bureau can fine the company up to several times the discharge fees payable by the offending company for its allowable discharge, or require the offending company to close its operation to remedy the problem.

SUPERVISION AND ADMINISTRATION OVER THE USE OF LAND

All land in the PRC is either state-owned or collectively owned by local residents, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned by local residents.

In April 1988, the PRC Constitution, or the Constitution, was amended by the National People's Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law was amended to permit the transfer of land use rights for value. In accordance with the Land Administration Law amended in 2004, a construction unit may obtain state-owned land use rights through grant or by other means with consideration. But the following land may be obtained through governmental allocation with the approval of the people's government at and above the county level according to law: (i) land for use by government organs and for military use; (ii) land for building urban infrastructure and for public welfare undertakings; (iii) land for building energy, communications and water conservancy and other infrastructure projects supported by the state; and (iv) other land as provided for by the law and administrative decrees.

Under the Interim Regulation of the People's Republic of China Concerning Granting and Transferring of State-Owned Land Use Rights in Urban Areas, or the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state cannot resume possession of land use rights lawfully obtained by the land user prior to expiration of the term of grant, unless public interest requires the reclamation of land by the state, at which time the state will provide just compensation for the land. A land user may lawfully assign, mortgage or lease its granted land use rights to a third party for the remainder of the term of grant. Under the Urban Land Regulations, there are different maximum periods of grant for different uses of land: 70 years for residential purposes; 40 years for commercial, tourism and entertainment purposes; 50 years for industrial, public utilities, comprehensive or other purposes.

On March 16, 2007, the National People's Congress promulgated the Real Properties Rights Law of China effective from October 1, 2007, which stipulates that the construction land use rights may be created through grant or allocation. For land used for industrial, business, entertainment or commercial residential purposes, the construction land use rights must be granted by means of public tender, auction or listing-for-sale. According to the Reply regarding Construction Land Used for Drilling and Auxiliary Facilities for Petroleum and Natural Gas Industry, a petroleum enterprise may apply for land use rights at land administrative departments at the county level. Pursuant to the Articles 47 and 57 of Land Administration Law of the PRC, a petroleum enterprise applying for land use rights shall execute contracts for the use of the land with the proper land administrative departments or rural collective organizations or villagers committees, depending on the ownership of the land, and pay land compensation fees for the use of the land.

SUPERVISION AND ADMINISTRATION OVER FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Foreign Currency Administration Rules (promulgated and amended on August 5, 2008) and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange. Under the above-referenced rules, for current account items such as trade and service-related foreign exchange transactions, entities or individuals inside the PRC can either retain their foreign exchange income or sell it to financial institutions engaged in the business of foreign exchange settlements and sales; additionally, they can make foreign exchange payments with their own foreign exchange or with foreign exchange purchased from an authorized financial institution. Capital account items, such as direct equity investments, loans, and repatriation of investments, require prior approval from SAFE or its local counterpart for conversion of Renminbi into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

The PBOC, publishes the Renminbi exchange rate against other major currencies. The PBOC rate is set by reference to the previous day Renminbi trading price on the inter-bank foreign exchange market compared to the trading prices of other major currencies. When conducting foreign exchange transactions, the authorized financial institutions may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Persons Resident in the PRC Through Offshore Special Purpose Vehicles

Domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority. Domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle or who have raised funds offshore after such contribution must conduct foreign exchange registration or filing for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority. Domestic residents who are the shareholder of an offshore special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no reverse investment is involved.

TAXES AND LEVIES IN THE PETROLEUM INDUSTRY

Royalty

According to the Interim Regulation on the Payment of Mining Royalty for the Sino-Foreign Cooperative Exploitation of Onshore Petroleum, Sino-foreign enterprises that are involved in the exploitation of onshore petroleum resources are required to pay a royalty that is calculated and charged based on the total crude oil or natural gas output of each petroleum field for each calendar year and the mining area usage fee rate. Chinese tax authorities administer and collect the royalty fee. The China Petroleum Development Company serves as the payment agent for the royalty fee. The withholding agent and payment agent must make the royalty payment within the time limit prescribed by the tax authorities. Otherwise, the tax authorities shall impose a late payment penalty of 1:1000 per day in the amount of the royalties in arrears, commencing on the first day the payment becomes overdue.

Operators of an oil field must also provide tax authorities with production data and other information relating to the oil field, as required, within 10 days of the end of each quarter. The tax authorities may, in their discretion, impose a penalty not greater than RMB5,000 on any oil field operator who fails to timely submit such production data and other required information. Additionally, the relevant PRC tax authorities may impose a penalty on any operator who submits false data in an amount no greater than five times the actual royalty payable.

Special Levy

According to the State Council's Decision to Impose a Special Oil Gain Levy and Measures for the Administration of the Collection of Special Petroleum Proceeds, enterprises that independently exploit and sell crude oil from fields within areas owned by the PRC and enterprises that exploit and sell crude oil in the form of equity or contractual joint ventures from fields in areas owned by the PRC shall pay special petroleum proceeds. These special petroleum proceeds constitute non-tax revenues for the central government's treasury and shall be incorporated into the budgetary management of the central government's treasury.

The Ministry of Finance shall be responsible for the administration and collection of the special petroleum proceeds. PetroChina, Sinopec and CNOOC shall pay the special petroleum proceeds to the Ministry of Finance. Local oil companies shall pay the special petroleum proceeds to the local financial supervision commissioners' offices under the administration of the Ministry of Finance. Any Chinese petroleum company party to a Sino-foreign petroleum joint venture must withhold an amount equal to their special petroleum proceeds payable for the benefit of the joint venture.

The special petroleum proceeds are paid or payable on the portion of income realized by any petroleum exploitation companies from the sale of domestic crude oil at prices higher than US$40 per barrel. The levy is calculated and charged at progressive ad valorem rates for five grades, ranging from 20% to 40% according to the price of crude oil.

The special petroleum proceeds will be calculated on the basis of the monthly weighted average price of the crude oil sold by the oil company.

If a petroleum enterprise fails to pay the special petroleum proceeds in a timely manner, the tax authority shall impose a late payment penalty on the enterprise in the amount of 0.05% of the special petroleum proceeds in arrears per day, commencing from the first day on which the payment becomes overdue. The tax authorities shall not, at their discretion, exempt petroleum enterprises from paying the special petroleum proceeds or reduce the amount of such proceeds payable.

The Supplemental Notice Regarding the Relevant Issues of Collection of Special Petroleum Proceeds by the Ministry of Finance further provides that each party to a Sino-foreign cooperative project for the exploitation of onshore petroleum is required to pay the petroleum special proceeds. The payment for each party shall be calculated and charged based on the allocation price periodically determined by the parties.

Value Added Tax

Under the Provisional Regulations of the PRC Concerning Value Added Tax, a value-added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. Furthermore, pursuant to the Notice of the State Council on Relevant Problems Concerning the Application of the Provisional Regulations on Value Added Tax, Consumption Tax, Business Tax to Enterprises With Foreign Investment and Foreign Enterprises and the Notice of State Administration of Taxation on the Relevant Issues Concerning Payment of Value-Added Tax in Connection with Sino-Foreign Cooperative Exploitation of Petroleum Resources, a value added tax shall be levied in kind at rate of 5.0% on all crude oil and natural gas exploited from Sino-foreign cooperation oil and gas fields.

PROVISIONS ON THE TAKEOVER OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

As advised by our PRC legal counsel, Zhong Lun Law Firm, Article 2 of the Takeover of Domestic Enterprises by Foreign Investors applies in the following circumstances:

(a) a foreign investor purchases the stock right of a shareholder of a domestic company or engages in capital increase of a domestic company so as to convert and re-establish a domestic company into a foreign-invested enterprise; or

(b) a foreign investor establishes a foreign-invested enterprise and purchases and operates the assets of a domestic enterprise by the agreement of that enterprise, or, a foreign investor purchases the assets of a domestic enterprise by agreement and uses this asset investment to establish a foreign-invested enterprise and operate the assets.

As we did not merge with any domestic company or purchase any assets from a domestic enterprise to establish a foreign-invested enterprise, and we only established a branch in the PRC, Zhong Lun Law Firm confirms that such regulation does not apply to us.

AMENDMENT REGISTRATION UNDER THE SAFE NOTICE NO. 75

In respect of the establishment of FEEL and MIE, Mr. Zhao, Mr. Zhang and Mr. Shang have completed the relevant registration procedures with the SAFE Jilin Provincial Branch pursuant to the SAFE Notice No. 75. However, the SAFE Jilin Provincial Branch has refused their application for amendment of the registration in respect of TPG's investment in MIE and the establishment of our company, as it considered the offshore reorganization of MIE to be outside the scope of the SAFE Notice No. 75.

As advised by our PRC legal counsel, Zhong Lun Law Firm, the SAFE Notice No. 75 does not specify whether PRC resident shareholders of an offshore company that has not established onshore entities in the PRC are required to register under the SAFE Notice No. 75. To eliminate any uncertainty, our Group has nevertheless applied for and validly completed the registration with SAFE Jilin Provincial Branch in 2008. As mentioned above, our Group applied to amend the registration to reflect the offshore reorganization. However, SAFE Jilin Provincial Branch refused to accept the amendment on the basis that there is no onshore entity within our Group and therefore SAFE Jilin Provincial Branch would not be able to complete the requisite form for the amendment registration and thus not be able to process the amendment application. As such, our PRC legal counsel is of the view that we shall not be subject to any penalties or fines for the failure to amend the registration under the SAFE Notice No. 75 given that efforts have been made by our Group to make the amendment application and the failure to amend the registration was not caused by us. Based on the advice from our PRC legal counsel, our Directors are of the view that we should not be subject to any penalties or fines for the failure to amend the registration under the SAFE Notice No. 75.

Further, as advised by our PRC legal counsel, in the absence of such amendment registration under the SAFE Notice No. 75, SAFE may impose restrictions on an onshore entity from remitting any profits, dividends, liquidation proceeds, equity transfer proceeds and excess capital after capital reduction outside the PRC. However, since we are entitled to receive our revenues from oil sales outside the PRC, such restrictions will therefore have no impact on us. In addition, our PRC legal counsel is of the view that given that SAFE Jilin Provincial Branch is the competent authority to handle the amendment application and it refused to review the application based on the technical reason that there is no onshore entity within our Group to complete the amendment registration form, the risk of our Group being challenged by the PRC government for non-compliance is remote. Based on the advice from our PRC legal counsel, our Directors are of the view that the risk of our Group being challenged by the PRC government for non-compliance is remote.

HISTORY

On December 16, 1997, GOC, an Independent Third Party, and CNPC entered into the original production sharing contracts in relation to the Daan and Miao 3 oilfields. GOC is an investment holding company incorporated in the Bahamas owned by a number of Australian shareholders, some of whom have experience in the oil industry, and its only oil/gas asset is its interest in the three production sharing contracts. On September 25, 1998, GOC and CNPC entered into the original production sharing contract in relation to the Moliqing oilfield. Pursuant to an assignment agreement entered into between CNPC and its subsidiary, PetroChina, on December 23, 1999, CNPC assigned to PetroChina most of its commercial and operational rights and obligations under the three production sharing contracts. GOC became the foreign contractor and the operator of the three oilfields pursuant to these production sharing contracts. Under the assignment agreement, CNPC retained certain specific rights in relation to the three production sharing contracts in the following aspects: (i) any amendment to material provisions of the production sharing contracts which requires the approval by the MOFCOM shall be reported to CNPC and be referred by CNPC to the original examination and approval authorities; (ii) the application for approval of the overall development plan for the oilfields shall be submitted to the relevant government authorities by CNPC; (iii) the coordination of any cross-boundary problems relating to the three oilfields under the production sharing contracts shall be handled by CNPC; (iv) the ownership right to any information obtained during the operation of the oilfields belongs to CNPC who also determines the period during which such information remains confidential; and (v) confirmation of the relinquishment of contract area.

On September 25, 2000, GOC and Microbes Inc., an Independent Third Party and a corporation organized under the laws of the State of Delaware, entered into farm-out agreements under which GOC transferred to Microbes Inc. 90% of GOC's interest in the production sharing contracts for the three oilfields. On the same day, GOC and Microbes Inc. entered into an operating agreement to transfer GOC's operatorship to Microbes Inc. for the three oilfields. Under the operating agreement, the respective rights and obligations of GOC and Microbes Inc. were set out mainly in the areas of working capital contributions, project management and project financing in relation to the three oilfields under the production sharing contracts. As a result, Microbes Inc. became the sole operator of the three oilfields and one of the two foreign contractors under the production sharing contracts. Microbes Inc. was entitled to appoint representatives on behalf of the foreign contractors, being GOC and Microbes Inc., to the joint management committee. Pursuant to the farm-out agreements, GOC continued to hold a 10% interest in the foreign contractors' entitlement and obligations in the oil production from each of the three oilfields under the production sharing contracts.

Pursuant to the farm-out agreements and the operating agreement, on October 25, 2000, CNPC entered into agreements with GOC and Microbes Inc. to modify each of the production sharing contracts to reflect the transfer of operatorship to Microbes Inc. Pursuant to such modification agreements, the parties agreed that Microbes Inc. will act as operator for each of the three oilfields and as a result GOC became a passive contractor in relation to each of the three oilfields. The transfer became effective following the approval of the Ministry of Foreign Trade and Economic Cooperation in November 2000.

On May 26, 2001, Microbes Inc. transferred all of its rights and obligations in each of the three production sharing contracts to MIE, which was then Microbes Inc.'s wholly owned subsidiary, and MIE and GOC became the foreign contractors under the three production sharing contracts. Under a sale and purchase agreement dated August 11, 2003, Microbes Inc. transferred its entire 100% equity interest in MIE to FEEL, a Hong Kong incorporated company established by Mr. Zhang, our executive Director, our chairman and chief executive officer, Mr. Zhao, our executive Director, our vice chairman and senior vice president and Mr. Shang, for an initial consideration of US$2,134,600, based on arm's length discussions and negotiations among the parties with reference to the then current market conditions and oil price. Mr. Zhang, Mr. Zhao and Mr. Shang first became acquainted with Microbes Inc. when a company collectively managed by them was engaged as a general contractor to provide services such as drilling services, well

logging and fracturing to Microbes Inc. This company has since been liquidated. The consideration under the sale and purchase agreement was made by FEEL through a loan, which was provided by a friend of Mr. Zhang and was subsequently repaid in 2003. In addition, as part of the consideration, Microbes Inc. was entitled to ongoing payments calculated as an amount equal to approximately 12% interest of the net oil revenue from the Daan oilfield and an amount ranging from 5% to 15% of the net oil revenue from the Moliqing and Miao 3 oilfields. Net oil revenue is defined as "the monthly oil revenue to be obtained by MIE from each of these oilfields, after deducting PetroChina's share, taxes (including value added tax), monthly amortised fees, production cost and GOC share". As the transaction was between Microbes Inc. and FEEL, there was no accounting impact on our company's financial statements. Based on arm's length negotiations after taking into consideration the oil prices and the market conditions at that time, on May 19, 2008, Microbes Inc. agreed to accept a one-time payment from FEEL of US$20 million in settlement and full satisfaction of any outstanding payments and all outstanding obligations, including future ongoing payments. The payment was made in full on August 1, 2008.

On June 30, 2005 and September 22, 2005, FEEL and MIE entered into a cooperation agreement and a share purchase agreement, respectively, with Full Fame Enterprise Limited, an Independent Third Party and an investment holding company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of Bank of Jilin Liaoyuan Branch (吉林銀行遼源分行) (formerly known as Liaoyuan City Credit Union (遼源市城市信用社股份有限公司)). Pursuant to the cooperation agreement, Full Fame Enterprise Limited shall assist MIE in obtaining financings for MIE in connection with the development and construction of the Daan oilfield, such as presenting and promoting MIE to financial institutions and assisting MIE to prepare documents and other materials in relation to such loan. FEEL shall, in return, transfer its 17% interest in MIE to Full Fame Enterprise Limited upon the obtaining of financings from financial institutions arranged by Full Fame Enterprise Limited for MIE. In addition, MIE shall provide timely assistance in such share transfer by FEEL to Full Fame Enterprise Limited and in the provision of relevant financial and other information as requested by the relevant financial institutions. As a result, upon the obtaining of a loan facility of RMB300 million from Bank of Jilin Liaoyuan Branch, FEEL converted 8,500 ordinary shares that it owned in MIE, representing a 17% interest in MIE, into ordinary shares with preferred rights and transferred the ordinary shares with preferred rights to Full Fame Enterprise Limited. The RMB300 million loan was determined with reference to our annual work program and after taking into consideration the oil prices and the market conditions at the time of the application of the loan. The 17% interest in MIE was determined based on the loan facility amount and was required as security for the loan. The RMB300 million loan facility from Bank of Jilin Liaoyuan Branch was fully drawn down and full repayment was made in December 2007. Consequent to the full repayment, on June 19, 2008, FEEL, MIE and Full Fame Enterprise Limited entered into termination agreements to terminate their respective rights and obligations under the cooperation agreement and the share purchase agreement. As a result, on June 19, 2008, FEEL purchased 8,500 ordinary shares with preferred rights in MIE from Full Fame Enterprise Limited, representing its then entire interest in MIE, for a consideration of US$1 million, based on arm's length discussions and negotiations among the parties and Full Fame Enterprise Limited ceased to be a shareholder of MIE.

As advised by our PRC legal counsel, Zhong Lun Law Firm, all the above relevant transfers, assignments, modifications, waivers and terminations within the PRC have complied with all relevant PRC rules and regulations.

Our company was incorporated in the Cayman Islands on March 20, 2008 as an investment holding company with limited liability. Our company's initial authorized share capital was US$50,000, divided into 50,000 Shares of US$1.00 each, of which one share was allotted and issued to Mapcal Limited as the sole shareholder. The one share held by Mapcal Limited was transferred to FEEL on April 1, 2008. As a result, FEEL held one ordinary share in our company, representing 100% of our then issued share capital.

On January 5, 2009, FEEL as our sole shareholder approved (a) a subdivision of each of the then existing issued and unissued shares of US$1 each into 100 subdivided shares of US$0.01 each; and (b) an increase in the authorized share capital of our company from US$50,000 divided into 5,000,000 ordinary shares of US$0.01 each to US$100,000 divided into 10,000,000 ordinary shares of US$0.01 each. Upon the subdivision becoming effective, the one ordinary share of US$1 held by FEEL was subdivided into 100 ordinary shares of US$0.01 each.

On January 12, 2009, FEEL completed a restructuring and our company became the holding company of MIE as part of an arrangement under MIE's then existing banking facility (the "Restructuring"). Pursuant to the Restructuring, we issued and sold 9,999,900 ordinary Shares of US$0.01 each to FEEL in exchange for 50,000 ordinary shares of MIE, representing the entire interest in MIE held by FEEL at the time of the exchange. Upon the exchange, FEEL held 10,000,000 of our ordinary shares of US$0.01 each, representing 100% of the then issued share capital of our company, and MIE became our wholly owned subsidiary and Mr. Zhao and Mr. Zhang, through their control of FEEL, remained as our ultimate Controlling Shareholders.

Pursuant to a facility agreement dated June 6, 2008, FEEL obtained a US$13 million loan facility from Standard Bank and utilized US$5 million to provide a loan to MIE. On January 12, 2009, FEEL repaid the US$5 million loan and accrued interest from Standard Bank by transferring 1,970,490 ordinary shares of our company to Standard Bank pursuant to a share purchase agreement among FEEL, Standard Bank, Mr. Zhang, Mr. Zhao and Mr. Shang and issued an option to Standard Bank to purchase US$8 million of ordinary or preferred shares at the same valuation as any future investors. Under the share purchase agreement, Standard Bank had the right to convert the ordinary shares into preferred shares, if preferred shares are issued to new investors in the future and above a certain agreed-upon valuation.

On June 19, 2009, we entered into the TPG Series A Share Purchase Agreement with MIE, FEEL and TPG, pursuant to which TPG subscribed for 21,457,490 Series A Preferred Shares for a consideration of US$53.0 million. Based on the indicative Offer Price range set out in this prospectus of HK$1.70 to HK$2.16 per Offer Share, and taking into account the Capitalization Issue, the investment cost per Share of TPG is HK$1.06, representing a discount of 37.6% to the Offer Price of HK$1.70, being the low end of the Offer Price range set out in this prospectus. The consideration was paid to our company and irrevocably settled on July 9, 2009. TPG is a leading global private investment firm and is an Independent Third Party other than its shareholding in our company. In connection with the TPG Series A Share Purchase Agreement, on July 9, 2009, our shareholders approved the increase of the authorized share capital from US$100,000 to US$180,000, divided into (1) 15,000,000 ordinary shares of US$0.01 each and (2) 3,000,000 Series A Preferred Shares of US$0.01 each. Although we have not been able to complete the amendment registration under the SAFE Notice No. 75 in respect of TPG's investment in MIE and the establishment of our company as the SAFE Jilin Provincial Branch has refused our application for amendment of the registration based on the reasoning that the offshore reorganization of MIE was outside the scope of the SAFE Notice No. 75, our PRC legal counsel, Zhong Lun Law Firm, has advised that the risk of our Group being challenged by the relevant PRC government for non-compliance is remote. For further details, please refer to the paragraph headed "Regulations – Amendment Registration under the SAFE Notice No. 75" in this prospectus.

Further, on October 26, 2009, we entered into the Sino Link Series A Share Purchase Agreement with FEEL, FEEL's shareholders, MIE and Sino Link, an indirect subsidiary of CITIC Group, pursuant to which FEEL agreed to transfer 3,643,730 Series A Preferred Shares to Sino Link for a consideration of US$9 million. Based on the indicative Offer Price range set out in this prospectus of HK$1.70 to HK$2.16 per Offer Share, and taking into account the Capitalization Issue, the investment cost per Share of Sino Link is HK$1.06, representing a discount of 37.6% to the Offer Price of HK$1.70, being the low end of the Offer Price range set out in this prospectus. The consideration was paid to FEEL and irrevocably settled on October 29, 2009. Both Sino Link and CITIC Group are Independent Third Parties other than Sino Link's shareholding in our company. There is no connection between the investment from Sino Link, a subsidiary of the CITIC Group, in October 2009 and the previous role of the chief financial officer of CITIC 21CN Company Limited (Stock Code: 241) held by Mr. Allen Mak, our executive Director, chief financial officer, joint company secretary and senior vice president, who was appointed by us in July 2009.

CITIC Group is a large multinational conglomerate with core businesses in the financial industry, industrial industry and service industry. A shareholders' agreement and an amended and restated shareholders' agreement were entered into with, among others, TPG and Sino Link, respectively. Further details of the investment by TPG and Sino Link in us are set out in the paragraph headed "– Series A Preferred Shares" below.

On October 30, 2009, FEEL entered into a share purchase agreement with Standard Bank, FEEL's shareholders, MIE and us to purchase 1,970,490 ordinary shares in our company, representing approximately 1.62% of our then issued share capital, from Standard Bank. On the same date, FEEL also entered into an option termination agreement with Standard Bank, MIE and us to terminate the option held by Standard Bank to purchase an additional US$8 million of ordinary or preferred shares from FEEL. Further details are set out in the paragraph headed "– Series A Preferred Shares" below.

On December 15, 2009, TPG transferred 1,287,550 Series A Preferred Shares to TPG LLC, an affiliate of TPG, further details of which are set out in the paragraph headed "– Series A Preferred Shares" below.

On February 5, 2010, FEEL entered into the Harmony Series B Share Purchase Agreement with Harmony Energy, a direct subsidiary of Ever Union Capital Limited, FEEL's shareholders, MIE and us, pursuant to which FEEL agreed to transfer, on March 10, 2010, 36,425,120 Series B Preferred Shares to Harmony Energy for a consideration of US$90 million. Based on the indicative Offer Price range set out in this prospectus of HK$1.70 to HK$2.16 per Offer Share, and taking into account the Capitalization Issue, the investment cost per Share of Harmony Energy is HK$2.12, representing a premium of 24.7% to the Offer Price of HK$1.70, being the low end of the Offer Price range set out in this prospectus. The consideration was paid to FEEL and irrevocably settled in March 2010. Both Harmony Energy and Ever Union Capital Limited are Independent Third Parties other than Harmony Energy's shareholding in our company. Ever Union Capital Limited, a company incorporated in the BVI on April 19, 2007, is an investment holding company whose principal activity is investments in companies principally engaged in the telecommunication, energy, commerce and finance industries. In connection with this, we entered into a second amended and restated shareholders' agreement with TPG, TPG LLC, Harmony Energy, FEEL, Sino Link and MIE. In connection with the above transfer, on March 10, 2010 our shareholders approved a further increase of the authorized share capital of our company from US$180,000 to US$230,000, divided into (1) 15,000,000 ordinary shares of US$0.01 each; (2) 3,000,000 Series A Preferred Shares of US$0.01 each; and (3) 5,000,000 Series B Preferred Shares of US$0.01 each. Further details of the investment by Harmony Energy in us are set out in the paragraph headed "– Series B Preferred Shares" below.

In addition to the financial resources brought to our company, we believe that the investments in us by TPG, Sino Link and Harmony Energy would enhance the shareholders profile and boost public confidence in our company. These investors would also enhance our corporate governance by suggesting new measures if deemed necessary.

On April 16, 2010, our shareholders approved a 1-to-10 share split of our ordinary shares, Series A Preferred Shares and Series B Preferred Shares, which became effective immediately. At the same time, the par value of the shares was changed from US$0.01 per share to US$0.001 per share. As a result, the authorized share capital of our company of US$230,000 was divided into (1) 150,000,000 ordinary shares of US$0.001 each; (2) 30,000,000 Series A Preferred Shares of US$0.001 each; and (3) 50,000,000 Series B Preferred Shares of US$0.001 each.

In April 2010, we made public filings with the SEC, to list American Depositary Shares representing our ordinary shares on the NYSE. We obtained approvals from the SEC and NYSE on May 6, 2010 and May 3, 2010, respectively. However, the stock market in the U.S. experienced extreme volatilities in early May 2010 which significantly affected investor sentiments, and the proposed U.S. listing was subsequently aborted. In September 2010, our Board decided to pursue a listing in Hong Kong and filed a listing application with the Stock Exchange.

On August 6, 2010, MIE New Ventures was incorporated in the Cayman Islands as an investment holding company with limited liability. MIE New Ventures does not currently carry on any business and is intended to be used for any possible investment opportunities of our Group in the future. MIE New Ventures has an authorized share capital of US$50,000, divided into 50,000,000 shares of US$0.01 each, of which one share was allotted and issued to Mapcal Limited as its sole shareholder. On the same day, Mapcal Limited transferred its share to our company, upon which MIE New Ventures became our wholly owned subsidiary. On August 11, 2010, MIE New Ventures further allotted and issued 9,999 ordinary shares to our company.

SERIES A PREFERRED SHARES

TPG Series A Share Purchase Agreement

On June 19, 2009, TPG entered into the TPG Series A Share Purchase Agreement with us to subscribe for 21,457,490 Series A Preferred Shares for a consideration of US$53.0 million, which was negotiated on an arm's length basis after taking into consideration the oil prices and the market conditions at the time of the subscription. The proceeds of the transaction were used by us for further development of our Group's oilfields. The Series A Preferred Shares are convertible, at the option of the holder, at any time into our ordinary shares and will automatically convert into our ordinary shares (i) immediately prior to consummation of a qualified initial public offering; (ii) upon our company obtaining the consent of the holders of at least eighty-five percent (85%) of our then outstanding Series A Preferred Shares; or (iii) 48 months after the completion date of the Series A Preferred Shares financing by TPG. Each Series A Preferred Share is initially convertible into one ordinary share, and no fractional ordinary shares shall be issued upon conversion of Series A Preferred Shares. We issued Series A Preferred Shares to TPG on July 9, 2009.

Under the TPG Series A Share Purchase Agreement, during the period beginning from the earlier of (i) July 10, 2011 and (ii) the date of the occurrence of an early put option trigger event and ending on the earlier of (i) July 10, 2014 or (ii) the qualified initial public offering of our company, TPG may require FEEL to purchase some or all of the Series A Preferred Shares that TPG then holds. TPG may exercise the put option only once and the put option will expire automatically upon consummation of a qualified initial public offering, which would include the Listing.

The put price per put share will be equal to the higher of (i) the fair value of the put shares or (ii) the purchase price per share under the share purchase agreement plus 15% per annum from the completion date of TPG's investment compounded on an annual basis through the delivery date of the notice to exercise the put option, less the aggregate amount of any distributions made on the put shares and any indemnity payment made by FEEL attributable to the put shares.

An early put option trigger event under the TPG Series A Share Purchase Agreement means any of the following events or circumstances:

(a) Mr. Zhang, Mr. Zhao and Mr. Shang fail to maintain a shareholding percentage in FEEL of more than 50% until the TPG required shareholding ownership expiration date. During the period from the completion until the TPG required shareholding ownership expiration date, such shares by Mr. Zhang, Mr. Zhao and Mr. Shang shall be held free of any encumbrances (other than those pursuant to the loan facility from Standard Bank or any other loan facility to renew, replace or repay any amount outstanding under the loan facility from Standard Bank, including the CITIC Bank Facility);

(b) FEEL and its affiliates fail to maintain a shareholding percentage in our company of more than 50% until the TPG required shareholding ownership expiration date. During the period from the completion until the TPG required shareholding ownership expiration date, such shares held by FEEL shall be held free of any encumbrances (other than the share charges pursuant to the TPG Series A Share Purchase Agreement or the loan facility from Standard Bank or any other loan facility to renew, replace or repay any amount outstanding under the loan facility from Standard Bank, including the CITIC Bank Facility);

(c) our company fails to own legally and beneficially all the issued and outstanding shares of MIE until the TPG required shareholding ownership expiration date;

(d) Mr. Zhang ceases to be an executive Director and chairman of our company during the period in which TPG remains a shareholder of our company; or

(e) any of FEEL, MIE or our company commences bankruptcy proceedings or any similar action.

TPG required shareholding ownership expiration date means the earlier of (a) the expiration date of the lock-up period applicable to TPG following a qualified initial public offering of our shares, (b) the date upon which TPG's shareholding in our company falls below 5% of our issued share capital, and (c) July 10, 2014.

Qualified initial public offering means an underwritten public offering by us of our Shares on a recognized stock exchange, including the Stock Exchange, pursuant to a prospectus or offering circular under applicable securities laws resulting in our Shares becoming freely tradable.

It is unlikely that the put option will become exercisable before the Listing due to the occurrence of any such early put option trigger events. Furthermore, the put option requires only FEEL to purchase some or all of the shares held by TPG upon the occurrence of any of the events described above. In the event that FEEL does not make payment to TPG regarding the put shares within one year after the date of the put exercise notice issued by TPG, TPG shall be allowed to sell such put shares to any third party. If the net proceeds from the sale by TPG of the put shares to such third party are less than the aggregate price for the put shares payable by FEEL under the TPG Series A Share Purchase Agreement, the share charge granted by FEEL in favour of TPG as further set out under the paragraph headed "– Share Charge Securing FEEL's Indemnities" below shall become enforceable to recover such deficiency. In the event that there is still a deficiency, FEEL, MIE and our company will then be jointly liable to indemnify TPG for any unpaid amount of the deficiency, to the extent that any of them have available funds and doing so will not lead to any non-compliance with the loan facility from Standard Bank or any other loan facility to renew, replace or repay any amount outstanding under the loan facility from Standard Bank. Based on the above and given that TPG has indicated to FEEL and us that it has no intention to exercise the put option, our Directors consider that such put option is very unlikely to have any impact on our Group's working capital sufficiency.

In addition, under the TPG Series A Share Purchase Agreement, our company and FEEL are liable to indemnify TPG, in connection with TPG's investment in our company, against any claims or proceedings brought on in relation to, *inter alia*, litigation, tax, regulatory compliance and loans given to our Group, provided that the aggregate amount claimed for such indemnities and any breach of general warranties under the TPG Series A Share Purchase Agreement does not exceed US$23,850,000 (being an amount equal to 45% of the subscription price under the TPG Series A Share Purchase Agreement).

Amendments to the TPG Series A Share Purchase Agreement

Pursuant to the TPG Series A Shares Purchase Agreement, if the final Offer Price of the Offer Shares multiplied by the total number of Shares which TPG would hold upon completion of the Global Offering is less than the sum of (i) the difference between the subscription price paid by TPG pursuant to the TPG Series A Shares Purchase Agreement (the "Subscription Price") minus any transaction fees, plus (ii) 30% per annum on such amount compounded on an annual basis from the completion date of the TPG Series A Share Purchase Agreement through the closing date of the Global Offering (the "Minimum Return"), our company shall compensate TPG for the shortfall and MIE and FEEL shall be jointly and severally liable with our company for our obligations under the above arrangement (the "Guaranteed Return").

Pursuant to the second amendment to the TPG Series A Shares Purchase Agreement dated October 30, 2009 among TPG, FEEL, MIE and us, the parties agreed to discharge the Guaranteed Return in its entirety in return of TPG being granted the Veto Right (as defined below). The Veto Right was granted in return for the discharge of the Guaranteed Return as there was a concern at that time that should the Series A Preferred Shares contain the Guaranteed Return, there may be a delay in the process to value the instrument that contains such a Guaranteed Return. In order to avoid any delay in the proposed listing of our company on the NYSE at that time, the parties agreed to remove the Guaranteed Return.

Pursuant to the amended and restated shareholders' agreement dated October 30, 2009 between TPG, FEEL, Sino Link, MIE and us and the second amended and restated shareholders agreement dated March 10, 2010 between, among others, TPG, TPG LLC and us, certain reserved matters, such as change of control of our company or MIE, sale of all or substantially all of the business of our company or MIE, material change in the scope of the business of our company or MIE, liquidation, winding up, dissolution of our company or MIE, and material change to the accounting or tax policies of our company or MIE, shall be agreed by TPG (so long as it has a Director on the Board) before such matters can be proposed and approved. One of those reserved matters is a veto right to the Global Offering if the final price per Share multiplied by the total number of Shares which TPG would hold upon completion of the Global Offering is less than the Guaranteed Return (the "Veto Right"). The Veto Right and the rights in relation to the reserved matters will expire immediately upon the occurrence of a qualified initial public offering.

On November 27, 2010, TPG, FEEL, MIE and us entered into a third amendment to the TPG Series A Share Purchase Agreement, the details of which are set out in the paragraph headed "– Share Charge Securing FEEL's Indemnities" below.

Share Charge Securing FEEL's Indemnities

FEEL granted a first ranking share charge comprising 16,200,390 ordinary shares in favor of TPG as security for indemnities given by FEEL in connection with TPG's investment in us. Pursuant to the third amendment to the TPG Series A Share Purchase Agreement, the share charge will be released at the latest to occur of (i) the general warranty expiration date, (ii) the final settlement of all claims from TPG which may be outstanding on such general warranty expiration date, and (iii) the payment of a put return deficiency as provided in the TPG Series A Share Purchase Agreement; provided that, notwithstanding the foregoing, the share charge will be released upon the listing of our Shares on the Stock Exchange in the Global Offering. The general warranty expiry date refers to the date falling on the earlier of the expiry date of the lock-up period applicable to TPG following a qualified initial public offering and 36 months from the completion date of the investment of TPG. As a result, the share charge will be released upon the Listing.

Shareholders' Agreement

In connection with TPG's investment in us, TPG, Standard Bank, FEEL, MIE and we entered into a shareholders' agreement on July 9, 2009. The shareholders' agreement contains various rights such as pre-emption rights, board nomination rights, information access rights and matters which require special approval by our Board of Directors. These rights will expire immediately upon the occurrence of a qualified initial public offering.

Agreement of Adherence

On December 15, 2009, TPG transferred 1,287,550 Series A Preferred Shares to TPG LLC, an affiliate of TPG. On the same day, we entered into an agreement of adherence with TPG LLC, TPG, Sino Link, FEEL and MIE pursuant to which TPG LLC became bound by the terms and conditions of the amended and restated shareholders' agreement dated October 30, 2009.

Repurchase of shares from Standard Bank

Pursuant to a facility agreement dated June 6, 2008, FEEL obtained a US$13 million loan facility from Standard Bank and utilized US$5 million to provide a loan to MIE. On January 12, 2009, FEEL repaid the US$5.1 million loan and accrued interest from Standard Bank by transferring 1,970,490 ordinary shares to Standard Bank pursuant to a share purchase agreement among FEEL, Standard Bank, Mr. Zhang, Mr. Zhao and Mr. Shang and issued an option to Standard Bank to purchase US$8 million of ordinary or preferred shares at the same valuation as any future investors. On October 30, 2009, FEEL repurchased 1,970,490 ordinary shares in our company from Standard Bank for a consideration of US$4,867,110, which was negotiated on an arm's length basis, and terminated the option to purchase an additional US$8 million worth of ordinary or preferred shares held by FEEL.

Sino Link Series A Share Purchase Agreement

On October 26, 2009, we entered into a share purchase agreement with FEEL and its shareholders, MIE and Sino Link, an indirect wholly owned subsidiary of CITIC Group, pursuant to which FEEL transferred 3,643,730 Series A Preferred Shares to Sino Link for a consideration of US$9 million, which was negotiated on an arm's length basis with reference to the valuation used by TPG for the consideration under the TPG Series A Share Purchase Agreement. The proceeds of the transaction were used by FEEL for its own investment purposes. As FEEL was not at that time the holder of any Series A Preferred Shares, our company repurchased 3,643,730 ordinary shares held by FEEL at the price of US$2.47 per share at that time and issued in exchange 3,643,730 Series A Preferred Shares to FEEL at the same price, which were then transferred to Sino Link on October 30, 2009. The Series A Preferred Shares are convertible, at the option of the holder, at any time into our ordinary shares and will automatically convert into our ordinary shares (i) immediately prior to the consummation of a qualified initial public offering, (ii) upon our company obtaining the consent of the holders of at least eighty-five per cent (85%) of our then outstanding Series A Preferred Shares; or (iii) 48 months after the completion date of the Series A Preferred Shares financing by Sino Link.

Amended and Restated Shareholders Agreement

On October 30, 2009, in connection with the purchase of Series A Preferred Shares by Sino Link, we entered into an amended and restated shareholders agreement with TPG, FEEL, Sino Link and MIE. The amended and restated shareholders agreement contain various rights such as pre-emption rights, board nomination rights, information access rights and matters which require special approval by our Board of Directors. These rights will expire immediately upon the occurrence of a qualified initial public offering. On October 30, 2009, under the share purchase agreement, FEEL granted a put option to Sino Link on the same terms as the put option FEEL granted to TPG under the share purchase agreement dated June 19, 2009 except the put option period as described below.

Under the Sino Link Series A Share Purchase Agreement, the put option is exercisable during the period beginning from the earlier of (i) November 1, 2011 and (ii) the date of the occurrence of an early put option trigger event and ending on the earlier of (i) November 1, 2014 and (ii) the qualified initial public offering of our company. Sino Link may exercise the put option only once and the put option will expire automatically upon consummation of a qualified initial public offering, which would include the Listing.

An early put option trigger event under the Sino Link Series A Share Purchase Agreement means any of the following events or circumstances:

(a) Mr. Zhang, Mr. Zhao and Mr. Shang fail to maintain a shareholding percentage in FEEL of more than 50% until the Sino Link required shareholding ownership expiration date. During the period from the completion until the Sino Link required shareholding ownership expiration date, such shares by Mr. Zhang, Mr. Zhao and Mr. Shang shall be held free of any encumbrances (other than those pursuant to the CITIC Bank Facility);

(b) FEEL and its affiliates fail to maintain a shareholding percentage in our company of more than 50% until the TPG required shareholding ownership expiration date. During the period from the completion until the TPG required shareholding ownership expiration date, such shares held by FEEL shall be held free of any encumbrances (other than the share charges pursuant to the TPG Series A Share Purchase Agreement or the CITIC Bank Facility);

(c) our company fails to own legally and beneficially all the issued and outstanding shares of MIE until the TPG required shareholding ownership expiration date; or

(d) if any of FEEL, MIE or our company commences bankruptcy proceedings or any similar action.

Sino Link required shareholding ownership expiration date means the earlier of (a) the expiration date of the lock-up period applicable to Sino Link following a qualified initial public offering of our shares, (b) the date upon which Sino Link's shareholding in our company falls below 3%, and (c) November 1, 2014.

It is unlikely that the put option will become exercisable before the Listing due to the occurrence of any such early put option trigger events. Furthermore, the put option requires only FEEL to purchase some or all of the shares held by Sino Link. In the event that FEEL does not make payment to Sino Link regarding the put shares within one year after the date of the put exercise notice issued by Sino Link, Sino Link shall be allowed to sell such put shares to any third party. If the net proceeds from the sale by Sino Link of the put shares to such third party are less than the aggregate price for the put shares payable by FEEL under the Sino Link Series A Share Purchase Agreement, FEEL, MIE and our company will then be jointly liable to indemnify Sino Link for the price deficiency, to the extent that any of them have available funds and doing so will not lead to any non-compliance with the CITIC Bank Facility. Based on the above and given that Sino Link has indicated to FEEL and us that it has no intention to exercise the put option, our Directors consider that such put option is very unlikely to have any impact on our Group's working capital sufficiency.

SERIES B PREFERRED SHARES

Harmony Series B Share Purchase Agreement

On February 5, 2010, FEEL, our Controlling Shareholder, entered into the Harmony Series B Share Purchase Agreement with Harmony Energy, a direct wholly owned subsidiary of Ever Union Capital Limited, FEEL's shareholders, MIE and us, pursuant to which FEEL transferred 36,425,120 Series B Preferred Shares to Harmony Energy for a consideration of US$90 million (which was negotiated on an arm's length basis with reference to the past performance of our Group, the then market conditions and valuations carried out in respect of the previously proposed listing on the NYSE in the second quarter of 2010.) on March 10, 2010. As FEEL was not the holder of any Series B Preferred Shares at the time of entering into the Harmony Series B Share Purchase Agreement, on March 10, 2010, our company repurchased 18,212,560 ordinary shares held by FEEL at the price of US$4.94 per share at that time and issued in exchange 36,425,120 Series B Preferred Shares at the price of US$2.47 per share at that time, which were then transferred to Harmony Energy. The transaction was approved by our shareholders and Board of Directors on March 10, 2010. The proceeds of the transaction were used by FEEL for its own investment purposes. We did not receive any cash consideration for the issuance of the Series B Preferred Shares. The Series B Preferred Shares are convertible, at the option of the holder, at any time into our ordinary shares and will automatically convert into our ordinary shares (i) immediately prior to the consummation of a qualified initial public offering; (ii) upon our company obtaining the consent of the holders of at least eighty-five percent (85%) of our then outstanding Series B Preferred Shares; or (iii) 48 months after the completion date of the Series B Preferred Shares financing by Harmony Energy. Series B Preferred Shares shall initially be convertible into ordinary shares at the ratio of two preferred shares to one ordinary share. No fractional ordinary shares shall be issued upon conversion of Series B Preferred Shares.

Second Amended and Restated Shareholders Agreement

In connection with the Harmony Series B Share Purchase Agreement, we entered into a second amended and restated shareholders agreement with TPG, TPG LLC, Harmony Energy, FEEL, Sino Link and MIE. The second amended and restated shareholders agreement contains various rights such as pre-emption rights, board nomination rights, information access rights and matters which require special approval by our Board of Directors. Under both the amended and restated shareholders agreement and the second amended and restated shareholders agreement, special approval by TPG (so long as it has a Director on the Board) is required if the final price per share to be offered under any qualified initial public offering is less than an agreed price per share, which effectively grants TPG a veto right to any such qualified initial public offering in the event that the final price per share is less than such agreed price per Share. These rights will expire immediately upon the occurrence of a qualified initial public offering of our shares.

Under the second amended and restated shareholders agreement all shareholders agree to a customary market stand-off or lockup period restrictions upon a qualified initial public offering of our shares as required under applicable laws and regulations.

Share Charge Securing FEEL's Indemnities

Although FEEL held 96,356,270 ordinary shares immediately prior to the share transfer to Harmony Energy, only 13,765,180 ordinary shares were unencumbered and freely transferable. Therefore, FEEL requested TPG to release 4,447,380 ordinary shares out of the 20,647,770 ordinary shares under a first ranking share charge in favor of TPG in connection with TPG's investment in us. In connection with the purchase of Series B Preferred Shares by Harmony Energy, TPG released 4,447,380 ordinary shares from the existing share charge over FEEL's shares and Harmony Energy provided a first ranking charge comprising 8,894,760 Series B Preferred Shares in favor of TPG as security for the indemnities given by FEEL pursuant to the TPG Series A Share Purchase Agreement. In the Harmony Series B Share Purchase Agreement, FEEL agreed to indemnify Harmony Energy from any losses resulting from any adjudicated claim to enforce the share charge by TPG. The share charge will be released at the latest to occur of (i) the general warranty expiration date, (ii) the final settlement of all claims from TPG which may be outstanding on such general warranty expiration date, and (iii) the payment of a put return deficiency as provided in the TPG Series A Share Purchase Agreement; provided that, notwithstanding the foregoing, the share charge will be released upon the listing of our Shares on the Stock Exchange in the Global Offering. The general warranty expiry date refers to the date falling on the earlier of the expiry date of the lock-up period applicable to TPG following a qualified initial public offering and 36 months from the completion date of the investment of TPG. As a result, the share charge will be released upon the Listing.

MEMORANDA OF UNDERSTANDING

On November 9, 2010, we signed a memorandum of understanding with the Drilling Division of Zhongyuan Petroleum Exploration Bureau of the Sinopec group (中國石化集團中原石油勘探局鑽採處), which is an Independent Third Party. Sinopec is one of the three largest national oil companies in China. Under this memorandum of understanding, we agreed to cooperate on the exploration of oilfield development opportunities and the application of both our technologies in relation to the exploration and development of oilfields, including advanced technologies to drill and operate wells under low permeability conditions, to develop such oilfields. Based on the current estimate of our Directors, if the definitive agreement is signed, approximately HK$58 million will be used in relation to the cooperation with the Drilling Division of Zhongyuan Petroleum Exploration Bureau of the Sinopec group.

On April 8, 2010, we signed a memorandum of understanding with GOC indicating our interest in purchasing GOC's entire 10% participating interest in the three production sharing contracts. The consideration will be our equity value immediately prior to the Global Offering divided by 0.9 and multiplied by 10%. Based on an Offer Price of HK$1.70 per Share, being the low-end of the indicative Offer Price range stated in this prospectus, and based on the current estimate of our Directors, if a definitive purchase agreement is signed, the consideration for the acquisition of GOC's 10% participating interest in the production sharing contracts will be approximately HK$416 million. The consideration will be paid in a combination of cash and shares, the proportion of which shall be negotiated and agreed between the parties. The number of shares to be issued as consideration shall be determined based on the Offer Price. In the event that the consideration being fully paid by shares and based on an Offer Price of HK$1.70 per Share, being the low-end of the indicative Offer Price range stated in the prospectus, 244,444,444 Shares will be issued to GOC as share consideration, representing approximately 9.25% of our company's issued share capital immediately after completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme) and approximately 8.47% of the enlarged issued share capital of our company. The transaction is subject to the parties entering into a definitive purchase agreement detailing the terms of the assignment of GOC's interest to us. Under the memorandum of understanding, the parties plan to complete the transaction when the closing conditions set forth in the definitive purchase agreement are met or 180 days after the Global Offering, whichever occurs later. However, to ensure compliance with Rule 10.08

of the Listing Rules, the definitive purchase agreement will provide that the issuance of shares provided therein will not happen until 6 months after the Listing. The transaction and any issuance of shares issued under it will also comply with Rule 10.07(1)(b) of the Listing Rules. The definitive purchase agreement will also contain customary closing conditions, including the approval and consent of PetroChina and CNPC. Under this memorandum of understanding, GOC has agreed not to deal in its interests under the production sharing contracts with any third party before closing unless the memorandum of understanding has been terminated. This memorandum of understanding will terminate either by written agreement between the parties, 90 days after the Global Offering or the date of execution of the definitive purchase agreement.

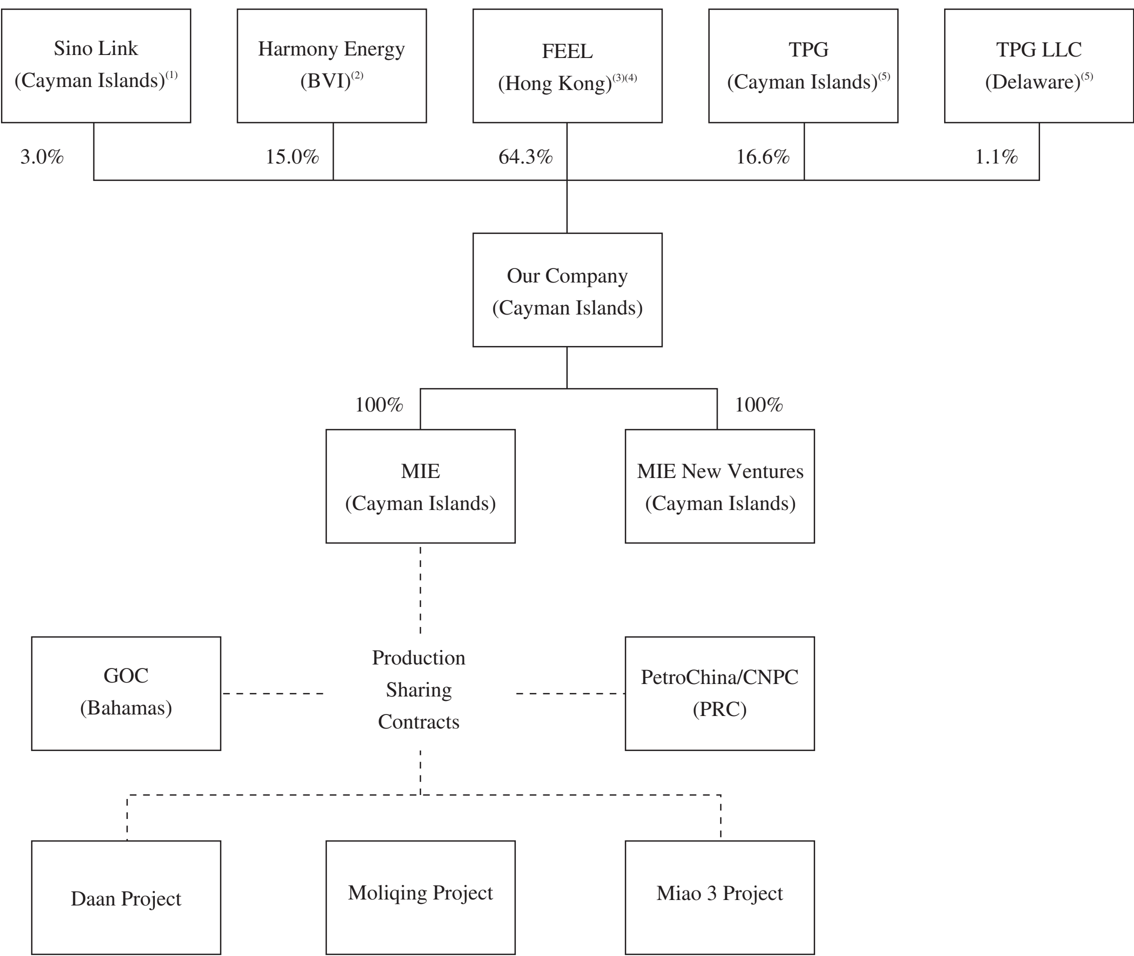
On April 2, 2010, we signed a memorandum of understanding with Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司), an Independent Third Party and an oil development company based in Songyuan, Jilin Province of the PRC. Under this memorandum of understanding, we indicated our interest in acquiring Songyuan Ningjiang District Oil Exploration Company's (松原市寧江區小油田開發公司) entire 100% participating interest in a production sharing contract with PetroChina, covering four oil properties with a total area of 17.7 square kilometers in the Jilin oilfield. We have agreed to pay a consideration of US$12 per barrel in cash based on the amount of reserves to be set forth in a reserve report satisfactory to us from an international reserve consultant. Based on our Directors' current estimate of the reserves available for Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司), if a definitive purchase agreement is signed, the consideration for the acquisition will be approximately HK$39 million. The transaction is subject to our due diligence and the parties entering into a definitive purchase agreement detailing the terms of the transfer of the participating interest to us. The agreement will contain customary closing conditions, including the approval and consent of PetroChina or CNPC. Pursuant to a supplemental memorandum of understanding signed on October 2, 2010, the original memorandum of understanding was extended for an additional 6 months and will terminate 12 months after the date of signing of the original memorandum of understanding. Notwithstanding the foregoing, the entire transaction shall be subject to the approval of relevant government authorities, including, without limitation, MOFCOM and NDRC.

We are in the course of negotiations to enter into a memorandum of understanding with a state-owned oil and gas enterprise, which is an Independent Third Party, to cooperate in the exploration and development of oilfields in the Shaanxi Province. The memorandum of understanding will provide that we will provide advanced technologies and management expertise in connection with the exploration and development of oilfields owned by the state-owned oil and gas enterprise in the Shaanxi Province. Based on the current estimate of our Directors, if the definitive agreement is signed, approximately HK$58 million will be used in relation to the cooperation with the state-owned oil and gas enterprise.

The memoranda of understanding as set out above are not legally binding on the parties. In respect of each of the memoranda of understanding, we are still in preliminary discussions with GOC, Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司) and the state-owned oil and gas enterprise, respectively, and in respect of the memorandum of understanding with Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司), due diligence is still ongoing. We do not expect to enter into any definitive purchase agreements in relation to any of the memoranda of understanding prior to the Listing. There is also no assurance that any of these transactions will be successfully negotiated and completed. The amounts required as consideration or as investment for the cooperation pursuant to the memoranda of understanding set out above are based on estimates by our Directors taking into account current circumstances and are subject to, among other factors, the agreement of the parties upon entering into the definitive agreements and any further due diligence.

CORPORATE STRUCTURE

The diagram below sets forth our shareholding and corporate structure immediately before the completion of the Global Offering and the Capitalization Issue and assuming conversion of the Series A Preferred Shares and Series B Preferred Shares into ordinary Shares:



(1) Sino Link is an indirect wholly owned subsidiary of the CITIC Group and is a holder of our Series A Preferred Shares.

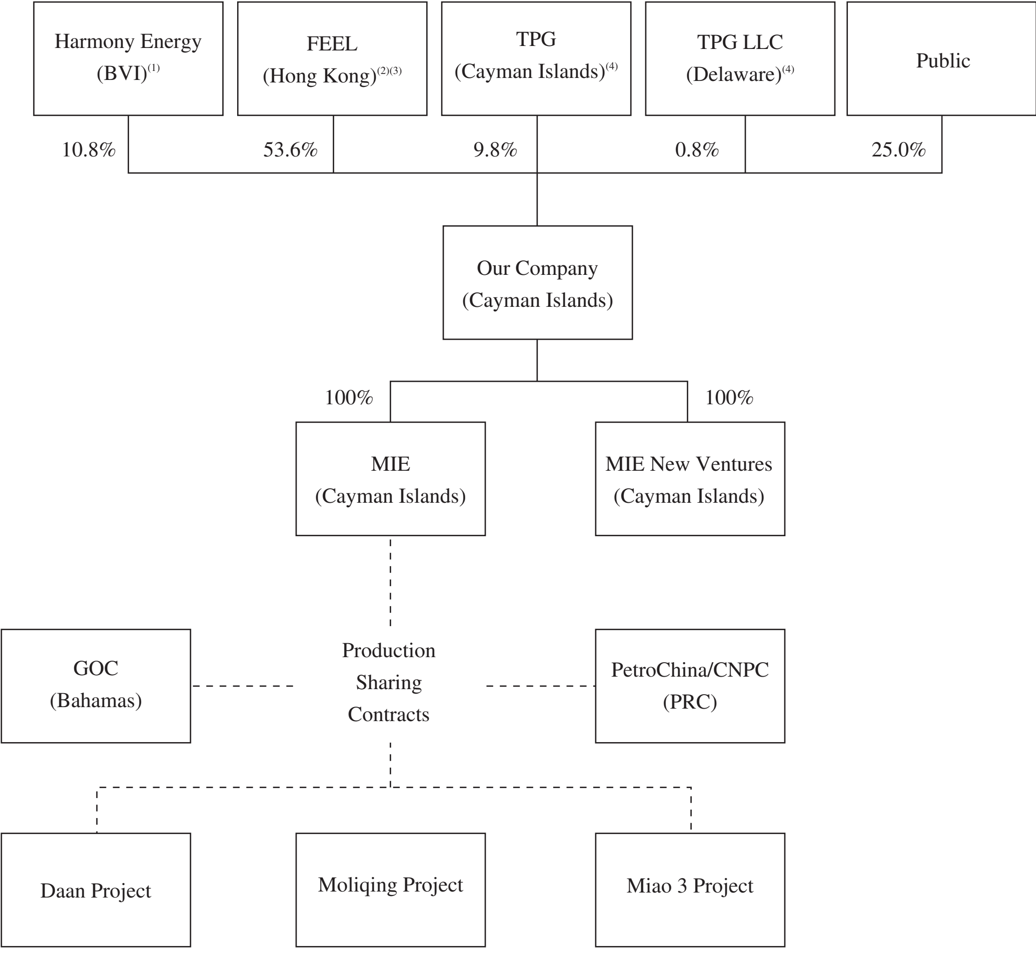
(2) Harmony Energy is a direct wholly owned subsidiary of Ever Union Capital Limited and is our sole holder of Series B Preferred Shares.

(3) FEEL is owned as to 9.99%, 90% and 0.01% by Mr. Zhang, Mr. Zhao and Mr. Shang, respectively. Mr. Zhang, our executive Director, chairman and chief executive officer, and Mr. Zhao, our executive Director and senior vice president, are the controlling shareholders of FEEL.

(4) FEEL is our sole ordinary shareholder.

(5) TPG is a leading global private investment firm and TPG LLC is an affiliate of TPG. Both TPG and TPG LLC are holders of our Series A Preferred Shares.

The diagram below sets forth our shareholding and corporate structure immediately after the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme):



(1) Harmony Energy is a direct wholly owned subsidiary of Ever Union Capital Limited.

(2) FEEL is owned as to 9.99%, 90% and 0.01% by Mr. Zhang, Mr. Zhao and Mr. Shang, respectively. Mr. Zhang, our executive Director, chairman and chief executive officer, and Mr. Zhao, our executive Director and senior vice president, are the controlling shareholders of FEEL.

(3) FEEL, Mr. Zhang and Mr. Zhao are our Controlling Shareholders.

(4) TPG is a leading global private investment firm and TPG LLC is an affiliate of TPG.

Unless otherwise noted, all share information and per share data included in this prospectus and accompanying financial statements have been adjusted to reflect the share split and change in par value on April 16, 2010 as set out in further details under the section headed "History and Corporate Structure – History" in this prospectus.

OVERVIEW

China's oil and gas industry is dominated by three national oil companies, namely, PetroChina, Sinopec and CNOOC. Independent Upstream Oil Companies currently own an insignificant market share but are increasingly participating in China's oil and gas industry. We are one of the leading Independent Upstream Oil Companies operating onshore in China as measured by gross production under production sharing contracts. We operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, the largest oil company in China. In addition, we pursue other development and production opportunities in China, and exploration, development and production opportunities internationally, both independently and in partnership with other major and independent oil companies.

As of June 30, 2010, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 29.4 million barrels, 18.3 million barrels and 13.5 million barrels of crude oil, respectively. Our daily crude oil production has grown significantly since 2001, when we took over the operations of the three oilfields. Our net production averaged 6,439 barrels, 8,150 barrels, 7,637 barrels and 10,042 barrels of crude oil per day in 2007, 2008, 2009 and the first half of 2010, respectively, representing a CAGR of 17.5%. Since FEEL acquired MIE in August 2003, our net production of crude oil grew from an average of 1,855 barrels per day in 2004 to 10,042 barrels per day in the first half of 2010, representing a CAGR of 35.9%. Our high level of development and production activities is demonstrated by our high rig count and number of productive wells. In 2007, 2008, 2009 and the first half of 2010, we concurrently operated 33, 24, 25 and 28 drilling rigs, respectively. As of June 30, 2010, we operated an aggregate 1,592 gross productive wells in our three oilfields.

As the operator of the Daan, Moliqing and Miao 3 oilfields, we hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts. GOC, a passive foreign contractor that is not directly involved in the operations of the oilfields, holds the remaining 10% participating interest. Under each of the production sharing contracts, we provide funding, technology and managerial experience for the development and production of oil resources in these oilfields. In exchange, we share in the production of crude oil with PetroChina after the successful development of oil reserves according to the formula set forth in the production sharing contracts. In a given period during the commercial production phase under the production sharing contracts, the revenue and operating costs may be allocated to the foreign contractors in the range of 48% to 80%, based on whether the foreign contractors have fully recovered their development costs. See "– Production Sharing Contracts" for more information on the revenue and cost allocations under the production sharing contracts. All of the oil produced in our three oilfields is sold to PetroChina. The production sharing contracts for the Daan, Moliqing and Miao 3 oilfields will expire in 2024, 2028 and 2028, respectively. We have already recovered our development costs in the Daan oilfield and expect to recover our development costs in the Moliqing and Miao 3 oilfields in 2013 and 2015, respectively.

Our operating success and effective application of know-how are evidenced by our strong track record and high success rates. From 2001 to June 30, 2010, we drilled 1,552 gross development wells in our oilfields, of which only seven were dry holes. As of December 31, 2007, 2008 and 2009 and June 30, 2010, we operated 827, 1,218, 1,383 and 1,592 gross productive wells, respectively. We believe our oilfields have 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 June 30, 2010, we had identified 614, 783 and 483 potential locations containing proved, probable and possible undeveloped reserves, respectively, for future drilling and within our estimated net reserves we include estimated net proved, probable and possible undeveloped reserves of 8.6 million barrels, 10.3 million barrels and 8.1 million barrels, respectively, for these locations.

In 2007, 2008, 2009 and the first half of 2010, our revenue amounted to RMB1,221.6 million, RMB1,971.7 million, RMB1,166.8 million and RMB947.4 million, respectively. In 2007, 2008, 2009 and the first half of 2010, our EBITDA amounted to RMB797.8 million, RMB1,256.8 million, RMB687.0 million and RMB628.2 million, respectively, and our adjusted EBITDA amounted to RMB817.5 million, RMB1,127.9 million, RMB821.3 million and RMB662.0 million, respectively. Our net profit amounted to RMB308.9 million, RMB611.1 million, RMB110.5 million and RMB238.5 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

Our Strengths

We believe the following strengths have contributed to our growth and differentiate us from our competitors:

One of the leading Independent Upstream Oil Companies operating onshore in China with strong growth potential

We are one of the leading Independent Upstream Oil Companies operating onshore in China, with estimated net proved, probable and possible reserves of approximately 29.4 million barrels, 18.3 million and 13.5 million barrels, respectively, as of June 30, 2010. As of June 30, 2010, our net proved undeveloped reserves equaled approximately 8.6 million barrels, representing approximately 29.3% of our total net proved reserves. Our net production from our proved developed reserves averaged 6,439 barrels, 8,150 barrels, 7,637 barrels and 10,042 barrels of crude oil per day in 2007, 2008, 2009 and the first half of 2010, respectively. As of June 30, 2010, the reserves life index of our net proved reserves was 8.1 years, and the life index of our net proved reserves for the Daan, Moliqing and Miao 3 oilfields was 8.9 years, 6.8 years and 1.4 years, respectively. Our large base of net proved undeveloped reserves will enable us to quickly grow our annual production of crude oil in the near term without the need to undertake further exploration.

We currently plan to spend net amounts of approximately RMB789 million in 2010, of which RMB518 million had been spent as of June 30, 2010, and RMB1.3 billion in 2011, to develop our net proved undeveloped reserves as well as our probable and possible reserves. Of the 200 gross wells we plan to drill in 2010, 179 were drilled in the first half of the year. We currently plan to drill 350 to 400 gross new wells in 2011. The ratio of gross developed acreage to gross undeveloped acreage at our Daan and Moliqing oilfields was 48.2% and 16.0%, respectively, as of June 30, 2010. We believe our oilfields have strong growth potential.

We have potential to continue increasing our proved reserves in several ways. First, as of June 30, 2010, we had identified 614 proved, 763 probable and 463 possible gross potential locations for future drilling and we had attributed net undeveloped reserves of 8.6 million barrels, 10.3 million barrels and 8.1 million barrels, respectively, to these locations. Second, we anticipate in the future, some of the probable and possible reserves attributed to higher waterflood recovery factors will be realized. Net probable and possible developed reserves were 8.0 million barrels and 5.4 million barrels, respectively, as of June 30, 2010. Third, net remaining contingent resources and undiscovered prospective resources of 5.3 and 4.5 million barrels, respectively, as of June 30, 2010, as detailed in the technical competent person's report contained in this Prospectus, provide the possibility of future reserve additions. Finally, infill drilling in the Daan oilfield, which is now being tested and evaluated, has additional potential not included in the figures above.

Proven track record of developing and operating low permeability oilfields

Low permeability oilfields represent approximately 31% of China's overall oil reserves. For example, approximately 73% of oil reserves in the Jilin complex are categorized as low permeability oilfields. In addition, new reserve addition in such low permeability oilfields have increased to approximately 70% of the total reserve addition between 2001 and 2005. We have developed strong expertise in drilling and operating wells under low permeability conditions through the effective use of water injection and other techniques and the application of our know-how. Our strong operating capabilities are particularly evidenced by our low development and lifting costs, high oil recovery rate and high success rate of developing oil wells. Such capabilities have enabled us to recover costs quickly under the production sharing contracts and reduce the risk associated with future investments in our oilfields. As of June 30, 2010, the total costs incurred for pilot testing and development, including related operating costs, were RMB5,077.1 million, of which we have recovered approximately RMB4,650.5 million.

We had a large team of 1,444 production and technical service employees as of June 30, 2010. Our experienced team allows us to implement our development plans quickly, including drilling a large number of wells in a short period of time. The oilfields we operate are significant in scale. From 2001 to June 30, 2010, we drilled 1,552 gross productive wells on the oilfields we operate, of which only seven were dry holes. In the first half of 2010, we drilled 179 gross development wells, compared to 192, 389 and 189 gross development wells drilled in 2007, 2008 and 2009, respectively.

We are the sole oilfield operator under each of our production sharing contracts. This status enables us to exercise a significant level of control over the amount and timing of expenses and capital allocations, and other logistical aspects of the development and operation of our three oilfields. We currently work with over 300 vendors in China and, over the years, we have gained in-depth knowledge of China's petroleum industry. In addition, the large number of wells we have drilled to date in our oilfields has provided us with a large amount of drilling and well performance data, which we believe maximizes the predictability of future well performance and will further reduce the dry hole risks related to developing our oilfields.

We have a history of optimizing field performance and enhancing oil production by instituting an effective waterflood program. As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had installed a total of 129, 218, 259 and 298 injectors, respectively, at our three oilfields. We believe we have effectively enhanced production with our current injector pattern, and we plan to continue to install injectors and expand the areas under waterflood where economic circumstances allow. We are able to optimize production by minimizing the decline rate.

We also have a strong record of environmental compliance and work-place safety. We have implemented the action plan recommended by ENSR International and have not been involved in any environmental claims or investigations. Our safety rules and policies comply with ISO9000 and ISO9001 in addition to PRC governmental rules and regulations. However, on September 1, 2009, there was a fatal accident at the Miao 3 oilfield involving one of our workers. Even though we are constantly improving our safety and occupational health measures to protect our employees and reduce the risk of accidents, we cannot assure you that our preventive measures will always be effective given the hazardous nature of this industry. Although we have not been materially affected by any such hazards or any failure to comply with safety standards or PRC law, our preventative measures may not be effective and our insurance coverage may not be sufficient to cover all the financial losses caused by the operation risks and natural disasters. See "Risk Factors – Risks Relating to Our Company and Our Business – Our operations may be affected by significant operating hazards and natural disasters and we have limited insurance coverage for any resulting losses."

Competitive cost structure and operational efficiency

Our China-based operations and active cost management allow us to leverage the low equipment and labor costs in China. We also apply advanced drilling and production technologies that allow us to produce more oil at lower cost. We achieved a success rate of approximately 99.5% for gross development wells drilled from 2001 to June 30, 2010. We believe we are able to control our costs effectively due to several factors. Starting from the planning stages, our experienced management team and technical personnel are able to prepare exploitation and development plans that maximize crude oil production relative to our development and operating costs. In addition, we believe that, as a private enterprise, we have greater flexibility to plan and execute projects, manage the size of our operations, implement cost containment initiatives, and source cost-effective subcontractors at each stage in the development and operation of our oilfields. As a result of these factors, we believe we adapt more quickly to oil price fluctuations than large state-owned enterprises and can compete effectively with our competitors even in a low crude oil price environment.

Effective recovery of development and operating costs through the production sharing contract structure

We believe we can further develop our existing oilfields and effectively recover our development and operating costs for the following reasons:

- Development of our existing oilfields involves no significant exploration risk because our existing reserve base has already been discovered and fully delineated. This low exploration risk is evidenced by the 947 successful development wells drilled in our existing oilfields between January 1, 2007 and June 30, 2010, representing a success rate of 99.8%. As of June 30, 2010, each of the Daan, Moliqing, and Miao 3 oilfields had a depletion rate of 29.3%, 30.7% and 52.6%, respectively, calculated based on accumulated net production divided by the sum of accumulated net production and net proved reserves.
- The structure of our production sharing contracts allows us to effectively recover our costs. Under the production sharing contracts, crude oil is distributed according to a production allocation provision that, after deducting value-added tax and royalties, the remaining allocable oil is allocated 80% to the foreign contractors for the recovery of the operating, pilot-test and development costs. Our net entitlement of the remaining allocable oil is 72% (being 90% of the foreign contractors' interest) until all of the development cost are recovered. If oil produced in a certain period is insufficient to recover all costs incurred by us in that period, the costs are carried forward to the next period until we recover such costs from future oil production. After the foreign contractors have recovered all operating, pilot-test and development costs (including any unrecovered operating, pilot-test and development costs from prior periods) from the oil revenue generated each period, the remainder of the allocable oil for that period is allocated 52% to PetroChina and 48% to the foreign contractors and our net entitlement is 43.2% (being 90% of the foreign contractors' interest). Accordingly, the foreign contractors' interest ranges between 48% to 80%, and our net interest ranges between 43.2% to 72%.
- We have recovered all of our past development costs in the Daan oilfield, but we have not reached the limit for the number of wells to be drilled and the amount of investment approved under the original overall development plan and the supplemental overall development plan for the Daan oilfield. Since the maximum limits set out in the original overall development plan and supplemental overall development plan have not yet been reached, we continue to make additional investments in the Daan oilfield in accordance with these development plans. For Moliqing and Miao 3, as of June 30, 2010, we had recovered 78.0% and 42.8% of the development costs, respectively. Based on Ryder Scott's projections, we will recover all of our investments at Moliqing by 2013 and at Miao 3 by 2015.

Long-standing and strong relationship with PetroChina

We have a long-standing relationship and a history of close cooperation with PetroChina, with which we currently have three production sharing contracts. PetroChina is the largest oil company in China and has the highest number of production sharing contracts covering onshore oilfields among the state-owned oil companies. We have worked closely with PetroChina since 2001 and our cooperation has deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. We work with many different entities and departments within PetroChina, which has allowed us to form close relationships with key personnel at multiple levels within PetroChina.

The production sharing contracts provide for an eight-member joint management committee to perform supervisory functions for each oilfield. PetroChina appoints four representatives to the joint management committee and we appoint the other four representatives. This arrangement allows us to leverage PetroChina's local knowledge, technical abilities and other strengths. Many of our senior managers and staff members worked for PetroChina before joining our company. We believe our strong relationship with PetroChina is one of the key factors that will contribute to the future growth of our company, and we are well-positioned to further develop our working relationship with PetroChina in current and future projects.

Strong management team with international experience and local knowledge

We believe the extensive experience of our management team in developing and operating oilfields in China distinguishes us from other independent oil producers. Our management team has built an extensive network of relationships within the industry both inside and outside of China. Our management team consists of domestically and internationally trained oil and gas professionals, some of whom have worked with established oil and gas companies such as PetroChina, Texaco and ARCO. The international experience and local knowledge of our management team has enhanced our ability to obtain financing, to communicate effectively with PetroChina and our subcontractors and to stay at the forefront of technological advances in our industry. Our chairman, Mr. Zhang, has more than 20 years of experience in the oil industry in China. We have also engaged international specialists and consulting firms to advise our management team on key operational and management areas, such as Mercer on employment compensation, Ryder Scott on reserve estimation, ENSR International on environmental evaluation and Aon-COFCO on insurance policy, to help us adopt international best practices. We are able to leverage the local knowledge and international experience of our management team to facilitate our growth and expansion effectively.

Our Strategies

We believe we can maintain our competitiveness and growth by implementing the following strategies:

Increase production through the development of proved undeveloped reserves

We plan to increase production to meet the growing demand for oil in China. As of June 30, 2010, the total net proved undeveloped reserves within the contract areas of Daan and Moliqing totaled an estimated 7.228 million barrels and 1.327 million barrels of crude oil, respectively. 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 few years. As of June 30, 2010, 29.1% of our net proved reserves were classified as undeveloped, which means we have the opportunity to achieve substantial production growth even without the discovery of new reserves. We plan to improve our production yield through continued use of water injection at existing wells and monitoring and balancing the injectors to improve water sweeping efficiencies. As of June 30, 2010, we had installed a total of 298 injectors at our three oilfields. In order to implement our expansion strategy, we currently plan to spend net amounts of approximately RMB789 million in 2010, of which RMB518 million had been spent as of June 30, 2010, and RMB1.3 billion in 2011 to develop our net proved undeveloped reserves as well as our probable and possible reserves.

Increase our net reserves and net production by securing new production sharing contracts and acquiring existing production sharing contracts in China

We believe we are in an advantageous position to secure new production sharing contracts due to our strong technical expertise, operating track record, established relationship with PetroChina and access to capital. We intend to leverage our relationship with PetroChina to secure future production sharing contracts with it. We also believe we have the opportunity to enter into new production sharing contracts with oil companies other than PetroChina and selectively acquire existing production sharing contracts from other independent oil producers in China that may be capital-constrained or lack sufficient technical ability and expertise to successfully develop their areas under contracts. We examine factors such as the following when evaluating production sharing contracts: (i) the stage of development; (ii) the amount of additional reserves that could be obtained by investing more capital and using new technology; (iii) risk profile; and (iv) the expected return for our shareholders. In April 2010, we signed a memoranda of understanding with Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司), which is an oil and gas development company based in Songyuan, Jilin Province, to acquire the participating interests it holds in its production sharing contracts with PetroChina, which cover oil properties located in Jilin oilfield. We believe our proven track record in developing and operating low-permeability oilfields, which represent approximately 31% of China's overall oil reserves, will help us secure new production sharing contracts or acquire existing production sharing contracts in China. After acquiring a new oilfield, we seek to add value by lowering the operating costs and improving the operating efficiency of the oilfield.

The production sharing contracts do not contain any non-competition clause which may restrict us from cooperating with other parties to explore or extract crude oil from other domestic or overseas oilfields, and we do not have to obtain approval from PetroChina for the cooperation.

We are currently negotiating to enter into a memorandum of understanding with a state-owned oil and gas enterprise, which is an Independent Third Party, to cooperate in the exploration and development of low permeability oilfields in Shaanxi Province. If the agreement is entered into, we intend to invest approximately RMB50 million per year as capital expenditures to the oilfields as part of the cooperation.

Continue to improve operational efficiency through the application of advanced technologies

We will continue to apply advanced drilling and production technologies to specific reservoirs in an efficient manner. Our technical capabilities enable us to employ advanced drilling and production technologies, and adapt and improve those technologies for our specific requirements in the following major areas:

- continue to efficiently and effectively develop reserves within contract areas, compile development databases and build accurate reserve models;
- continue to increase production and reserves through conducting geological studies and analysis of drilling pattern and well density; and
- optimize production from marginal oilfields through techniques such as multi-layer fracturing and water injection, even in areas of low permeability.

Application of the technologies to our operations in China has enabled us to expand the scope of our exploitation activities, increase development and production efficiencies, and reduce costs. We plan to continue to invest in advanced technology, and we believe the combination of our engineers' skills and experience and our focus on advanced technology applications distinguishes us from many of our competitors.

Selectively expand into emerging markets outside of China

We plan to explore new investment opportunities in order to further expand the scale of our operations and increase our asset base and profits, with a particular focus on emerging markets in Southeast and Central Asia. We prefer to expand into emerging markets where we can leverage our relationships with China's state-owned oil companies. We plan to pursue new opportunities based on certain criteria, including our ability to acquire operatorship of new oilfields in the late exploratory or early development phase in the near term and oil producing assets with certain targeted scalability to achieve expected return for our shareholders. In addition to onshore oilfields, we will also pursue opportunities to operate and manage oilfields located in shallow water areas through the acquisition of shallow water assets or entering into joint ventures or partnerships with oilfield operators. We believe we can use our experience of successfully developing and operating low permeability oilfields under difficult conditions to screen potential projects and obtain new projects. We expect to undertake these activities in the form of acquisitions, joint ventures and strategic alliances, with the goal of stable, long-term and attractive returns for our shareholders.

Reserve Disclosures

The following table sets forth our net reserve data as of December 31, 2007, 2008 and 2009 and June 30, 2010.

	As of December 31,			As of June 30,
Net Reserves:	**2007**	**2008**	**2009**	**2010**
	(In thousands of barrels)			
Total proved developed	13,437	17,525	19,195	20,853
Daan oilfield	12,079	15,245	15,164	17,398
Moliqing oilfield	1,187	2,162	3,773	3,177
Miao 3 oilfield	171	118	258	278
Total proved undeveloped	23,438	11,303	11,699	8,555
Daan oilfield	19,858	8,694	9,824	7,228
Moliqing oilfield	3,580	2,609	1,875	1,327
Miao 3 oilfield	–	–	–	–
Total proved	**36,875**	**28,828**	**30,894**	**29,409**
Total probable developed	4,205	6,921	7,059	8,020
Total probable undeveloped	24,257	14,886	17,047	10,251
Total probable	**28,462**	**21,807**	**24,107**	**18,271**
Total possible developed	3,167	4,693	4,784	5,415
Total possible undeveloped	11,970	6,965	6,376	8,051
Total possible	**15,137**	**11,658**	**11,161**	**13,466**

All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are those less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recovery.

Proved reserves are those quantities of oil which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Possible reserves are those additional reserves which are less certain to be recovered than probable reserves and thus the probability of achieving or exceeding the proved plus probable plus possible reserves is low. Proved, probable and possible reserves are estimated using a deterministic method and presented as incremental quantities. The deterministic method is a common method of estimating reserves that uses a single value for each parameter (from the geoscience, engineering or economic data) in the reserves calculation for the reserves estimation procedure. Discrete quantities of reserves are assigned separately as proved, probable or possible based on their individual level of uncertainty. Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserve categories. Furthermore, the reserves quantities attributable to the different reserve categories have not been adjusted to reflect these varying degrees of risks associated with them and thus are not comparable.

Reserve estimates will generally be revised as additional geological or engineering data become available or as economic conditions change. Moreover, estimates of reserves may increase or decrease as a result of future operations, effects of regulation by governmental agencies or geopolitical or economic risks. The reserve information are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered and, if recovered, the revenue from the reserves and the actual costs related to the reserves could be more or less than the estimated amounts.

The reserves and income data included herein were estimated based on the definitions and disclosure guidelines of the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists, and Society of Petroleum Evaluation Engineers Petroleum Resources Management System.

Internal Controls Over Reserves Estimates

Responsibility for compliance in reserves bookings is delegated to our reserve and long-term planning department and requires qualified geologists and engineers in our Beijing office to review all data used for internal reserves estimates for our different oilfields. We currently engage Ryder Scott, an independent petroleum engineering consulting firm, to prepare our reserve estimates for recording. These reserves estimates are reviewed and approved by regional management and senior engineering staff with final approval by members of our senior management.

For reserve data security, in addition to the data stored on Ryder Scott's servers, we have internal servers located in both our Beijing and Songyuan offices to store our accounting and reserve data content, to provide back-up data support and to avoid system error or failure due to a sudden and significant increase in traffic or a bottleneck in inter-provincial network connections.

Technologies Used in Reserves Estimation

We used a combination of production and pressure performance, wireline wellbore measurements, simulation studies, offset analogies, seismic data and interpretation, wireline formation tests, geophysical logs and core data to calculate our reserves estimates.

Independent Technical Report

We commissioned Ryder Scott, an independent petroleum engineering consulting firm based in the United States, to carry out an independent assessment of our oil reserves as of December 31, 2007, 2008 and 2009 and June 30, 2010. Ryder Scott is an oil industry consulting firm whose primary role is to evaluate oil and gas properties in the United States and internationally and independently certifies petroleum reserve

quantities. The reserves and income data included therein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS). The firm issues reserve certifications used by banks and investors that help to ensure compliance with regulatory guidelines. Ryder Scott has issued reports as of December 31, 2007, 2008 and 2009 and June 30, 2010. The reserve reports for 2007, 2008 and 2009 and the first half of 2010 included a detailed review of all of our oilfields, which are the Daan, Moliqing and Miao 3 oilfields. No material changes have occurred since June 30, 2010, the effective date of the most recent Independent Technical Report issued by Ryder Scott.

Delivery Commitments

We and PetroChina jointly determine the amount of crude oil to be produced in an oil production plan adopted by the joint management committee during the annual meetings, and the oilfields are required to deliver the amount of crude oil produced to PetroChina as stipulated in plan. Under the production sharing contracts, the parties may agree to separately dispose of their respective shares of the crude oil produced. As of the date hereof, we have delivered all of the oil we produced to PetroChina. The production sharing contracts for the Daan, Moliqing and Miao 3 oilfields will expire in 2024, 2028 and 2028, respectively. See "– Sales and Marketing" for more information regarding our sales and delivery procedures under the contracts.

Oilfields

The following table sets forth a brief summary of the status of our oilfields as of June 30, 2010.

Status	Daan	Moliqing	Miao 3
Date of production sharing contract	December 16, 1997 (modified on October 25, 2000 and December 20, 2001)	September 25, 1998 (modified on October 25, 2000 and December 20, 2001)	December 16, 1997 (modified on October 25, 2000 and December 20, 2001)
Term	30 years	30 years	30 years
Date of commencement of implementation	March 1, 1998	February 1, 1999	March 1, 1998
Status	Entered commercial production phase on January 1, 2005	Entered commercial production phase on December 1, 2008	Entered commercial production phase on October 1, 2008
Year of expiration	2024	2028	2028
Total area	253.0 km^2	71.5 km^2	81.0 km^2
Gross developed area	82.3 km^2	9.9 km^2	9.3 km^2
Total costs incurred for pilot-test and development, including related operating costs	RMB3,585.5 million	RMB1,213.1 million	RMB278.5 million
Total amount of cost recovered for the pilot-test and development costs, including related operating costs	RMB3,585.5 million (100% of cost recovered)	RMB945.8 million (78.0% of cost recovered)	RMB119.2 million (42.8% of cost recovered)
Gross productive well count	1,333	132	127
Depletion rate[1]	29.3%	30.7%	52.6%

(1) Calculated based on accumulated net production divided by the sum of accumulated net production and net proved reserves.

We operate two central collection stations, equipped with state-of-the-art filtration, distribution and storage systems. Oil collected from our oilfields is filtered and transported by pipe or tanker truck to central storage tanks, and then piped to PetroChina's local collection stations.

Daan

The Daan oilfield holds our largest net proved reserves and is currently our largest crude oil production area. Situated in Daan, Jilin Province and near the center of the Songliao Basin, the Daan oilfield entered into the commercial production phase of the production sharing contract on January 1, 2005 and has historically been our most productive oilfield, contributing approximately 82.2%, 79.7%, 78.6% and 76.3% of our total crude oil production in 2007, 2008, 2009 and the first half of 2010, respectively.

The Daan oilfield extends over an area of approximately 253.0 square kilometers. As of June 30, 2010, we operated 1,333 gross productive wells. For 2010, we budgeted a work program of drilling 144 gross wells, and all of such gross wells were drilled in the first half of 2010.

At the Daan oilfield, oil is produced mainly from Lower Cretaceous Fuyang reservoirs, a series of interbedded sands and shales of both lacustrine and fluvial origins. The sequence ranges in thickness from approximately 100 meters to 300 meters, gross interval, with individual sand units ranging from one meters to over 15 meters. The reservoir is contained within an anticlinal feature with a plunge to the north and crestal elevation of approximately 1,600 meters below sea level in the south and 1,900 meters below sea level in the north. The effective reservoir has a porosity range of 11% to 22% with an average of 16%. Virtually all wells require stimulation by hydraulic fracturing and the oil production rate was about 16,500 barrels per day with a water cut of 22% as of June 30, 2010.

As of June 30, 2010, our net proved, probable and possible reserves in the Daan oilfield totaled an estimated 24.6 million barrels, 14.1 million barrels and 8.0 million barrels, respectively, or 83.7%, 77.3% and 59.4%, respectively, of our total net proved, probable and possible reserves. For 2007, 2008, 2009 and the first half of 2010, our net production in the Daan oilfield averaged 5,295 barrels, 6,492 barrels, 6,000 barrels and 7,665 barrels, respectively, of crude oil per day, representing approximately 82.2%, 79.7%, 78.6% and 76.3%, respectively, of our total daily crude oil production. As of June 30, 2010, the crude oil proved reserve-to-production ratio at the Daan oilfield was 8.9 years. The crude oil produced in the Daan oilfield is of high quality with gravity ranging from 34° to 38° API and has low sulfur content. In the first half of 2010, the crude oil produced in the Daan oilfield had an average water cut of 22.8%. In the first half of 2010, our average lifting costs in the Daan oilfield amounted to US$5.01 per barrel, compared to US$6.21 per barrel in 2009.

We have adopted waterflooding at the Daan oilfield since the end of 2004. We plan to expand the waterflood areas at the Daan oilfield to include every productive well location in the field where physical and economic circumstances permit. As of June 30, 2010, the developed waterflood area contains 237 injectors and 797 producers. The current practice is to implement the injectors either concurrent with or prior to installing producers. As such, we can achieve favorable ratios of injection to withdrawal volumes and maintain reservoir pressures without disrupting production. Injectors are carefully managed, using surface controls, to inject appropriate amounts to optimize waterflood performance. According to the Ryder Scott reserve report, as of June 30, 2010, estimated technical, full-life average recovery factors for proved reserves ranged from 4.7% for primary recoveries to 10.6% for secondary recovery in waterflood areas, averaging 9.9%. Estimated technical, full-life recovery factors for probable and possible reserves in waterflood areas averaged 12.9% and 15.6%, respectively, as of June 30, 2010.

As of June 30, 2010, our total gross developed area was 82.3 square kilometers, which represented 45.9% of the total 179.4 square kilometers currently planned for development and 32.5% of the total 253.0 square kilometers within the contract area at Daan oilfield.

During the pilot-test period, we prepared an overall development plan, which included, among other things, details regarding the recoverable reserves, development well patterns, a master design, a production profile, an economic analysis and time schedule of development of the discovered oil reserves, a calculation of the maximum efficient rate determined in accordance with international oil industry practice, and an estimate of the duration of the production period. The overall development plan for the Daan oilfield was approved by PetroChina and the NDRC on December 20, 2002 and May 7, 2004, respectively, and a supplemental overall development plan for the Daan oilfield was approved by PetroChina and the NDRC on November 29, 2006 and December 6, 2007, respectively. Under a supplementary agreement we entered into with CNPC on September 25, 2008, a supplementary development plan shall be adopted upon consideration by the joint management committee and implemented after submission to PetroChina for review or record. At the joint management committee meeting held in November 2009, the committee approved a work program for the drilling of 144 gross wells in the Daan oilfield and a gross production target of 4.9 million barrels for 2010.

As of the Latest Practicable Date, we have drilled six test infill wells in 2010 in the Daan oilfield to evaluate the potential for infill drilling. We intend to continue this infill program in other parts of the field in the future. In 2011, we plan to drill an additional twelve infill wells in two other blocks. We believe there is potential to further develop the Daan oilfield with an estimated 400 infill wells. When completed, the infill drilling program will convert much of the existing inverted 9 spot patterns in parts of the reservoir to a modified line drive pattern with a producer to injector ratio of two to one. We have engaged Ryder Scott and they are currently undertaking a study of the impact of infill drilling through reservoir simulation. Results from the study will provide us with a better understanding of the incremental production rate and reserves resulting from the infill drilling. Since this infill program was only initiated in 2010, we need to demonstrate and quantify the effectiveness of infill drilling in this particular reservoir to determine whether our infill drilling program will be successful and to what degree the recovery efficiency will be improved. As we are in the process of collecting more data and establishing production history for this program, we cannot perform a meaningful evaluation at this time and additional reserves have not yet been assigned to the infill drilling program.

Moliqing

The Moliqing oilfield is situated in Yitong, Jilin Province and near the center of the Songliao Basin. The Moliqing oilfield entered into the commercial production phase of the production sharing contract on December 1, 2008. It contributed approximately 15.6%, 18.5%, 19.0% and 18.2% of our total crude oil production in 2007, 2008, 2009 and the first half of 2010, respectively.

The Moliqing oilfield extends over an area of approximately 71.5 square kilometers. As of June 30, 2010, we operated 132 gross productive wells at the Moliqing oilfield. For 2010, we budgeted a work program of drilling 27 gross wells, of which we had completed drilling of 13 gross wells.

The Moliqing oilfield is situated on reservoirs that are a series of interbedded dark mudstones, grey muddy siltstones grading to siltstones and fine grained sandstones from the Eocene-age Shuangyang formation. Individual oil reservoir units, composed of siltstones and sandstones, vary in thickness and are often discontinuous. The overall unit average porosity ranges from 13% to 18%. All of the perforated intervals in Moliqing are stimulated or fractured to improve recovery, and the oil production rate was 2,872 barrels of oil per day with a water cut of 9% during June 2010.

As of June 30, 2010, our net proved, probable and possible reserves in the Moliqing oilfield totaled an estimated 4.5 million barrels, 3.8 million barrels and 5.3 million barrels, respectively, or 15.3%, 20.8% and 39.2%, respectively, of our total net proved, probable and possible reserves. For 2007, 2008, 2009 and the first half of 2010, our net production in the Moliqing oilfield averaged 1,003 barrels, 1,505 barrels, 1,453 barrels and 1,831 barrels of crude oil per day, respectively, representing approximately 15.6%,

18.5%, 19.0% and 18.2%, respectively, of our total daily crude oil production. As of June 30, 2010, the crude oil proved reserve-to-production ratio at the Moliqing oilfield was 6.8 years. The crude oil produced in the Moliqing oilfield is of generally high quality with gravity ranging from 33° to 38° API and has a low sulfur content. In the first half of 2010, the crude oil produced in the Moliqing oilfield had an average water cut of 11.4%. In the first half of 2010, our average lifting costs in the Moliqing oilfield amounted to US$10.21 per barrel, compared to US$11.82 per barrel in 2009.

Initial waterflooding began at Moliqing oilfield in August of 2006 with significant expansion in 2009. We plan to expand the waterflood areas at the Moliqing oilfield to include every productive well location in the field where physical and economic circumstances permit. As of June 30, 2010, the developed waterflood area contained 15 injectors and 62 producers. According to the Ryder Scott reserve report, as of June 30, 2010, estimated technical, full-life recovery factors for proved reserves ranged from 4.1% for primary recoveries to 9.5% for secondary recoveries, averaging 10.7%. Estimated technical, full-life recovery factors for probable and possible reserves in waterflood areas averaged 10.3% and 12.6%, respectively, as of June 31, 2010.

As of June 30, 2010, our total gross developed area was 9.9 square kilometers, which represented 30.5% of the total 32.3 square kilometers in Moliqing oilfield currently planned for development and 13.8% of the total 71.5 square kilometers within the contract area at Moliqing oilfield.

We operate under the overall development plan for the Moliqing oilfield, which was approved by PetroChina and the NEB on April 20, 2007 and November 3, 2008, respectively. At the joint management committee meeting held in November 2009, the committee approved a work program for the drilling of 27 gross wells in the Moliqing oilfield and a gross production target of 825,000 barrels for 2010.

Miao 3

The Miao 3 oilfield is situated in Qianguo, Jilin Province, and near the center of the Songliao Basin. The Miao 3 oilfield entered into the commercial production phase on October 1, 2008. It contributed approximately 2.2%, 1.9%, 2.4% and 5.5% of our annual total crude oil production for 2007, 2008, 2009 and the first half of 2010, respectively.

The Miao 3 oilfield extends over an area of approximately 81.0 square kilometers. As of June 30, 2010, we operated 127 gross productive wells. For 2010, we budgeted a work program of drilling 29 gross wells, of which we had completed drilling of 22 gross wells as of June 30, 2010.

At the Miao 3 oilfield, the target oil reservoir is also from the Lower Cretaceous Fuyang formation, a series of interbedded sands and shales of primary lacustrine sands, bay mouth bars and delta front sheet sands. The thickness of the sand units range from laminated overbank deposits to thicker channel sand. The reservoir has a porosity range from 10% to 19% with an average of 14%. Virtually all wells require stimulation by hydraulic fracturing and the oil production rate is about 855 barrels per day with a water cut of 38% during June 2010.

As of June 30, 2010, our net proved, probable and possible reserves in the Miao 3 oilfield totaled an estimated 0.3 million barrels, 0.3 million barrels and 0.2 million barrels, respectively, or 0.9%, 1.9% and 1.5%, respectively, of our total net proved, probable and possible reserves. For 2007, 2008, 2009 and the first half of 2010, our net production in the Miao 3 oilfield averaged 141 barrels, 153 barrels, 184 barrels and 546 barrels of crude oil per day, respectively, representing approximately 2.2%, 1.9%, 2.4% and 5.5% of our total daily crude oil production, respectively. The crude oil produced in the Miao 3 oilfield is sweet and light with gravity ranging from 34° to 38° API and a low sulfur content. In the first half of 2010, the crude oil produced in the Miao 3 oilfield had an average water cut of 41.3%. In the first half of 2010, our average lifting costs in the Miao 3 oilfield amounted to US$12.73 per barrel, compared to US$25.86 per barrel in 2009.

Waterflooding has been underway at the Miao 3 oilfield since November 2007. We plan to expand the waterflood areas at the Miao 3 oilfield to include every productive well location in the field where physical and economic circumstances permit. As of June 30, 2010, the developed waterflood area contained 21 injectors and 98 producers. According to the Ryder Scott reserve report, as of June 30, 2010, estimated technical, full-life recovery factors for proved reserves averaged 4.0% and for probable and possible reserves averaged 6.6% and 8.9%, respectively.

As of June 30, 2010, our total gross developed area was 9.3 square kilometers, which represented 100% of the total area currently planned for development and 11.5% of the total 81.0 square kilometers within the contract area at Miao 3 oilfield.

We operate under the overall development plan for the Miao 3 oilfield, which was approved by PetroChina and the NDRC on March 31, 2006 and April 29, 2007, respectively. At the joint management committee meeting held in November 2009, the committee approved a work program to drill 29 gross wells in the Miao 3 oilfield and a gross production target of 208,000 barrels for 2010.

Luojiayi

On August 28, 2000, we entered into a 25-year production sharing contract with Sinopec for exploration and development of a contract area identified as Luojiayi block 64 at the Shengli oilfield in Shandong Province. Shengli oilfield is one of the largest oil production bases in China. In 2000, we began the trial-development phase of our operations at Luojiayi and drilled a dry hole. The project has been suspended since the end of 2004. In April 2005, we requested an extension from Sinopec to restart the project at Luojiayi. On September 27, 2006, we received a letter from Sinopec denying our request to restart the project and seeking to terminate the production sharing contract on the grounds that the one-year extension period of the trial-development phase had expired on December 31, 2003 and we had not met our investment commitment of at least US$2 million under the production sharing contract prior to such expiration. We believe our initial investment of RMB23.1 million in the project at the Shengli oilfield, which investment was made prior to December 31, 2003, met the required commitment amount under the production sharing contract. We have drilled two wells at Luojiayi Block 64 at the Shengli oilfield, one of which was a dry well, the other was never completed. Due to geologic factors, the chance of drilling a dry well is greater in Luojiayi Block 64 than in our other oilfields and the development and operating costs are higher. We continue to consider the economic and contractual feasibility of making further investments to develop Luojiayi Block 64, which consideration also takes into account the price of crude oil. Since we received Sinopec's denial letter in 2006, we delivered additional written requests to them asking for further discussions on the matter. We intend to negotiate in good faith with Sinopec to resolve this issue. Therefore, we have chosen not to pursue the termination of this production sharing contract.

As of the date of this prospectus, our dispute with Sinopec has not entered any judicial proceedings. However, our investment in the Shengli oilfield project was completely written off in 2004. We have accounted for losses and liabilities in connection with the production sharing contract for the project at the Shengli oilfield and we believe there are no additional liabilities and claims in relation to the Shengli oilfield project. As of the date of this prospectus, Sinopec has not initiated any legal proceedings against us. We are not aware of the timing or nature of Sinopec's potential claims against us. We do not believe that we are in breach under the production sharing contract with Sinopec or that there is any outstanding commitment in connection with this project. We believe our investment in the project at the Shengli oilfield has met the required commitment amount under the production sharing contract with Sinopec. Our PRC legal counsel, Zhong Lun Law Firm, has advised us that since neither contractual party has brought this dispute into litigation for more than two years, and as confirmed by us that Sinopec has not made any claim against us regarding this dispute in the form of a notice or any other form for more than two years, the statute of limitation for claims of compensation or damages has lapsed under relevant PRC laws and

regulations. Therefore, we believe that no provision is necessary in the financial statements. After reviewing documents provided by us, our PRC legal counsel believes that we also have good defense on the merits against any potential claims that may be asserted against us by Sinopec. Furthermore, because there has not been any further development relating to this project since the end of 2004, we did not include any operating or reserve data relating to Luojiayi in this prospectus. See "Risk Factors – Risks Relating to our Company and our Business – Our contractual dispute with Sinopec may result in liabilities for us and negatively affect our ability to do business with Sinopec in the future."

Production Sharing Contracts

Phases of the Production Sharing Contracts

Under the production sharing contracts with PetroChina, we conduct our oil operations in the capacity of the sole operator and one of the two foreign contractors of the oilfields. We hold a 90% participating interest in the foreign contractors' entitlements and obligations in each of our production sharing contracts, and GOC holds the remaining 10% interest. GOC is not directly involved in the operations of the oilfields and does not vote at the meetings of the joint management committee. PetroChina holds the exploitation permits for the development and production of crude oil, issued by the PRC Ministry of Land and Resources, at the Daan, Moliqing and Miao 3 oilfields.

Each production sharing contract has a maximum term of 30 years. The commercial production phase lasts for a term of 20 consecutive years, which may be extended with the approval of the PRC government. Our production sharing contracts typically comprise three phases:

- **Pilot-test phase**

The pilot-test phase commences after the date of commencement of the implementation of the production sharing contract and extends for two consecutive years, and may be further extended with the consent of PetroChina. During this phase, the foreign contractors are obliged to undertake a minimum amount of work, including drilling wells and incurring a minimum amount of expenditures. During the pilot-test phase, the foreign contractors conduct appraisal work in the oilfield in order to evaluate the commercial viability of any crude oil discovery. 80% of the oil production is allocated to the foreign contractors for the recovery of the investment costs incurred during the pilot-test phase. 20% of the oil production is allocated to PetroChina for the recovery of any pre-development costs it incurred. The unrecovered costs of the foreign contractors are carried forward and recovered from the recovery oil in succeeding years until fully recovered.

- **Development phase**

Upon the end of the pilot-test phase, the foreign contractors have the option either to enter into the development phase or to terminate the production sharing contracts. The development phase begins on the date that the NDRC or NEB approves the overall development plan for an oilfield. The development plan outlines, among other things, the total cost of investment, the quantity of recoverable reserves and a schedule for the development of the reserves. It ends when the oilfield enters into commercial production. 80% of the oil production is allocated to the foreign contractors for the recovery of the development costs incurred for the development of the oilfield during the development phase and any unrecovered costs incurred by the foreign contractors carried forward from the pilot-test phase. 20% of the oil production is allocated to PetroChina for the recovery of any pre-development costs it incurred. The unrecovered costs of the foreign contractors are carried forward and recovered from the recovery oil in succeeding years until fully recovered.

- **Commercial production phase**

The production sharing contract enters the commercial production phase upon (i) the production of 40,000 tonnes of crude oil from the oil field from the date of submission of the overall development plan to PetroChina for approval, (ii) PetroChina's approval and (iii) an announcement by the joint management committee of the relevant oilfield that the commercial production phase has begun. The oil production is allocated to PetroChina and the foreign contractors for the recovery of the operating costs, the pilot-test costs that are carried over from the previous phases, and the development costs that are carried over from the previous phases and/or newly incurred during the current phase, and for profit-sharing.

The foreign contractors are entitled to share in the production of crude oil with PetroChina in accordance with the ratio agreed between PetroChina and the foreign contractors under the production sharing contracts. The table below summarizes the crude oil distribution waterfall during different phases of the production sharing contracts.

Description	Pilot-test Phase	Development Phase	Commercial Production Phase	
Payment of value-added tax and royalties	Crude oil produced during the year is first used to pay value-added tax and royalties to the PRC government			
Recovery of operating costs incurred	N/A[1]	N/A[1]	A portion of any remaining crude oil is then allocated to the foreign contractors to recover 48 to 80% of the operating costs incurred, which is borne by the foreign contractors[2]	(4)
Recovery of pilot-test and development costs incurred	80% of any remaining crude oil is then used as payment in kind to recover the pilot-test costs incurred by the foreign contractors[3]	80% of any remaining crude oil is then used as payment in kind to recover the pilot-test and development costs incurred by the foreign contractors[3]	80% of any remaining crude oil is then allocated to the foreign contractors to recover the pilot-test and development costs incurred by the foreign contractors[3]	
Profit-sharing	N/A	N/A	48% of any remaining crude oil is then allocated to the foreign contractors	(5)

(1) The operating costs incurred during the pilot-test and development phases are included as part of the pilot-test costs or development costs.

(2) Under the production sharing contracts, the foreign contractors' share of the operating costs is determined according to the following formula:

$$OC \times \frac{A \times 80\% + B \times 48\%}{A + B}$$

of which:

OC = the total operating costs

A = the oil for the recovery of the pilot-test and development costs

B = profit-sharing oil

If both A and B are zero, the foreign contractors will bear 80% of the operating costs incurred and the unrecovered amount, if any, will be carried over to the subsequent period.

(3) 20% of the oil production is allocated to PetroChina for the recovery of any pre-development costs it incurred. The unrecovered costs of the foreign contractors are carried forward and recovered from the recovery oil in succeeding years until fully recovered.

(4) Oil allocated to PetroChina and the foreign contractors for the recovery of the operating costs and pilot-test and development costs is called "cost recovery oil".

(5) Oil allocated to PetroChina and foreign contractors after full recovery of the operating costs and pilot-test and development costs is called "profit-sharing oil".

Payment of Value-Added Tax and Royalties

Any revenue from crude oil produced during the year is first paid to the authorities as value-added tax and royalties. The value-added tax rate payable to the PRC government is 5% of annual gross production.

PetroChina and the foreign contractors are also required to pay royalties to the PRC government based on the gross production of each oilfield covered by the production sharing contracts. The royalties payable each year vary from 0.0% to 12.5% of annual crude oil production based on the level of production for a particular oilfield. The following table describes the royalty rates payable at various annual gross crude oil production levels.

Annual Gross Oil Production	Royalty Rate
Less than 0.5 million tons	0.0%
0.5 to 1.0 million tons	2.0%
1.0 to 1.5 million tons	4.0%
1.5 to 2.0 million tons	6.0%
2.0 to 3.0 million tons	8.0%
3.0 to 4.0 million tons	10.0%
More than 4.0 million tons	12.5%

Royalties paid to the PRC government amounted to nil, RMB2.6 million, RMB4.3 million in 2007, 2008 and 2009, respectively, as our annual gross oil production at the Daan oilfield exceeded 0.5 million tons. We have not made any royalty payment for our crude oil production at the Moliqing and Miao 3 oilfields as annual production at these two oilfields did not exceed 0.5 million tons. Because the value-added tax and royalties are already excluded from our gross production, such amounts are not included in our accounting records.

Cost Recovery Oil and Profit-Sharing Oil

Under our production sharing contracts, production of crude oil is allocated among the foreign contractors and PetroChina during the commercial production phase, after deducting value-added tax and royalties, as follows:

- *Cost recovery oil.* We define "cost recovery oil" as the oil to be allocated to PetroChina and the foreign contractors for the recovery of the operating costs and pilot-test and development costs. Cost recovery oil is payable until all costs incurred by the foreign contractors have been fully recovered.

  PetroChina and the foreign contractors each bear a part of the operating costs. In any period in which the foreign contractors have not fully recovered their pilot-test and development costs (including any supplemental development costs) for such period and any prior periods, the operating costs are borne 20% by PetroChina and 80% by the foreign contractors. Conversely, in any period in which the foreign contractors have fully recovered their pilot-test and development costs for such period and any prior periods, the operating costs are borne 52% by PetroChina and 48% by the foreign contractors. Therefore, in a given period during the commercial production phase, operating costs are borne by the foreign contractors in the range of 48% to 80%.

  After the recovery of the operating costs incurred, the foreign contractors are also entitled to recover all of their pilot-test and development costs incurred for development of the oilfields. As long as these costs have not yet been fully recovered by the foreign contractors, the foreign contractors are entitled to 80% of the remaining oil as payment in kind for these costs while PetroChina is entitled to the remaining 20%.

- *Profit-sharing oil.* After the full recovery of the operating costs and the pilot-test and development costs incurred by the foreign contractors, the remaining crude oil is allocated between PetroChina and the foreign contractors. PetroChina and the foreign contractors are entitled to 52% and 48% of the allocable remaining oil, respectively. We call the remaining crude oil the "profit-sharing" oil.

Management and Operations

The production sharing contracts provide for a joint management committee to perform supervisory functions for each oilfield. Currently, there are eight members on the joint management committee. PetroChina may appoint four representatives while the foreign contractors together may appoint the other four representatives. The four representatives for the foreign contractors are appointed by us. Each party shall designate one chief representative. The chairman of the joint management committee is the chief representative designated by PetroChina, whereas the vice chairman is the chief representative designated by the foreign contractors. GOC, as a passive foreign contractor, has no voting rights on the joint management committee. When a decision is to be made on any proposal, the chief representative from each party shall have the sole right to vote on behalf of the party.

In the absence of the chief representative, each party may designate another member to act as its chief representative at the meeting. Decision of the joint management committee shall be made unanimously, and each decision made unanimously shall be deemed as a formal decision and shall be equally binding on the parties. When an agreement cannot be reached, the parties may convene another meeting in an attempt to find a new solution based on the principle of mutual benefit. During the Track Record Period, the joint management committee reached a unanimous agreement on all material matters concerning the oilfields.

The joint management committee meets at least twice a year and has the authority to, among other things, review and approve operational and budgetary plans, review and adopt the overall development plan and any supplemental overall development plan, review and examine matters required to be submitted to the relevant PRC authorities, and approve significant procurements, expenditures and insurance coverage.

We have been designated as the operator for each of the oilfields under the production sharing contracts. The obligations of the operator include the following:

- applying the appropriate technology and managerial experience to perform the oil operations reasonably, economically and efficiently in accordance with sound international practice;
- preparing and carrying out work programs and budgets;
- procuring equipment and supplies and subcontracting services related to the oil operations;
- preparing, budgeting and executing annual personnel training programs; and
- maintaining complete and accurate accounting records of all costs and expenditures of the oil operations and keeping the accounting books secure and in good order.

As the operator, we are solely responsible for carrying out the daily operations of the oilfields. We are also responsible for determining and executing operational and budgetary plans and all routine operational matters.

After we have fully recovered our pilot-test and development costs stipulated to be expended by the overall development plan, PetroChina has the right under the production sharing contracts to take over the operations of the oilfields at its sole discretion. In the event PetroChina takes over the operations at any of the three oilfields, we will remain entitled to our allocation of the operating portion of the cost recovery oil and the profit-sharing oil for the remaining term of the relevant production sharing contract and continue to participate on the joint management committee. However, we will not be able to invest in additional capital expenditures to generate more production and revenue.

Ownership of Assets and Data

PetroChina owns all data, records, samples, vouchers and other original data obtained by the foreign contractors in the course of performing the oil operations. After the earlier of (i) full recovery by the foreign contractors of their development costs or (ii) expiration of the production sharing contracts, PetroChina shall own all the assets purchased, installed and constructed under the production sharing contracts in accordance with the laws and regulations of the PRC, prior to which PetroChina and we jointly control the assets and the ownership of the assets is not explicitly defined in the production sharing contracts. The total net book value of the assets amounted to RMB2,986 million as of June 30, 2010. We amortized this amount using the unit of production method over the remaining term of the relevant production sharing contract, which method is not affected by the ownership of the assets. PetroChina has not obtained ownership of the assets purchased, installed and constructed under the production sharing contract of any of our oilfields.

The production sharing contracts specifically provide that, regardless of who has ownership of the assets, during the term of the relevant production sharing contract the assets are to be used solely for the petroleum operations of the relevant oilfield. Without the consent of both PetroChina and the foreign contractors, the assets cannot be used for any other purpose. Furthermore, according to the Petroleum Regulation and the production sharing contracts, should PetroChina take ownership of the assets before the expiration of the production sharing contracts, our entitlement to our allocation of the cost recovery oil and the profit sharing oil will not change for the remaining term of the relevant production sharing contract. Our ability to realize future economic benefits under the production sharing contracts stems from our entitlement to the oil produced over the term of the production sharing contract, and such entitlement is not dependent upon us owning the assets. For these reasons, the Directors believe that PetroChina's eventual ownership of the assets in this respect will not materially affect our financial position.

Sale of Crude Oil to Third Party Purchasers.

The production sharing contracts provide that foreign contractors may sell their share of the crude oil to other third party purchasers. Foreign contractors may also export their share of crude oil to purchasers overseas and shall obtain, with the assistance of PetroChina, any necessary licenses or permits. See "– Sales and Marketing" for a description of the sales contract between us and PetroChina. Under applicable oil trade laws and regulations in the PRC, any exports shall be made only by licensed vendors.

Abandonment of Production or Termination of Production Sharing Contract

During the commercial production stage, production from a contract area may be abandoned due to the lack of economic feasibility. Pursuant to the production sharing contracts, if any party to the production sharing contracts plans to abandon production from the contract area, it must give prior written notice to the other party or parties. If the other party or parties agree to abandon production from the contract area, all parties shall pay abandonment costs in proportion to their respective percentage of participating interests in the contract area. Upon service of notice by the foreign contractors, if PetroChina decides not to abandon production, all of the foreign contractors' rights and obligations under the production sharing contract in respect of the contract area, including the obligation to pay abandonment costs, shall terminate automatically.

In addition to abandonment, there are several circumstances where the production sharing contracts can be terminated, including: (i) the contractor can choose to terminate after pilot test period; (ii) the production sharing contract automatically terminates after 20 years of continuous commercial production; (iii) PetroChina can terminate in the case of abandonment of production by the contractor; (iv) the production sharing contract automatically terminates 30 years from the date of execution; and (v) both parties can terminate upon a material breach of the contract terms by the other party, subject to arbitration as provided in the production sharing contract.

For details of the applicable laws and regulations governing production sharing contracts in the PRC, please see "Regulation – Regulatory Framework for Sino-Foreign Cooperation in the Exploitation of Onshore Petroleum Resources" in this prospectus.

Our Relationship with PetroChina

We have a long-standing relationship and a history of close cooperation with PetroChina, with which we currently have three production sharing contracts. PetroChina, the largest of the three state-owned oil companies, has the highest number of production sharing contracts covering onshore oilfields. We have worked closely with PetroChina since 2001, when we took over the operations of the three oilfields. In 2007, 2008, 2009 and the first half of 2010, PetroChina was our sole customer and accounted for all of our revenue. Our cooperation has deepened as the Daan, Moliqing and Miao 3 oilfields entered commercial production phases. Our strong relationship with PetroChina is one of the key factors that will contribute to our future growth, and we believe we are well positioned to further develop our working relationship with PetroChina in current and future projects.

PetroChina is independent of and not connected with us or any of our subsidiaries, Directors, senior management or substantial shareholders. PetroChina also does not have any common shareholder or management to that of our company. All production sharing contracts with PetroChina were negotiated on an arm's length basis between the parties, reflected normal commercial terms and have been approved by MOFCOM as required under PRC law. As set out in the sales contract, the price which we sell our portion of crude oil produced under the production sharing contracts is determined at market price each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, which closely follows the price of West Texas Intermediate crude oil, an international crude oil price benchmark.

Our Board of Directors currently consists of four executive Directors and four non-executive Directors, each of whom is independent of PetroChina. Each Director is fully aware of his fiduciary duties as a Director which requires, among other things, that he acts for our benefit and in our best interests.

We operate independently of PetroChina and also have independent access to third party suppliers. Our management and operational decisions are made by our Directors and senior management, who are independent of PetroChina and have substantial experience in the oil and gas industry. We have the capability and personnel to perform all essential administrative functions including financial and accounting management. In addition, we maintain an independent financial management system and make financial decisions according to our business needs. In the past, we obtained financing from external sources to finance all the development of the Daan, Moliqing and Miao 3 oilfields without reliance on PetroChina. Other than trade and other receivables incurred in the normal course of business, there is no amount due to or from PetroChina. As the sole oilfield operator under each of the production sharing contracts, we are solely responsible for carrying out daily operations of the oilfields.

The Directors believe the company will be able to continue generating revenue despite its current reliance upon PetroChina as a customer for the following reasons:

(i) China's onshore oil and gas industry is dominated by two national oil companies, namely PetroChina and Sinopec. PetroChina is currently the larger among the two as measured by proved reserves and net production, and it also has the highest number of production sharing contracts covering onshore oilfields among the state-owned oil companies. Due to the dominance of PetroChina and Sinopec over the industry, it is unlikely that a company in our line of business would be able to break off reliance on either one of them as a major customer.

(ii) Further, growing energy demand and robust oil prices are driving growth in the global oil and gas industry. Crude oil remains a core source of global energy demand, with global oil consumption having historically grown at a steady pace from 1999 to 2009. Going forward, the oil and gas industry is expected to experience continued growth in order to meet growing demand for oil. In particular, the global oil demand growth outlook is increasingly dependent on the economic growth of China, whose lag in oil consumption on a per capita basis behind OECD nations indicates significant further growth potential for oil consumption in China.

PetroChina's Right to Take Over Oilfield Operations

Under our production sharing contracts with PetroChina, PetroChina has the right to take over the operational rights of the oilfields from us when all the development costs, including all costs incurred in both the pilot test and development phases, have been recovered by us in full and no additional overall development plan under which additional development costs will be incurred by us has been approved. We have recovered all of our past development costs in the Daan oilfield, but we have not reached the limits set in the overall development plans for Daan and continue to make additional new investments in the Daan oilfield in accordance with development programs approved by the joint management committee. We have not recovered our development costs in Moliqing and Miao 3 oilfields. Therefore, we do not believe PetroChina has the right to take over any of our oilfield as of the date hereof.

The Directors also believe that the risk of PetroChina taking over the operations of any of the oilfields is remote for the following reasons:

(i) As of June 30, 2010, we had drilled 1,333 wells at the Daan oilfield, including 1,252 wells drilled since the original overall development plan was approved and 81 wells drilled in cooperation with PetroChina prior to NDRC approval, some of which were necessary to complete preparation of the overall development plan, and we had invested development costs of RMB3.6 billion since the approval of the original overall development plan. The original overall development plan for Daan allowed for 427 wells and a maximum development cost of approximately RMB1.2 billion to be

funded by the foreign contractors, and a supplementary overall development plan for Daan increased the number of wells to be drilled by an additional 1,218 wells and the maximum amount of development cost by an additional approximately RMB3.6 billion to be funded by the foreign contractors. Hence, the limits as set out in the original overall development plan and the supplemental overall development plan have not been reached and we do not expect to reach those limits until the second half of 2012. We will drill additional wells and make additional development costs as permitted under the original overall development plan and the supplemental overall development plan.

(ii) As of June 30, 2010, the Daan oilfield had gross proved undeveloped reserves of 18.8 million barrels, as well as gross probable and gross possible reserves of 34.1 million barrels and 19.9 million barrels, respectively. We believe substantial investment will be required to continue to develop the Daan oilfield and the joint management committee, comprised of equal numbers of members appointed by us and PetroChina, will continue to approve development programs for the Daan oilfield. In September 2008, CNPC, GOC and MIE entered into a supplementary agreement to carry out additional development operations in the Daan oilfield with the approval of the joint management committee when the limits set out in the overall development plans for Daan have been reached. It is not necessary to obtain NDRC approval for this supplementary agreement because, as confirmed by our PRC legal counsel, Zhong Lun Law Firm, it is neither a new overall development plan nor a new supplemental plan and thus is not subject to any NDRC approval. Also, on October 27, 2010, the joint management committee passed a resolution for us to work with PetroChina to prepare a new supplemental overall development plan for the further development of the Daan oilfield for an additional five years and submit such plan to the joint management committee for final approval. This new supplemental overall development plan must be approved by the NDRC, which approval we expect to receive within one to two years, or approximately six months after the new supplemental overall development plan is prepared and submitted to the NDRC. Based upon projected drilling rates, we do not expect that development under the new supplemental overall development plan will be completed until 2017, and the only costs that we expect to incur under this new plan are those costs associated with drilling new wells. We believe that entering into the supplementary agreement in September 2008 demonstrates PetroChina's and CNPC's support for foreign contractors' continued development of oil resources as further evidenced by the joint management committee's resolution on October 27, 2010 for us to work with PetroChina for a new supplemental overall development plan. Therefore, we believe that PetroChina, and its parent company CNPC, will continue to assist us in obtaining future overall development plans once current plan limits have been reached.

(iii) The *Exploration and Development Technological Symposium of PetroChina Foreign Cooperation* (中國石油對外合作勘探開發技術論文集), published by the Petroleum Industry Press which is owned and operated by CNPC, states that all production sharing contracts that PetroChina enters into with foreign companies should provide PetroChina the right to take over production operations after the foreign contractor has incurred all the development costs permitted under the overall development plan and recovered all of its development costs. Accordingly, although our production sharing contracts contain clauses setting forth PetroChina's right to take over the operatorship of the oilfields, these clauses are standard in production sharing contracts between PetroChina and foreign operators. To our knowledge, PetroChina has never exercised the right to take over the operations of any of its oilfields under a production sharing contract with an independent foreign contractor.

(iv) Relative to the larger oilfields that PetroChina operates, we are more efficient in developing smaller low-permeability oilfields, such as the three oilfields over which we have entered into production sharing contracts, as demonstrated by our lower overall lifting cost of US$7.69 per barrel as compared to PetroChina's lifting cost of US$9.12 per barrel for the year ended December 31, 2009. As a result, we believe that PetroChina recognizes the benefits of utilizing our expertise in operating smaller low-permeability oilfields and does not have any incentive to take over the operations of any of the three oilfields from us. According to the 2009 CNPC Yearbook, CNPC had a total of 23 operating production sharing contracts as of the end of 2008. Most of the Sino-foreign cooperation projects described in the 2009 CNPC Yearbook, especially those production sharing contracts entered into in recent years, concern challenging and unconventional projects such as low-permeability oilfields, mature oilfields, or high-pressure and high-temperature natural gas reserves. Furthermore, under the Foreign Investment Industry Guidance Catalog issued by MOFCOM that divides industries into those where foreign investment is either prohibited, restricted, permitted or encouraged, the development of low-permeability oilfields is classified as an industry where foreign participation is encouraged.

(v) Our PRC counsel, Zhong Lun Law Firm, has advised us that, even if PetroChina takes over the operations of any of the oilfields, we will remain entitled to our allocation of the operating portion of the cost recovery oil and the profit-sharing oil for the remaining term of the relevant production sharing contract. Furthermore, members appointed by us will continue to participate on the joint management committee, which performs supervisory functions for the three oilfields, including the approval of the annual production budget and work programs.

(vi) During the Track Record Period and up to the Latest Practicable Date, we are in compliance with the terms of the production sharing contracts.

(vii) For the Moliqing and Miao 3 oilfields we have not recovered our past development costs, so PetroChina does not have the legal right to take over the production operation until those costs, and any future development costs incurred by us in accordance with their overall development plans, are recovered. As of June 30, 2010, we had recovered only 78.0% and 42.8% of the development costs for Moliqing and Miao 3, respectively. Based upon proven and probable reserve amounts and the assumed average realized price of US$73.35 per barrel as of June 30, 2010 from the Independent Technical Report in Appendix V to this prospectus, we expect to recover the development costs for the Moliqing and Miao 3 oilfields in 2013 and 2015, respectively. After the company has recovered development costs for the Moliqing and Miao 3 oilfields, if the company has not reached the limit for the number of wells to be drilled and the amount of investment approved under the respective overall development plans, the company should continue to make additional investments and incur further development costs in accordance with such overall development plan unless the company and PetroChina agree to modify that plan. In addition, the company and PetroChina may at any time agree to prepare new supplemental overall development plans, subject to approval by the NDRC, to allow further investment and development in the oilfields beyond the limits set forth in the respective existing overall development plans.

Therefore, if PetroChina takes over the operation of any of the oilfields, it has to incur additional costs and commit additional resources, but at the same time, we can still receive our 90% portion of the 48% of produced crude oil allocated to the foreign contractors until the expiry of the production sharing contracts as set out in the production sharing contracts. Regardless of who operates the oilfield, both PetroChina's and MIE's interests in the oilfields are fixed and protected by the production sharing contracts. Therefore, we believe it does not make commercial sense for PetroChina to take over the operation of any of the oilfields during the term of the production sharing contracts.

In the event that PetroChina exercises its right to take over the operational rights of the oilfields from the foreign contractors, PetroChina shall give a written notice to the foreign contractors. The foreign contractors shall have 60 days to prepare a transfer plan, and the joint management committee shall have 30 days thereafter to review and approve the plan. PetroChina shall have 60 days after the joint management committee's approval to submit its list of personnel taking over the operations to the foreign contractors. The foreign contractors shall have 330 days from the original notice from PetroChina to complete its report on the completion of preparations for the transfer, and the joint management committee shall have 30 days to approve the report before formally commencing the transfer. If this were to occur, we would continue to operate the oilfields until PetroChina completely assumes control and takes over production operations, and we would continue to enjoy our right to the allocated portion of the oil produced until 2024 for the Daan oilfield and until 2028 for the Miao 3 and Moliqing oilfields (each being when the respective production sharing contracts expire). Further, we would focus our efforts on entering into new production sharing contracts, both with PetroChina and with other third parties, and on expanding into emerging markets outside of China. See "– Our Strategies – Increase our net reserves and net production by securing new production sharing contracts and acquiring existing production sharing contracts in China" and "– Our Strategies – Selectively expand into emerging markets outside of China."

Production and Drilling Data

Average Daily Production

The following tables show our average daily gross and net crude oil production in 2007, 2008, 2009 and the first half of 2010.

	Year Ended December 31,			Six-Month Period Ended June 30,
	2007	**2008**	**2009**	**2010**
Gross crude oil production:		**(In barrels)**		
Daan oilfield	8,433	11,646	11,994	14,628
Moliqing oilfield	1,466	2,200	2,127	2,665
Miao 3 oilfield	206	223	265	798
Total average daily gross production	10,104	14,069	14,386	18,091

	Year Ended December 31,			Six-Month Period Ended June 30,
	2007	**2008**	**2009**	**2010**
Net crude oil production:		**(In barrels)**		
Daan oilfield	5,295	6,492	6,000	7,665
Moliqing oilfield	1,003	1,505	1,453	1,831
Miao 3 oilfield	141	153	184	546
Total average daily net production	6,439	8,150	7,637	10,042

Average Sales Price and Net Production Costs

The following table sets forth our average sales price per barrel of crude oil and lifting costs per barrel of crude oil in 2007, 2008, 2009 and the first half of 2010.

	Year Ended December 31,			Six-Month Period Ended June 30,
	2007	**2008**	**2009**	**2010**
		(US$)		
Average sales price per barrel of crude oil	69.00	104.78	58.58	76.72
Daan oilfield	68.5	105.66	59.05	76.67
Moliqing oilfield	71.31	101.51	56.83	76.96
Miao 3 oilfield	70.43	102.03	56.57	76.64
Lifting costs	7.24	6.52	7.69	6.37
Daan oilfield	5.44	4.23	6.21	5.01
Moliqing oilfield	13.70	13.26	11.82	10.21
Miao 3 oilfield[1]	26.52	31.06	25.86	12.73

(1) Miao 3 oilfield has higher lifting costs than the other two oilfields because it is in the early stage of development with higher fixed cost per unit of production.

Productive Wells

The following table sets forth the number of our gross and net productive wells as of June 30, 2010.

	As of June 30, 2010			
	Daan Oilfield	**Moliqing Oilfield**	**Miao 3 Oilfield**	**Total**
Gross productive wells	1,333	132	127	1,592
Net productive wells[1]	960	95	91	1,146

(1) Calculated based on a 72% interest in the gross productive wells. The 72% interest is derived from our 90% participating interest in the foreign contractors' 80% entitlement under the production sharing contracts.

Development Wells

The following table sets forth the number of our gross and net development wells drilled in 2007, 2008, 2009 and the first half of 2010.

	Year Ended December 31, 2007			
	Daan Oilfield	Moliqing Oilfield	Miao 3 Oilfield	Total
Gross development wells drilled	**157**	**26**	**9**	**192**
Successful	156	26	9	191
Dry	1	0	0	1
Net development wells drilled[1]	**113**	**19**	**6**	**138**
Successful	112	19	6	137
Dry	1	0	0	1

	Year Ended December 31, 2008			
	Daan Oilfield	Moliqing Oilfield	Miao 3 Oilfield	Total
Gross development wells drilled	**316**	**45**	**28**	**389**
Successful	316	45	28	389
Dry	0	0	0	0
Net development wells drilled[1]	**228**	**32**	**20**	**280**
Successful	228	32	20	280
Dry	0	0	0	0

	Year Ended December 31, 2009			
	Daan Oilfield	Moliqing Oilfield	Miao 3 Oilfield	Total
Gross development wells drilled	**151**	**20**	**18**	**189**
Successful	151	19	18	188
Dry	0	1	0	1
Net development wells drilled[1]	**109**	**14**	**13**	**136**
Successful	109	13	13	135
Dry	0	1	0	1

	Six-Month Period Ended June 30, 2010			
	Daan Oilfield	Moliqing Oilfield	Miao 3 Oilfield	Total
Gross development wells drilled	**144**	**13**	**22**	**179**
Successful	144	13	22	179
Dry	0	0	0	0
Net development wells drilled[1]	**104**	**9**	**16**	**129**
Successful	104	9	16	129
Dry	0	0	0	0

(1) Calculated based on a 72% interest in the gross development wells. The 72% interest is derived from our 90% participating interest in the foreign contractors' 80% entitlement under the production sharing contracts.

Developed and Undeveloped Oil Area

The following table sets forth our developed and undeveloped oil area as of June 30, 2010.

	As of June 30, 2010			
	Daan Oilfield	Moliqing Oilfield	Miao 3 Oilfield	Total
	(Km^2, except percentages)			
Gross developed area	82.3	9.9	9.3	101.5
Gross undeveloped area	170.7	61.6	71.7	304.0
Net developed area(1)	59.3	7.1	6.7	73.1
Net undeveloped area(1)	122.9	44.4	51.6	218.9
Percentage of gross developed area to gross undeveloped area	48.2%	16.0%	13.0%	33.4%

(1) Calculated based on a 72% interest in the gross oil area. The 72% interest is derived from our 90% participating interest in the foreign contractors' 80% entitlement under the production sharing contracts.

Suppliers

We outsource a variety of oil operations work to third parties, including oil rig supply, well drilling services, fracturing and perforating services, well maintenance services, well logging services, oil tanker transportation services and reservoir studies. We typically procure independent third party service providers through invitations or a bidding process. We usually use an open bidding process for drilling, well logging, well repair services and other projects that exceed RMB500,000 in expected expenditures. We consider cost, work quality, track record and proposed delivery schedule in our selection process and seek to balance our cost considerations and desire for work quality. We also conduct detailed due diligence on the service providers such as reviewing their qualifications and track record. The joint management committee also has the right to approve our independent third party service providers. For well-drilling services and fracturing and perforating services, we usually enter into a one-year minimum work commitment. These contracts cover both the supply of the drilling materials and the drilling work. A service provider's fees are usually paid in installments according to the progress of the work it is engaged to perform. Consistent with market practice, we also make prepayments to certain service providers prior to the provision of services. We closely manage services provided by contractors and exercise extensive control over their performance, including their costs, schedule and quality of service. Our technicians are responsible for supervising the day-to-day drilling work to ensure compliance with relevant rules and regulations, and have regular meetings with the service providers and for conducting on-site inspection. These agreements also stipulate the liabilities of each party under various scenarios of breach of contract or non-performance, and providers are typically responsible for accidents arising from their performance of services resulting from their own fault. For losses resulting from force majeure, parties would bear their own respective losses.

We purchase equipment and drilling materials from third party suppliers. We award contracts for equipment and materials that exceed RMB1 million in expected expenditures to the winning bidder in a formal competitive bidding process. We also select vendors through invitations. Our procurement department makes assessments of equipment and materials based on price, quality, track record and delivery time to ensure the selection of the most appropriate vendor. We conduct due diligence on our vendors and manage the contract performance of our vendors with the same amount of scrutiny we use for our service providers. Consistent with market practice, we make prepayments to certain vendors prior to the delivery of equipment or materials. Under the supply agreements, we usually pay the suppliers in installments. Suppliers would further agree to a product warranty period, during which they would resolve any product quality problems free of charge, or will indemnify us for costs incurred as a result of any

quality defects. The agreements also stipulate penalties for late delivery and non-delivery by suppliers and provide indemnity to us for losses incurred as a result of any third party claims against us arising from the equipment delivered.

Our suppliers of lifting cost related materials and services are generally domestic companies located in the region. Purchase expenses from our five largest suppliers accounted for approximately 47.6%, 73.8%, 47.1% and 62.9%, respectively, of our total purchases for 2007, 2008, 2009 and the first half of 2010. Purchases from our largest supplier accounted for approximately 14.9%, 27.3%, 13.9% and 16.9%, respectively, of our total purchases for the same periods. We usually do not enter into long-term supply contracts with our suppliers or hedge against the price volatility of the materials purchased from them.

During 2007, 2008, 2009 and the first half of 2010, purchases from Jilin Guotai Petroleum Development Company ("Jilin Guotai") accounted for approximately 11.3%, 17.2%, 13.9% and 15.2%, respectively. Jilin Guotai is a related party held 70% by Ms. Zhao Jiangbo, the wife of Mr. Zhang, our executive Director, chairman and chief executive officer, and 30% by Mr. Zhao, our executive Director, vice chairman and senior vice president. See "Relationship with Controlling Shareholders and Connected Transactions" for more information. Jilin Guotai provides to us various oilfield services, including well maintenance services, well logging services, oil tanker transportation services, oilfield construction related works and other oil operations related services. PetroChina, our sole customer, was our fourth-largest supplier during the Track Record Period, and purchases from PetroChina accounted for approximately 5.7%, 10.1%, 5.8% and 8.7% of our total purchases during 2007, 2008, 2009 and the first half of 2010, respectively. PetroChina supplies to us pipeline transportation and processes our sales transactions with them. Except for Jilin Guotai, none of our shareholders, Directors and their associates who hold more than 5% of our issued capital have any interest in our top five suppliers.

We have experienced cases in the past where third party suppliers to which we had already made prepayments failed to deliver equipment or provide services. We made a provision for impairment of prepayments of RMB11.2M in 2007 because certain advances paid to drilling service providers and equipment suppliers were not collectible. We no longer use these third party suppliers. Since those occurrences, we have improved our credit risk management in an effort to reduce our exposure to our suppliers' credit risks by regularly reviewing the credit profiles of our suppliers. We manage credit risk by designating preferred suppliers based on past experience, identifying and assessing risks faced by our suppliers and continuously monitoring the performance of our suppliers during the period of their engagement. Our improved credit risk management practices provide us with a better understanding of our suppliers and the markets in which they operate, and allows us to react quickly to volatile markets and our suppliers' changing credit profiles. See "Financial Information – Certain Statement of Financial Position Items – Trade and Other Payables" regarding any change in suppliers' credit policy during the Track Record Period.

Inventory Control

Our inventory consists of crude oil in our oil tanks and materials and supplies for drilling and extraction of crude oil, which we store in our own warehouses. Oil in tank inventory amounted to RMB9.4 million, RMB36.3 million, RMB13.0 million and RMB14.3 million for 2007, 2008, 2009 and the first half of 2010, respectively. Materials and supplies amounted to RMB27.2 million, RMB37.5 million, RMB63.0 million and RMB34.1 million for 2007, 2008, 2009 and the first half of 2010, respectively. Due to the nature of our oil production business, we do not stock up crude oil or materials and supplies for long periods. Our management monitors our oil inventory daily. For materials and supplies, we only stock up materials and supplies for our own production purposes. We conduct periodic stock-taking for accounting reporting and ad hoc stock-takes, and our management reviews inventory reports frequently and reviews the age of inventory at least monthly or as they may consider necessary, and uses computerized processes to track inventory movements and perform aging analysis. During the Track Record Period, there was no material change to our inventory policy.

Sales and Marketing

In 2007, 2008, 2009 and the first half of 2010, PetroChina was our sole customer and accounted for all of our revenue.

On December 28, 2000, Microbes entered into a sales contract with China National Petroleum Sales Corporation, which was supplemented by a memorandum dated March 5, 2004 to transfer the contractual rights from Microbes to MIE and from CNPC to PetroChina, respectively. Under the sales contract, we and the other foreign contractor agreed to sell, and PetroChina agreed to buy, the foreign contractors' share of the crude oil produced from the oilfields during the lifespan of the production sharing contracts. Each production sharing contract has a term of 30 years, unless otherwise terminated. See "Production Sharing Contracts – Abandonment of Production or Termination of Production Sharing Contract" for more discussion on the termination of the production sharing contract.

The sales contract provides the following terms:

- The sales contract specifies the delivery points for the transportation of crude oil – e.g., crude oil shall be transported to certain stations at which the crude oil shall enter into the pipeline system of PetroChina. The sales contract also specifies that quality and quantity analyses of the crude oil shall be undertaken at the delivery points.
- The sales contract further stipulates that the price we receive for crude oil delivered by us to PetroChina is determined each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram (which closely follows the price of West Texas Intermediate crude oil, an international crude oil benchmark), for the previous calendar month. Such price is then subtracted by a total fee for oil transportation of RMB52 per ton (US$1.03 per barrel) in the sales contract. The fee for oil transportation and sales is inclusive of all freight charges after the crude oil enters into PetroChina's pipeline system, any loss, and any other fees imposed by any organization or governmental authority (excluding value-added taxes and royalties).
- The contract provides that PetroChina shall pay within 30 days after it receives invoices in U.S. dollars by wire transfer, but such amount can be paid in Renminbi at the request of the foreign contractors. Currently all of our oil sales are denominated and settled in U.S. dollars.
- Notwithstanding the above, the sales contract provides that the foreign contractors may export their share of crude oil to overseas purchasers. The foreign contractors shall inform PetroChina of its exporting plan. PetroChina shall inform the contractors the quantity of crude oil to be exported within 30 days after receiving the export plan and shall provide necessary assistance.

Currently, we transport all the crude oil produced from the oilfields through our pipelines or by trucks to the delivery points designated by PetroChina. The crude oil enters PetroChina's pipeline system once we and PetroChina have agreed on the quantity of the oil delivered.

A crude oil allocation report, prepared according to instructions of the joint management committee, is provided to PetroChina each month. We then issue an invoice to PetroChina within five days after the end of each month. The invoice amount equals the product of the crude oil price and the metered volume of crude oil attributable to the foreign contractors for the month after deducting value-added taxes and royalties. We receive cash payment from PetroChina for our proportion of the crude oil, less the amount of crude oil representing the foreign contractors' share of value-added tax and royalties payable by PetroChina to the relevant PRC governmental authorities on our behalf as consideration in kind. Within 20 days after receipt of our invoice, PetroChina typically pays to us the invoiced amount by wire transfer, and we thereafter pay to GOC its net entitlement under the production sharing contracts, which equals 10% of the foreign contractors' entitlement under the production sharing contracts after deducting investment costs and expenses borne by GOC and any outstanding loan balance owed to us by GOC.

We have not exported any crude oil because PetroChina has purchased all of the crude oil we produced. There is currently no economic advantage for us in selling or exporting the oil to other customers. The price of crude oil purchased by PetroChina is based on the Daqing crude oil price at Dalian Harbor, which closely follows the WTI price, and there is no contractual limit to the price that PetroChina will pay when purchasing from us. Therefore, PetroChina pays international market prices when it purchases oil from us. When we sell to PetroChina, the oil is transported through PetroChina's pipelines, which are located nearby our oilfields, and we pay a transportation and selling fee of RMB52 per ton (US$1.03 per barrel) pursuant to the sales contract. If we were to sell or export the oil to other customers, PetroChina or another third party may require higher transportation costs or we may have to rely upon more costly means to transport the oil to the port (such as truck or train) given that our oilfields are located further inland. Furthermore, we have not experienced any problems in collecting receivables from PetroChina, which has been prompt in its payments. We would incur credit or collection risks if we sold or exported our oil to other customers.

Properties

As of June 30, 2010, 1,618,058 square meters of land parcels have been approved by relevant PRC governmental authorities for our temporary use pursuant to the production sharing contracts. This includes certain parcels of land that have been used temporarily by us for the installation of oil pipes and will be returned to the former owner after the term of temporary use expires. During the operation, when we discover that a given parcel of land is desirable for production use, we or PetroChina will apply to the relevant land administrative departments to convert that parcel from temporary use to permanent use. As of June 30, 2010, there were 1,586,658 square meters of land for which we or PetroChina had already filed the conversion applications but the conversion was still pending, and 31,400 square meters of land parcels for which we have received approval for temporary use but have not officially submitted conversion applications, including certain parcels of land that will be returned to the owner after the term of temporary use expires. The conversion process only requires certain administrative procedures, but the time necessary to complete these procedures can vary.

Additional parcels of land totaling 644,292 square meters have already been converted into permanent use land and allocated to us or PetroChina by the Ministry of Land and Resources. These include parcels totaling 37,060 square meters that have been allocated directly to us for the central collection station at Daan, for which we obtained the Letter of State-owned Construction Land Allocation Decision from the Daan Municipal Land and Resource Bureau on August 17, 2010. The balance are allocated to PetroChina, which has already obtained the relevant Letters of State-owned Construction Land Allocation Decision from the local government authorities, and used by us for production and injection facilities, dormitories and collection stations. These permanent use parcels are used for development facilities, central collection stations, offices, ancillary facilities and dormitories for our workers.

Land parcels used for oil development and production facilities, ancillary facilities, offices and dormitories in China are generally granted by allocation. The term of an allocated land parcel is permanent subject to land resumption by the original approval authority. In our case, the State Council and the Ministry of Land and Resources are the competent approval authorities to allocate the land for our development and production use and an application for land use rights allocation is required to be submitted to the State Council and the Ministry of Land and Resources for approval. Since the three production sharing contracts provide that PetroChina is obligated to procure or assist in procuring land to the foreign contractors, normally we will provide all information required for an application to PetroChina and PetroChina will submit the allocation application.

Land allocation is approved according to the following procedures:

i. Examination and approval by county land resource bureau and county government;

ii. Examination and approval by provincial land resources department and provincial government;

iii. Examination and approval by the State Council and Ministry of Land and Resources and an approval reply issued by the Ministry of Land and Resources;

iv. Allocation decision issued in the form of a Letter of State-owned Construction Land Allocation Decision by relevant county land resources bureau; and

v. Registration of the land use right by the applicant.

The application and approval process for allocation of petroleum operation related land use is a lengthy and ongoing process and generally takes between two to five years to complete.

It is the industry practice in China that oil companies commence operation with a temporary land use right approval and apply for a conversion into permanent land of such land parcels at a later stage. In addition, due to the special nature of the oil and gas industry, the Ministry of Land and Resources has issued several notices requiring oil and gas companies to apply for temporary land use right approvals for areas of proposed drilling and relevant facilities in order to facilitate the oil and gas company to commence its oil operations on a timely basis and then apply for the conversion at a later stage. During the Track Record Period and up to the Latest Practicable Date, there has been no past incident in which we failed to convert temporary land into permanent allocated land.

We and PetroChina have completed certain, but not all, of the necessary procedures required in obtaining the relevant land use rights certificates for these permanent use parcels. Though as of the Latest Practicable Date no land use right certificate in relation to the oilfields has been obtained, our PRC counsel Zhong Lun Law Firm is of the view that there are no legal impediments to obtaining the land use rights certificates from the relevant authorities. PetroChina holds legal and valid exploitation permits for the exploration, development and production of crude oil on these parcels and we and PetroChina are permitted to cooperate in respect of the exploitation of onshore oil resources at the Daan, Moliqing and Miao 3 oilfields under the relevant production sharing contracts, all of which have been approved by MOFCOM. Further, all of the development and production activities at the three oilfields are pursuant to the relevant oilfield's overall development plan, which plans have all been duly approved by either the NDRC or the NEB. PetroChina is the applicant for the relevant land use right certificate and controls the process at its own pace. PetroChina has informed the company that it intends to obtain all land use right certificates for the permanent use parcels by the end of 2011.

The Directors believe that the lack of land use rights certificates will not adversely affect our interest and rights in the production sharing contracts which give us sufficient influence in decisions over the exploration for and/or extraction of crude oil in the three oilfields. We and PetroChina have obtained the allocation letters for such permanent use lands. Pursuant to the contents of such allocation letters issued by the government authorities, the allocation letters is the legal basis for the land user to use the land and apply for the registration of land use right. Hence, we are legally entitled to use such lands. Our operations have never been disrupted due to the lack of proper land title since MIE became the sole operator of the three oilfields. Further, there has been no past incident with which PetroChina was liable to the Group for the losses and damages arising from the failure to obtain land use right certificates for the land provided by PetroChina.

We own one collection station and one transferring station in the Daan oilfield, one collection station in the Moliqing oilfield, several dormitories to house our employees and numerous production and injection facilities throughout the oilfields. We have constructed 23 buildings with an aggregate area of approximately 20,815.5 square meters that are used for offices, dormitories, or other facilities. These buildings were constructed according to the overall development plans approved by the NDRC or the NEB in consultation with other relevant government authorities, including the Ministry of Land and Resources. We also lease three properties with an aggregate area of approximately 3,520 square meters as offices and dormitories in Beijing, Songyuan and Houston, Texas. These leased properties are not critical to our operations, and we believe that if we were required to vacate these leased premises we would be able to relocate to alternative premises without materially affecting our operations.

Please refer to the section headed "Appendix IV – Property Valuation" in this prospectus for more detailed information about our properties.

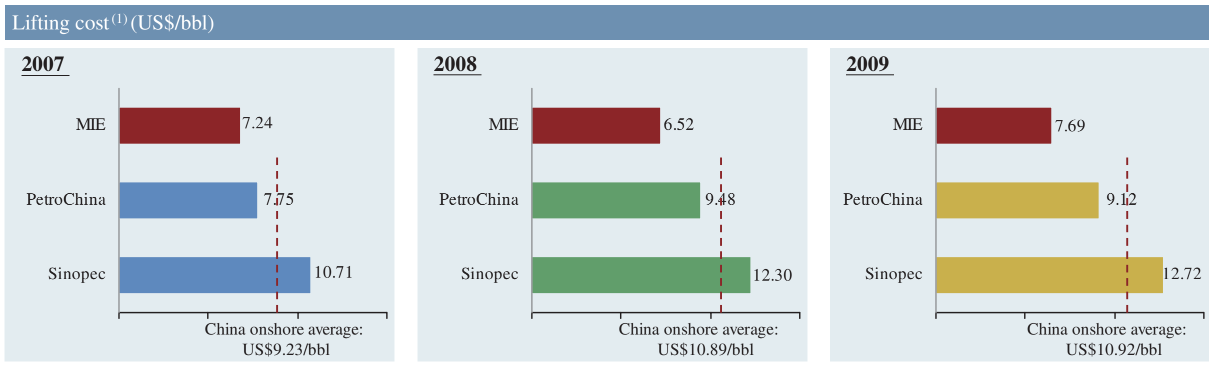
Competition

We are the sole operator of the three oilfields at Daan, Moliqing and Miao 3 through contractual arrangements with PetroChina. We do not compete with other operators in our contract areas. However, we encounter competition when we seek to acquire new properties, secure additional production sharing contracts with state-owned oil and gas companies or hire trained personnel. We may face competition from both existing players and new emerging players for the contractual right to cooperate with PetroChina and Sinopec, which are the only entities permitted to cooperate with foreign companies in onshore crude oil and natural gas exploration and production in the PRC, and for the development and production of oil resources in the PRC. Some of the competitors include ROC Oil, Central Asia Oil, Bright Oceans and Ivanhoe Energy. We understand that there are a number of barriers to enter into the independent upstream industry, such as technical capability, financial resources, experience and track record, and relationship with PetroChina and Sinopec.

We believe our major competitive advantages include:

- significant experience, expertise and proven track record in developing low-permeability and low-pressure oilfields;
- competitive cost structure and operational efficiency;
- long-standing and strong relationship with PetroChina; and
- strong management team with international experience and local knowledge.

We achieve our competitive advantages by applying best available technologies and international best practices. From 2007 to 2009, MIE operated at consistently lower overall lifting costs than PetroChina and Sinopec the over the period. We believe competition from specialized oilfield operators in China will continue to be strong in the future.



Source: 2007-2009 Form 20-F for PetroChina and Sinopec

(1) Lifting costs refer to operating costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining wells and related equipment and facilities, but excluding any production taxes or special oil gain levy; based on exchange rate of 7.59, 6.93 and 6.83 in 2007, 2008 and 2009, respectively, and oil conversion of 7.4 barrel/ton.

Furthermore, there has been increasing participation of independent oil companies in the Songliao Basin, particularly in the Jilin complex. MIE, Central Asia Oil and Bright Oceans are some of the independent oil companies involved, which have continued to increase the scale of their operations. For example, PetroChina's production from the Songliao Basin remained relatively flat from 2001 to 2008, while our

gross production from the same region increased from 8,057 tons in 2001 to 693,237 tons in 2008. More specifically, for the Jilin oilfield complex, an area which has experienced significant development activities and growth given the increased focus on low permeability reservoirs, our gross production accounted for 10.3% of PetroChina's gross production from the Jilin oilfield complex in 2008 and represented 26.7% of the gross production increase of PetroChina from 2001 to 2008, demonstrating the scale and importance of independent oil companies in this region.

Finally, we intend to acquire oil properties outside the PRC and may face competitors who are able to pay more for productive oil properties and exploratory prospects. Our ability to acquire additional prospects in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a competitive environment. In addition, the upstream oil industry is capital-intensive and requires specialized industry and market knowledge.

Development of Technology and Know-How

We believe our strong commitment to developing our technology and know-how has been one of the factors in our success. The industry in which we operate is characterized by rapid development in oil exploration, development and production techniques. We have focused our efforts in the following major areas:

- *efficiently and effectively developing new reserves within contract areas, compiling development databases and building accurate reserve models.* We have used new techniques to increase the amount of oil that can be recovered in our contract areas, such as core sampling and two-dimensional and three-dimensional seismic studies. During the planning and development of the low permeability reservoirs in these contract areas, we have reviewed, reprocessed and reinterpreted seismic data with the assistance of Chinese and international consultants such as Ultrado Technology Development Inc. and Weinman Geophysical Services Inc.
- *increasing production and reserves through conducting geological studies and analysis of drilling pattern and well density.* We have conducted geological studies, including analysis and interpretation of core and well log data, and developed integrated core and wireline log petrophysical models to improve our understanding of reservoir properties and to help us define and quantify in-place and moveable oil volumes. These measures allow us to conduct more precise drilling and increase our chance of developing productive wells.
- *optimizing production from marginal oilfields through techniques such as multi-layer fracturing, water injection and infill drilling, even in areas of low permeability.* To enhance recovery of oil, we have installed injectors for waterflooding. As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had installed a total of 129, 218, 259 and 298 injectors, respectively, at our three oilfields. Recently, we have started using infill drilling on Daan oilfield.

Our efforts to develop technology and know-how are led by our senior management team.

In addition, we have developed a customized database for collecting information from on-site operations that allows for sharing of data between software systems to ensure consistency and timeliness of data. We have licensed and use a range of software products that provide advanced tools for technical and economic analysis of development and production projects. Such tools include Halliburton Discovery™ Geoscience Interpretation suite, Schlumberger Oil Field Manager for production surveillance, analysis and forecasting, and TRC Consultants PHDWin for analysis and formulating economic decline curves.

Intellectual Property

We have not filed any patent applications. Our engineers and technicians in the course of their work have developed various know-how and techniques relating to reserve management improvement and optimizing oil recovery. Our intellectual property rights consist of trademarks used by us and the domain names we use for marketing and business development purposes. As of June 30, 2010, we had registered our trademarks in China, Hong Kong, Japan, South Korea, the European Union, the United Arab Emirates, Saudi Arabia, Kuwait, Indonesia and the United States, among others. We registered with the Chinese Internet Network Information Center the www.mienergy.com.cn domain name in February 2004.

We recognize the importance of protecting and enforcing our intellectual property rights. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. We were not aware of any material infringement of our intellectual property rights in 2007, 2008, 2009 and the six months ended June 30, 2010, and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. We are currently not aware of any pending or threatened claims against us or our subsidiaries relating to the infringement of any intellectual property rights owned by third parties. Our employment contracts and procurement contracts contain confidentiality provisions to protect our confidential information and know-how.

Environmental Matters

Our operations in the PRC are required to comply with various PRC environmental laws and regulations administered by central and local government environmental protection bureaus. We are also subject to environmental rules introduced by provincial and local PRC governmental agencies in Jilin Province. The Ministry of Environmental Protection sets national environmental protection standards and local environmental protection bureaus may set stricter local standards.

We are required to obtain approval of our environmental impact assessment statement before the overall development plan can be submitted to the NDRC or the NEB for approval. We must file an environmental impact statement with the relevant environmental protection agency before approval can be obtained. The filing must demonstrate that the project conforms to applicable environmental standards. Once we obtain the approval from the NDRC or the NEB, the local and provincial environmental protection agencies supervise our compliance with environmental protection laws and regulations and conduct inspections of our oilfields from time to time.

We have a centralized safety and environmental protection department. Each oilfield also has its own staff and each well operation team has a dedicated worker responsible for monitoring and ensuring that environmental and safety measures are followed. Our environmental protection measures focus on top soil preservation, anti-leakage treatment and waste substance treatment. Our environmental protection measures also involve establishing our own environment protection policy, implementing environmental protection work plans in compliance with relevant policy and regulations of the national and local governments and PetroChina, establishing employee evaluation criteria based on environmental protection-related performance, studying the feasibility and environmental impact of new projects or project expansions, and actively monitoring our operations and the works of contractors. Our environmental protection policy sets standards for properly processing, monitoring and managing waste water and other pollutants emitted during the production process, such as the requirement to take anti-leakage measures during the drilling process and the collection and recycling of waste water and other pollutants. The policy also defines responsibilities of our employees and mandates the implementation of our annual environmental protection plan and environmental protection training for our employees. We have emergency measures to manage, report and investigate any potential incident related to pollution, leakage and other environmental damage. Our emergency management measures follow similar procedures established by PetroChina and the PRC government to handle emergencies such as fire,

personal injuries, vehicular accidents, environmental pollution and equipment malfunction. We have implemented emergency plans and response control procedures. Our production team also analyzes the feasibility of the emergency plans before their implementation. We also conduct quarterly project-wide drills based on these emergency plans, and have designated coordinators under these emergency plans in case of an emergency. The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend any facility that fails to comply with orders requiring it to cease or cure operations causing environmental damage. In 2007, 2008, 2009 and the first half of 2010, no incidents on our oilfields or the aggregate amount of the fines imposed on us had a material adverse impact on our business or results of operations.

We engaged ENSR International, an international environmental consultancy group, to review our environmental standards and provide environmental site assessments for the three oilfields we operate. We implemented the action plan recommended by ENSR International in 2007 and have achieved to it since then, which plan includes, among others, improvements in our waste substance treatment, revegetation planning, soil and groundwater assessment, an improved environmental management system, environmental management training and an environmental compliance audit.

PRC environmental laws do not currently require us to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantling and abandonment of oil wells of approximately RMB27.7 million, RMB4.6 million, RMB7.0 million and RMB9.3 million in 2007, 2008, 2009 and the first half of 2010, respectively.

We make provisions for costs associated with the dismantling and abandonment of oil wells based on our estimations of the present value of the amount of cash payment associated with dismantling and abandonment for each well and the number of wells to be dismantled and abandoned. During the Track Record Period, we had no actual costs associated with the dismantling and abandonment of oil wells. Since the production sharing contracts are not clear on our responsibilities of cost of abandonment, our estimate in 2007 was based on our interpretation of an obligation to pay for our share of abandonment costs for all wells in existence as of December 31, 2007. In 2008, we sought and received clarification following consultation with our legal counsel on the interpretation of the agreement. Our PRC legal counsel, Zhong Lun Law Firm, advised that we will not be obliged to pay for abandonment costs in respect of wells abandoned after the production sharing contracts expire. Our PRC legal counsel also advised that our abandonment obligation only applies to those wells abandoned during the contractual period under the production sharing contracts. The clarification from our PRC counsel resulted in a downward revision of the estimated number of wells we are required to contribute to abandonment costs after 2007.

According to the production sharing contracts, the operator shall, after the completion of various petroleum operation level, restore or reclaim the land of the operating sites in accordance with the relevant local rules and regulations. Also according to the production sharing contracts, all fees and expenses related to ecological and environmental protection measures (such as well abandonment and land remediation) undertaken for the petroleum operations carried out within the contract area pursuant to relevant statutory regulations formulated by the authorities concerned or programs agreed to by the parties shall be chargeable to the joint account at operator’s net cost and borne by the contracting parties.

Hence, we are obligated to dismantle and abandon wells and restore the land if we are the operator at the time the wells are dismantled and abandoned. In addition, all abandonment costs related to the wells abandoned during the contractual period under the production sharing contract, which are considered as ecological and environmental protection expenses, shall be chargeable to the joint account and shall be borne by the contracting parties pursuant to the production sharing contracts.

When the production sharing contracts expire, we will no longer be an operator under the production sharing contracts, nor a contracting party to production sharing contracts, and therefore will have no abandonment obligations and will not be obligated to pay for any abandonment costs in respect of wells abandoned.

Management reviews on a regular basis our estimates of the costs associated with dismantling and abandonment of wells and the numbers of wells to be dismantled and abandoned. Our Directors believe that we have sufficient funding plans for remediation, rehabilitation, closure and removal of facilities in a sustainable manner. When we incur costs associated with dismantling or abandoning a well, including costs to remediate, rehabilitate, close and remove facilities in a sustainable manner, we record such costs as operating costs, which are recovered from the oil production in that period through the production sharing contract structure.

Environmental protection and prevention costs and expenses in connection with the operation of onshore oil exploitation are covered under each production sharing contract. Our environmental protection and prevention costs and expenses were RMB5.89 million, RMB6.25 million, RMB6.04 million and RMB3.13 million, and represented approximately 0.8%, 0.5%, 0.7% and 0.5% of our total operating expenses in 2007, 2008, 2009 and the first half of 2010, respectively. Our environmental protection and prevention costs will increase in the future as we drill new wells due to, among other things, waste materials generated by our drilling activities and land remediation costs. Based on our current plan, we expect to incur environmental protection and prevention costs of approximately RMB9.88 million and RMB12.50 million for the years ended December 31, 2010 and 2011, respectively. Other than the incremental increase in environmental and prevention costs associated with drilling new wells, we do not anticipate any material changes to our environmental protection and prevention costs going forward. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any environmental claims and our PRC counsel, Zhong Lun Law Firm, is of the opinion that our environmental protection systems and facilities are adequate for us to comply with applicable national and local environmental protection regulations. We cannot assure you that the PRC government will not impose new or stricter regulations which would require additional environmental protection expenditures.

Employees

As of December 31, 2007, 2008 and 2009 and June 30, 2010, we employed 1,202, 1,508, 1,421 and 1,570 full-time employees, respectively. The following table sets forth the number of our employees by function as of June 30, 2010:

Function	Number of Employees
Production	1,401
Technical services	43
General administration	126
Total	1,570

Substantially all of our employees are based in the PRC. In accordance with PRC laws, we employ local staff through Jilin Foreign Enterprise Service Co., Ltd., or Jilin FESCO, a third-party service provider authorized to enter into employment contracts with local employees on behalf of foreign enterprises. We pay a monthly lump sum to Jilin FESCO as employee compensation, which includes salaries, social insurance and contributions to the housing fund. In addition, our full-time employees in China participate in various employee benefit plans including pension, work-related injury benefits, medical benefit plans, unemployment insurance and childbirth insurance. The employment contracts generally have a term of two years. As of September 30, 2010, we had 1,356 employees employed through Jilin FESCO. We have not experienced any labor shortage in 2007, 2008, 2009 or the first half of 2010.

Our PRC legal counsel, Zhong Lun Law Firm, has advised us that, similar to enterprises entering into direct employment agreements with their employees, an enterprise hiring employees through FESCO shall be subject to the same labor laws and regulations, and fulfill the same legal obligations, such as paying social insurance, medical insurance and housing reserve for employees. Although it is a usual practice for a branch of a foreign enterprise to hire employees through FESCO, there is no potential implication for such arrangement.

We engaged Mercer to review our employee share option plan and other matters relating to human resources management.

Compensation for our full-time employees typically consists of base salary, performance-based salary and other allowances such as seniority pay and subsidies. In addition, based on our results of operations, we may award year-end bonuses to our employees solely at our discretion. Performance appraisals for administrative and technical staff are conducted twice a year to ensure that our employees receive feedback on their performance. We also participate in certain insurance plans for our employees.

We invest in continuing education and training programs for our management and other employees to upgrade periodically their skills and knowledge. We hire third-party consultants to provide training to our employees and, from time to time, we send senior employees to the United States for training with our business partners such as Ryder Scott and Sneider Exploration, Inc. We have a workers' union in accordance with PRC laws and regulations. We have not had any strikes or other labor disturbances that have interfered with our operations, and we believe that we have maintained a good working relationship with our employees.

Insurance

As protection against operating hazards, we maintain insurance coverage on our properties and equipment, including pipelines, rigs, other machinery and supplies. We maintain property damage insurance, insurance for operator's extra expenses such as limited redrilling, seepage and pollution expenses, third party liability insurance as well as business interruption insurance and workplace injury insurance for our operations. We also carry key person insurance for six persons, including our four executive directors and two of our managers, as well as director and officer insurance. We have assigned our interests in the business interruption insurance and key person insurance for Mr. Zhang to CITIC Ka Wah Bank (subsequently renamed as CITIC Bank International Limited). We engaged Aon-COFCO Insurance Brokers Co. Ltd., an insurance consultant, to review our insurance policies and practices. We believe that our level of insurance is adequate and comparable to that maintained by oil companies internationally. However, we may not have sufficient coverage for all foreseeable risks, either because insurance is not available or because of higher premium costs. We had not made any material claim under our insurance policies during the Track Record Period.

Labor and Safety Matters

We base our safety rules on government regulations and require all employees and PetroChina secondees to follow these safety rules. Our safety and environmental protection department is responsible for formulating and implementing safety guidelines and operational procedures and standards. We also assign a manager to each oilfield to ensure our field employees are in compliance with our policies. We conduct safety training periodically for our employees.

We require all our employees to follow our workplace safety rules and policies, which are based on the PRC Production Safety Law and other applicable government regulations. Our safety rules and policies also comply with ISO9000 and ISO9001. In 2007, 2008, 2009 and the first half of 2010, respectively, we have complied with all applicable labor and safety laws and regulations in all material respects. As the holder of the oil and gas exploitation permit at Daan, Moliqing and Miao 3, PetroChina is jointly responsible for the workplace safety requirements imposed by the PRC government. Accordingly, PetroChina conducts inspections of our facilities and labor safety management practices from time to time to ensure proper compliance with the relevant workplace safety regulations. During the Track Record Period and up to the Latest Practicable Date, we have not been materially affected by any failure to comply with safety standards or PRC law.

On September 1, 2009, there was a fatal accident at the Miao 3 oilfield that occurred while one of our workers was adjusting an oil drilling rig. We conducted a thorough investigation of the incident according to our internal policy and the relevant laws, policies and procedures of PetroChina and the PRC government. The investigation concluded that the accident was caused by the employee's improper operation of machinery, and not a lack of adequate workplace safety and occupational health measures on our part. The incident report was examined and approved by the relevant authority. A settlement and release agreement has been executed and a settlement amount of RMB200,000 has been paid to the deceased's family. There has not been any legal proceedings against the Group in respect of this accident. Our PRC legal counsel, Zhong Lun Law Firm, has confirmed that there should not be any grounds for potential legal proceedings to be instituted by relevant government authorities, family members or beneficiaries of the deceased.

We have made, and will continue to make, efforts and take necessary measures to ensure the safety of our employees. These measures include ensuring that the design, installation, use and maintenance of our equipment meet national and industrial standards, providing occupational safety education and training to employees to enhance their awareness of safety issues, and providing suitable protective devices to our employees. However, our preventive measures may not always be effective given the hazardous nature of this industry. See "Risk Factors – Risks Relating to Our Company and Our Business – Our operations may be affected by significant operating hazards and natural disasters and we have limited insurance coverage for any resulting losses." During the Track Record Period and up to the Latest Practicable Date, we have not been materially affected by any incident of the type mentioned in this risk factor.

Our PRC legal counsel, Zhong Lun Law Firm, has advised us that we have obtained all material relevant requisite approvals, license and permits for its operations, and complied with applicable PRC rules and regulations during the Track Record Period and up to the Latest Practicable Date. Based on the advice of our PRC legal counsel, the Directors believe that we have obtained all relevant requisite approvals, license and permits for its operations, and complied with all applicable PRC rules and regulations during the Track Record Period and up to the Latest Practicable Date.

Legal Proceedings and Regulatory Matters

We are not currently a party to any material legal or administrative proceedings, and we are not aware of any legal claims or proceedings that may have an influence on our rights to develop or exploit our oilfields. However, we may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

We are required by laws and regulations of the PRC to obtain a number of licenses, permits and approvals from the relevant authorities in the PRC to conduct our oil development and production activities in the PRC. During the Track Record Period and up to the Latest Practicable Date, the Group has obtained all relevant licenses, permits and approvals. Also, PetroChina is responsible for obtaining some of the key licenses, permits and approvals relating to the oil properties, including the exploitation permit. The ability

to obtain such licenses, permits and approvals are not within the Group's control and those key licenses, permits and approvals belong to PetroChina. The following table shows the key license and permits that we have already obtained for our operation and their respective validity periods.

License/ Approval/Permit	Authorized Entity	Issuance Authority	Issuance Date	Expiry Date	Description
Business License	MIE	Administration for Industry and Commerce of Jilin Province	February 27, 2009	November 16, 2015	MIE is allowed to engage in the development of Daan oilfield, Miao 3 oilfield, Jilin Moliqing oilfield and 64 block of Shengli oilfield
PRC Water Pumping License	MIE	Water Conservancy Bureau of Daan City	July 30, 2010	July 30, 2015	Approvals for taking groundwater in Daan City
PRC Water Pumping License	MIE	Water Conservancy Bureau of Daan City	May 31, 2010	May 31, 2015	Approvals for taking groundwater with the quota of 15,000 m^3 under project Daan
PRC Water Pumping License	MIE	Water Conservancy Bureau of Daan City	June 5, 2007	June 5, 2011	Approvals for taking groundwater from the 4th and 5th teams of DB5-7
PRC Water Pumping License	MIE	Water Conservancy Bureau of Yitong Manchu Autonomous County	July 1, 2007	July 1, 2012	Approvals for taking groundwater from Tunbian of Sandaoxiang, Shengli village under project Moliqing. The water withdrawal quota is 10,800 m^3 per year
PRC Water Pumping License	MIE	Water Conservancy Bureau of Qianguoerluosi Mongolian Autonomous County	January 7, 2008	January 7, 2013	Sinking wells for groundwater under project Miao 3. The water withdrawal quota is 20,000 m^3

Our Hedging Policy

Entering into Hedging Transactions

We enter into hedging transactions in order to protect against downward movements in the price of oil. Our maximum potential exposure under any purchased option agreement is the amount of the paid premium. We have a hedging policy that governs the hedging transactions we enter into. Only large international financial institutions are active in the primary oil hedging market, and we only select the most reputable and well-capitalized institutions as our counterparties and we do not purchase from small brokers or on the secondary market. Mr. Zhang and Mr. Forrest L. Dietrich, both of whom serve as executive directors and have over 20 years of experience in the oil industry, regularly monitor oil prices and recommend to the Board and management the suitable oil price and amount at which to enter into oil hedging transactions. We also use several reputable banks that are active in the oil hedging business and various industry and financial publications to provide us with daily market information on news, economic events and other factors that affect international oil prices. These banks also provide us with spot and forward oil prices as well as their views on oil prices. Based on the expertise of our management and the information provided by these banks and other market information and news, we form a view of oil price movements for the following one to two years and decide on the quantity of monthly production volume to be covered by the hedging transaction based on our oil production and investment plans. Before entering into a hedging transaction, we request quotations from a few reputable leading banks that are active in the

oil hedging market and have well-capitalized financial positions. When considering potential counterparties, we will review the banks' publicly available financial information to verify that it exceeds certain financial benchmarks, including US$100,000 million in total assets, US$10,000 million in net assets and a market capitalization of US$5,000 million. Based on the market information we collect, we will prepare an oil price market analysis report, including historical trends and future trend analysis, together with a comparison of the quotations received. This report will then be reviewed and commented on by the two executive directors before they make their recommendation to the Board. When considering which quotation to accept, we consider lock-in price, payment and other terms of the agreement and the time frame for the hedging arrangement to be instituted. We will then enter into one- to two-year arrangements to manage the risks associated with downside movement in oil prices. All oil hedging transactions must be approved by the Board.

Our hedging policy prohibits speculative oil hedging. Oil hedging is entered into to cover a reasonable portion of our monthly oil production. When management makes oil hedging decisions, it takes into account factors including annual oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others. Our oil hedging transactions are restricted to cover a reasonable period when oil prices can be determined with greater degree of certainty, usually up to two years and also focus on protection against downside risk. We mitigate counterparty risk by choosing only reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. After entering into a hedging transaction, we monitor oil prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management team also holds frequent meetings to review trends in oil prices and the effectiveness of our hedging positions and strategy.

Monitoring Hedging Transactions

Our oil put options are settled automatically every month on a date specified in the put option agreements, usually on the fifth to ninth days after the last day of each month. Calculations of the floating price of crude oil are based on the arithmetic average of the daily settlement prices for the benchmark oil price in each trading day during the relevant month.

Management closely monitors the movement in oil prices and the settlement of oil put options on a monthly basis. In our hedging transactions, our maximum exposure is the premium paid to the counterparty and after payment of the upfront or deferred hedging premiums set forth in the oil put agreements, all monthly or any other settlements will either be zero or a payment to us.

Exiting from Hedging Transactions

We usually exit from existing hedging transaction when the oil put options expire, usually one to two years after we first enter into such transactions.

OVERVIEW

Immediately following completion of the Global Offering and the Capitalization Issue, but taking no account of any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme, our Controlling Shareholders, FEEL, will directly own approximately 53.6% of the issued share capital of our company and Mr. Zhao and Mr. Zhang will directly own approximately 90% and 9.99% of the issued share capital of FEEL, respectively.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that our Group is capable of carrying on our business independently from our Controlling Shareholders and their associates after the Global Offering.

Management operational and administrative independence

Our Board of Directors consists of eight Directors, of whom four are executive Directors, one is a non-executive Director and the remaining three are independent non-executive Directors.

Each of our Directors is aware of his fiduciary duties as a Director of our company which requires, among other things, that he acts for the benefit and in the best interests of our company and does not allow any conflict between his duties as a director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to make the business decisions independently. Our three independent non-executive Directors will also bring independent judgment to the decision-making process of our Board.

Although Mr. Zhang and Mr. Zhao, each an executive Director, are the controlling shareholders of FEEL, our Group has its own management team that operates independently from FEEL.

Most members of the senior management of our Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in our business. The responsibilities of the senior management team of our Group include dealing with operational financial research and inventory management matters, making general capital expenditure decisions and the daily implementation of the business strategy of our Group. This ensures the independence of the daily management and operations of our Group from those of FEEL. Further details are set out in the section headed “Directors and Senior Management” in this prospectus.

Clear delineation of businesses

FEEL was incorporated under the laws of Hong Kong on May 16, 2003 and is an investment holding company. As such, we are of the view that the nature of the business activities carried on by us on the one hand, and those carried on by FEEL on the other, are clearly distinct and that there is a clear delineation between our business and the business of FEEL.

Financial independence

We have an independent financial system and makes financial decisions according to our own business needs. Our Directors confirm that any guarantee, loan or pledge provided by our Controlling Shareholders in favour to us will be released or settled, as the case may be, before the Listing, including the share mortgages of 51% of the ordinary shares in us held by FEEL and of 51% of the ordinary shares in FEEL held by Mr. Zhang and Mr. Zhao, further details of which are set out under the section "Financial Information – Indebtedness" in this prospectus. We believe we are capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders after the Listing. Therefore, we will be financially independent from our Controlling Shareholders after the Listing.

Having considered the above reasons, our Directors are of the view that we are capable of carrying on our business independently from our Controlling Shareholders (including any associate thereof) after the Listing.

NON-COMPETITION UNDERTAKING FROM OUR CONTROLLING SHAREHOLDERS

In order to maintain a clear delineation of our respective businesses going forward, FEEL, Mr. Zhang and Mr. Zhao (together the "Covenantors") have jointly and severally entered into the Non-Competition Deed, pursuant to which each of the Covenantors has undertaken to our company (for itself and for the benefit of its subsidiaries) that, during the Non-Compete Period (as defined below), each of them will not, whether as principal or agent and whether undertaken directly or indirectly (including through any of their associates, subsidiaries, partnerships, joint ventures or other contractual arrangements) and whether for profit or otherwise, carry on, engage, invest, participate or otherwise be interested in any business related to exploration, development and production of oil and such other business conducted or carried on by our company from time to time (the "Restricted Business").

Notwithstanding the foregoing, each of the Covenantors may:

(a) carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business where the opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business has first been offered or made available to our company and the Covenantors shall provide such information as may reasonably be required by our company in order to make an informed assessment of such business opportunity, and our company, after review and approval by our independent non-executive Directors or shareholders as required under relevant laws and regulations, has declined such opportunity to carry on, engage in, invest in, participate in or otherwise be interested in such Restricted Business, provided that the principal terms by which any Covenantor (or any of their associate(s)) subsequently engages in, invests in, participates in or otherwise is interested in such Restricted Business are not more favorable in any material aspect than those offered or made available to our company;

(b) have interests in shares or other securities (whether or not listed on any stock exchange) of a company conducting any Restricted Business provided that:

    (i) the Covenantors taken together are not so interested as to be able to exercise or control the exercise of 5% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and

    (ii) at all times there is another independent shareholder who either alone is, or together with its or its associates taken together are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than the Covenantors are able, or control the composition of a majority of the board of directors of such company.

The "Non-Compete Period" stated in the Non-Competition Deed refers to the period commencing on the Listing Date and ending on the earlier of:

(a) the date on which the Covenantors (individually or collectively) and/or any of their associates, individually or collectively, cease to be a controlling shareholder of our company within the meaning of the Listing Rules; and

(b) the date on which the Shares cease to be listed on the Stock Exchange.

Under the Non-Competition Deed, in the event that, during the Non-Compete Period, any of the Covenantors intends to dispose of any Restricted Business or any interest in any Restricted Business, the Covenantors shall first offer to our company the right to acquire such business or interest and it may only proceed with such disposal to any third party, on terms not more favorable than those offered to our company, following the rejection of such offer by our company.

Our Controlling Shareholders have also undertaken to provide an annual confirmation to the company confirming that it and its associates have not breached the terms of the Non-Competition Deed and to provide all information necessary, subject to confidentiality restrictions owed by the Covenantors to a third party for the annual review by the independent non-executive Directors and professional advisers (if they so require) for the enforcement of the Non-Competition Deed.

The following measures will be adopted by our company in respect of the enforceability of the Non-Competition Deed:

(a) our independent non-executive Directors will review, on an annual basis, the compliance of the Non-Competition Deed, including any potential conflicts of interest and competition arising from the taking up by our Controlling Shareholders of opportunities rejected by our Group pursuant to the Non-Competition Deed; and

(b) our company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Non-Competition Deed in annual reports of our company or by way of announcement to the public.

Our Directors are of the view that our Group's measures are adequate to safeguard the effectiveness of the Non-Competition Deed.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and its associates will be required to comply with the requirements of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements.

Confirmation

Each of our Controlling Shareholders has confirmed to us that, as at the Latest Practicable Date, they and their associates did not have any interest in any business other than that of our Group, which competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules. As of the Latest Practicable Date, none of our Directors had interest in any business which may compete, either directly or indirectly, with our Group's business.

Ms. Zhao Jiangbo ("Mrs. Zhang"), the spouse of Mr. Zhang, our executive Director, chairman and chief executive officer, and Mr. Zhao, our executive Director, vice chairman and senior vice president, currently own 70% and 30% of Jilin Guotai, respectively. Jilin Guotai, one of the largest oilfield service providers in Songyuan, Jilin Province, is principally engaged in well maintenance, well logging, well cementing, fracturing, downhole operation, and processing and sale of drilling and extraction accessories. Since 2007, Jilin Guotai has been providing various oilfield services to our Group. Our Group engages in the oil industry as oilfield operator whilst Jilin Guotai provides oilfield services that are ancillary to the operation of oilfields. Our Directors are of the view that Jilin Guotai, as a service provider to our Group, provides oilfield services and engages in businesses that supplement the operation of our Group. As such, there is no competition, directly or indirectly, between the business of Jilin Guotai and ours. Our company considers that the inclusion of Jilin Guotai in our Group, being a service provider of ancillary oilfield services, is not in line with our Group's current focus on expansion strategies.

FEEL, our Controlling Shareholder, currently owns United Petroleum USA, LLC, a limited liability company incorporated under the laws of Delaware on September 21, 2004, for the purpose of acquiring oil and gas projects in North America. Since its incorporation, it has only been involved in very limited activities such as evaluating potential acquisitions and has not purchased or received any income from any activity. United Petroleum USA, LLC is currently in the process of being wound up and we anticipate that the winding-up process will be completed prior to the Listing. As a result, Rule 8.10 of the Listing Rules is not applicable in relation to United Petroleum USA, LLC.

CORPORATE GOVERNANCE MEASURES

Our company has adopted the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. Our company will state in its interim and annual report whether it has complied with the Code, and will provide details of, and reasons for, any deviations from it in the Corporate Governance Report which will be included in its annual report. Our company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers which provides, among other matters, prohibitions on directors' dealings in securities and protection of minority shareholders' rights. Our Directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority shareholders' rights after the Listing.

Furthermore, following the Listing, our Directors will be required to comply with provisions under the Listing Rules and certain matters are required to be reviewed by our independent non-executive Directors. Our Directors are of the view that the significant proportion of independent non-executive Directors comprising our Board of Directors should enhance our overall corporate governance standards.

In addition to the safeguards mentioned above, an annual review will be performed by our independent non-executive Directors with regard to the information provided by our Controlling Shareholders (the "Annual Review"). After the Annual Review, our independent non-executive Directors will decide whether to exercise our rights in respect of the compliance and enforcement of the Non-competition Deed. Our company will disclose all decisions on the matters pertaining to the Annual Review either through the annual report, or by way of announcements to the public. Our Controlling Shareholders will provide all information necessary for the Annual Review and the enforcement of the Non-competition Deed, after which they will make an annual declaration on compliance and the manner of compliance with the Non-competition Deed in the annual reports of our company.

CONTINUING CONNECTED TRANSACTIONS

We have entered into various transactions which will continue from time to time after the Listing with various of our connected persons. Set out below is further information on such continuing connected transactions.

Category I – Continuing connected transactions exempt from independent shareholders' approval requirements

Connected Person	Nature of Transaction
Mrs. Zhang	(A) Lease of vehicles by Mrs. Zhang to us
Mrs. Zhang	(B) Lease of office spaces by Mrs. Zhang to us
Jilin Guotai	(C) Lease of vehicles by Jilin Guotai to us

Category II – Non-exempt continuing connected transactions

Connected Person	Nature of Transaction
Jilin Guotai	(E) Provision of oilfield services by Jilin Guotai to us

Category I – Continuing connected transactions exempt from independent shareholders' approval requirements

(A) Lease of vehicles by Mrs. Zhang to us

Mrs. Zhang is the spouse of Mr. Zhang, our executive Director, chairman and chief executive officer, and is therefore a connected person of our company.

We entered into a framework vehicle rental agreement with Mrs. Zhang on November 23, 2010 (the "Vehicle Rental Agreement"), pursuant to which Mrs. Zhang agreed to rent to us from time to time a number of vehicles for the purpose of the day-to-day business operations of our Group, subject to the entering into of individual contracts as agreed between Mrs. Zhang and us pursuant to the Vehicle Rental Agreement. Mrs. Zhang has been regularly leasing a substantial number of vehicles, being private passenger cars, to us since 2008. Considering the long-term relationship that we have with Mrs. Zhang, we consider that it would be more convenient to continue to directly lease vehicles from Mrs. Zhang. The rental fees paid by us to Mrs. Zhang will be based on normal commercial terms and negotiated on arm's length basis between the parties, and shall be no less favourable than terms offered by Independent Third Parties to our Group. The Vehicle Rental Agreement has a term commencing from the date of the Listing and valid until December 31, 2012 and will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by our company on the same terms.

Historical amounts

Given that we began renting vehicles from Mrs. Zhang on January 1, 2008, the only historical amounts for these transactions are for the period from January 1, 2008 to June 30, 2010. The aggregate rental fees paid by us to Mrs. Zhang for each of the two financial years ended December 31, 2009 and the six months ended June 30, 2010 were approximately RMB2.2 million, RMB4.3 million and RMB2.0 million, respectively.

Proposed cap and basis of cap

It is expected that the aggregate annual rental fees to be paid by us to Mrs. Zhang under the Vehicle Rental Agreement for the three financial years ending December 31, 2010, December 31, 2011 and December 31, 2012 will not exceed RMB4.5 million, RMB5.0 million and RMB5.5 million, respectively. The proposed caps are determined by reference to the historical values of the transactions between Mrs. Zhang and us, and the expected increase in demand for vehicles to be rented by us from Mrs. Zhang taking into account the business growth prospects of our Group, which is in line with the growth in our Group's capital expenditures. In addition, we expect we will require more vehicles to assist in the day-to-day operations of our Group based on the anticipated expansion of our operations in the Daan, Moliqing and Miao 3 oilfields and our plans to further invest in and expand our business operations.

(B) Lease of office spaces by Mrs. Zhang to us

We entered into a lease agreement and a supplemental agreement with Mrs. Zhang on January 1, 2010 and September 28, 2010 respectively (together, the "Existing Lease Agreement"), pursuant to which Mrs. Zhang agreed to lease to us with effect from January 1, 2010 and valid until December 31, 2010 two office spaces with a total area of approximately 524.79 square meters as our company's headquarters at Suites 402 and 406, Block C, Grand Place, No. 5 Hui Zhong Road, Chaoyang District, Beijing, the PRC (the "Office Premises"), for an aggregate yearly rental fee of approximately RMB1.13 million. We also entered into a lease agreement with Mrs. Zhang on November 28, 2010 (the "New Lease Agreement"), pursuant to which Mrs. Zhang agreed to lease to us the Office Premises with effect from January 1, 2011 and valid until December 31, 2012. Pursuant to the New Lease Agreement, the monthly rental in respect of each of the two years ending December 31, 2012 is approximately RMB108,000 and RMB125,000, respectively. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has confirmed that the current rental fees payable by us to Mrs. Zhang are based on prevailing market rates and the other terms of the Existing Lease Agreement are on normal commercial terms and conditions.

Historical amounts

Given that we only commenced leasing the office premises from Mrs. Zhang on January 1, 2008, the only historical amounts for these transactions are for the period from January 1, 2008 to June 30, 2010. The aggregate annual rental fees paid by us to Mrs. Zhang for each of the two financial years ended December 31, 2009 and the six months ended June 30, 2010 were approximately RMB1.0 million, RMB1.3 million and RMB0.7 million, respectively.

Proposed cap and basis of cap

It is expected that the aggregate annual rental fees to be paid by us to Mrs. Zhang under the Existing Lease Agreement and the New Lease Agreement for the three financial years ending December 31, 2010, December 31, 2011 and December 31, 2012 will not exceed RMB1.2 million, RMB1.3 million and RMB1.5 million, respectively.

The proposed cap in respect of the year ending December 31, 2010 reflects the yearly rental under the Existing Lease Agreement. The proposed caps in respect of each of the two years ending December 31, 2011 and December 31, 2012 reflect the rental fees payable by us to Mrs. Zhang under the New Lease Agreement.

(C) Lease of vehicles by Jilin Guotai to us

Jilin Guotai is owned as to 70% by Mrs. Zhang, the spouse of Mr. Zhang, and as to 30% by Mr. Zhao, an executive Director, vice chairman and senior vice president of our company, and is therefore a connected person of our company.

We entered into a framework vehicle rental agreement with Jilin Guotai on November 23, 2010 (the "Guotai Vehicle Rental Agreement"), pursuant to which Jilin Guotai agreed to rent to us from time to time a number of vehicles for the purpose of the day-to-day business operations of our Group, subject to the entering into of individual contracts as agreed between Jilin Guotai and us pursuant to the Guotai Vehicle Rental Agreement. The rental fees will be based on normal commercial terms and negotiated on arm's length basis between the parties, and shall be no less favourable than those offered by Independent Third Parties to our Group. The Guotai Vehicle Rental Agreement has a term commencing from the date of Listing and valid until December 31, 2012 and will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by the company on the same terms.

Historical amounts

The historical annual rental fees paid by us to Jilin Guotai for the lease of the vehicles for each of the three years ended 31 December 2009 and the six months ended June 30, 2010 were approximately RMB1.3 million, RMB1.7 million, RMB3.6 million and RMB1.1 million, respectively.

Proposed cap and basis of cap

It is expected that the aggregate annual rental fees to be paid by us to Jilin Guotai under the Guotai Vehicle Rental Agreement for the three financial years ending December 31, 2010, December 31, 2011 and December 31, 2012 will not exceed RMB2.3 million, RMB3.0 million and RMB3.6 million, respectively.

The proposed caps are determined by reference to the historical values of the transactions between Jilin Guotai and us and the expected increase in demand for vehicles to be rented from Jilin Guotai taking into account the business growth prospects of our Group, which is in line with the growth in our Group's capital expenditures. In addition, we expect we will require more vehicles to assist in the day-to-day operations of our Group based on the anticipated expansion of our operations in the Daan, Moliqing and Miao 3 oilfields and our plans to further invest in and expand our business operations.

Category II – Non-exempt continuing connected transactions

(D) Provision of oilfield services by Jilin Guotai to us

We entered into a framework oilfield service agreement with Jilin Guotai on November 23, 2010 (the "Oilfield Service Agreement"), pursuant to which Jilin Guotai agreed to provide to us from time to time various oilfield services including well maintenance services, well logging services, oil tanker transportation services, oilfield construction related works and other oil operations related services, subject to the entering into of individual contracts as agreed between Jilin Guotai and us pursuant to the Oilfield Service Agreement. The service fees will be based on normal commercial terms and negotiated on arm's length basis between the parties, and shall be no less favourable than those offered by Independent Third Parties to our Group. The Oilfield Service Agreement has a term commencing from the date of Listing and valid until December 31, 2012 and will be automatically renewed every three years subject to compliance with Chapter 14A of the Listing Rules by our company on the same terms. If Jilin Guotai does not provide oilfield services to us, we do not foresee any difficulty in obtaining similar services from Independent Third Parties.

Historical amounts

The aggregate annual service fees paid by us to Jilin Guotai for the provision of such oilfield services for each of the three financial years ended December 31, 2009 and the six months ended June 30, 2010 were approximately RMB68.6 million, RMB92.8 million, RMB77.3 million and RMB61.9 million, respectively.

Proposed cap and basis of cap

It is expected that the aggregate annual service fees to be paid by us to Jilin Guotai pursuant to the Oilfield Service Agreement for the three financial years ending December 31, 2010, December 31, 2011 and December 31, 2012 will not exceed RMB130.0 million, RMB169.0 million and RMB202.8 million, respectively.

The proposed caps are determined by reference to the historical transaction values of the transactions between us and Jilin Guotai and the anticipated demand for such services by us taking into account the business growth prospects of our Group, which is in line with the growth in our Group's capital expenditures, the annual budgets (providing for, among other things, that the number of wells expected to be drilled in the oilfields in 2010 and 2011 will be 200 and 367, respectively) approved by the joint management committee in accordance with the overall development plans, and the development plan to drill 398 gross wells in 2012 as set out in the section headed " Appendix V – Independent Technical Report" in this prospectus. We therefore anticipate to require increasingly more oilfield services based on the increase in the number of wells expected to be drilled and the overall development plans for the oilfields that we operate in.

LISTING RULES IMPLICATIONS

Category I – Continuing connected transactions exempt from independent shareholders' approval requirements

As each of the relevant applicable percentage ratios set out in the Listing Rules for determining the value of connected transactions (that is, excluding the profits ratio and the equity capital ratio which are not applicable) for the continuing connected transactions in paragraphs (A) to (C) above are expected to be less than 5% on an annual basis or, each of the relevant applicable percentage ratios is expected to be higher than 5% but less than 25% on an annual basis and the annual consideration of each such transaction is expected to be less than HK$10,000,000, such transactions are exempt from the independent shareholders' approval requirements under the Listing Rules but are subject to the reporting and announcement requirements under the Listing Rules.

Category II – Non-exempt continuing connected transactions

As one or more of the relevant applicable percentage ratios set out in the Listing Rules for determining the value of connected transactions (excluding the profits ratio and the equity capital ratio which are not applicable) for the non-exempt continuing connected transaction in paragraph (D) above is expected to be 5% or above on an annual basis or, each of the relevant applicable percentage ratios is expected to be equal to or higher than 5% but less than 25% on an annual basis and the annual consideration of such transaction is expected to be HK$10,000,000 or more, such transaction is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Directors' view on the continuing connected transactions

Our Directors (including our independent non-executive Directors) are of the view that all the continuing connected transactions have been and shall be entered into on normal commercial terms or more in favour of our Group, in the ordinary and usual course of business of our Group, and are fair and reasonable and in the interests of our company and our shareholders as a whole, and that the proposed annual caps for each of the relevant continuing connected transactions as disclosed in this section are fair and reasonable to our Group and in the interest of the shareholders of our company as a whole.

Continuing connected transactions – Application for Waivers

We will continue to enter into or carry out the transactions set out in this section and these transactions will constitute continuing connected transactions for us under the Listing Rules once our Shares are listed on the Stock Exchange. According to the Listing Rules, such transactions may, depending on the nature and value of the transactions, require disclosure and prior approval by our independent shareholders.

Scope of Waiver

Under the Listing Rules, the continuing connected transaction under paragraph (D) above is considered to be a non-exempt continuing connected transaction under Rule 14A.35 and would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the prior independent shareholders' approval requirements set out in Rules 14A.48 to 14A.54 of the Listing Rules.

For the continuing connected transactions under paragraphs (A) to (C) above, each of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules, where applicable, under the respective agreements are, on an annual basis, expected to be less than 5% under Rule 14A.34 of the Listing Rules. Each such transaction is therefore exempt from the independent shareholders' approval requirements but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As the above continuing connected transactions are expected to continue on a recurring basis, our Directors consider that compliance with the announcement and/or the independent shareholders' approval requirements would be unduly burdensome, impractical and would add additional administrative costs to our company. Accordingly, our Directors have requested the Stock Exchange to grant a waiver from compliance with the requirements under Rule 14A.42(3) of the Listing Rules. We have requested the Stock Exchange, and the Stock Exchange has agreed, to grant a waiver to our company from compliance with the announcement and/or the independent shareholders' approval requirements relating to the above continuing connected transactions under the Listing Rules. In addition, we will comply with the applicable provisions under Rules 14A.35(l), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the continuing connected transactions described above in the paragraph headed "Continuing connected transactions" above for which waivers are sought have been and shall be entered into in the ordinary and usual course of business of our company, are on normal commercial terms, are fair and reasonable and in the interests of our shareholders as a whole, and that the proposed annual cap of these continuing connected transactions are fair and reasonable, as far as our shareholders, taken as a whole, are concerned and in the interest of the shareholders of our company as a whole.

Exempt continuing connected transaction

In addition to the continuing connected transactions described above for which waivers from strict compliance with the requirements under Chapter 14A of the Listing Rules have been granted by the Stock Exchange, Jilin Guotai will continue to supply to us oil production equipment and spare parts, which constitutes an exempted continuing connected transaction under the Listing Rules after the Listing. In this case, the applicable percentage ratios under the Listing Rules on an annual basis will be less than 0.1% and accordingly such transaction will be exempted from compliance with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BOARD OF DIRECTORS

Our Board of Directors is responsible for and has general powers for the management and conduct of our business.

Our Board consists of eight Directors, of whom four are executive Directors, one is a non-executive Director and the remaining three are independent non-executive Directors. The executive Directors are appointed for a term not exceeding three years, and our non-executive Director and independent non-executive Directors are appointed for an initial period of three years. One-third of our Directors will be subject to re-election at each annual general meeting and every Director must be subject to re-election at an annual general meeting at least once every three years.

Name	Age	Position(s)	Date of commencement of directorship
Mr. Zhang Ruilin	39	Executive Director, chairman and chief executive officer	March 20, 2008
Mr. Zhao Jiangwei	38	Executive Director, vice chairman and senior vice president	December 19, 2008
Mr. Forrest L. Dietrich	58	Executive Director, senior vice president and authorized representative	December 19, 2008
Mr. Allen Mak	49	Executive Director, chief financial officer, joint company secretary, senior vice president and authorized representative	July 9, 2009
Mr. Wang Sing	46	Non-executive Director	June 22, 2010
Mr. Stephen Law	48	Alternate to Mr. Wang Sing	June 25, 2010
Mr. Mei Jianping	50	Independent non-executive Director	November 27, 2010
Mr. Jeffrey W. Miller	48	Independent non-executive Director	November 27, 2010
Mr. Cai Rucheng	59	Independent non-executive Director	November 27, 2010

DIRECTORS

Executive Directors

Zhang Ruilin, aged 39, has been our executive Director, chairman and chief executive officer since his appointment on March 20, 2008. He, along with Mr. Zhao, is the controlling shareholder of FEEL and is the brother-in-law of Mr. Zhao. Following the takeover of MIE by FEEL from Microbes Inc. in August 2003, Mr. Zhang joined us in September 2003 and has since been a director of MIE. He is primarily responsible for overseeing our overall strategies, planning and day-to-day management and operations. Mr. Zhang has over 20 years of experience in the oil and gas business, during which he acquired his experience as an oilfield worker and technician for PetroChina in 1989 and as the chairman and general manager at a local oilfield services company, Jilin San Huan Petrochemical Co., Ltd., for over five years. In May 2003, he founded FEEL in Hong Kong, through which he acquired MIE from Microbes Inc. Mr. Zhang is a member of the Songyuan Committee of the National People's Congress of the PRC. Mr. Zhang graduated from Jilin Petroleum College in 1995.

Zhao Jiangwei, aged 38, has been our executive Director, vice chairman and senior vice president since his appointment on December 19, 2008. He is one of our Controlling Shareholders and also the brother-in-law of Mr. Zhang. Mr. Zhao has over 17 years of experience in the oil and gas industry, during which he acquired his experience as a technician for PetroChina at the Jilin oilfields from 1993 to 1999 and as the manager of the technical department at Jilin San Huan Petrochemical Co., Ltd. from 2000 to 2003. Following the takeover of MIE by FEEL from Microbes Inc. in August 2003, Mr. Zhao joined our company in September 2003 and has since been a director of MIE. He is and will continue to be primarily responsible for assisting the chairman in overseeing the operations at the Daan, Moliqing and Miao 3 oilfields. Mr. Zhao obtained a bachelor of arts degree from Daqing Petroleum College in 1999.

Forrest Lee Dietrich, aged 58, has been our executive Director and senior vice president since his appointment on December 19, 2008. Prior to joining us in January 2002, Mr. Dietrich joined Microbes, Inc. in 1994 and held various technical and management positions during different phases of development of the production sharing contracts. He is primarily responsible for mid-term and long-term planning and reserves management. Mr. Dietrich has over 35 years of experience in the oil and gas business, during which he acquired his experience as the vice president of operations for Greenwich Oil Corporation, an oil company based in Dallas, Texas, from 1985 to 1994 and served in various capacities as area engineering supervisor, evaluations specialist and planning coordinator and in various staff engineering positions at Texaco USA (Getty Oil) in Texas and California from 1974 to 1985. Mr. Dietrich has been a member of the Society of Petroleum Engineers since 1972 and become a professional engineer in the State of Texas since 1984. He has authored and co-authored four technical papers for the Society of Petroleum Engineers regarding microbial enhanced oil recovery and presented three of those papers at their technical meetings. Mr. Dietrich obtained a bachelor's degree in science in Petroleum and Natural Gas Engineering from Pennsylvania State University in 1974.

Allen Mak, aged 49, has been our executive Director since his appointment on July 9, 2009. He is also our chief financial officer, joint company secretary and senior vice president. Mr. Mak joined our company in November 2008 as chief financial officer and has over 26 years of experience in finance and accounting. He was previously the chief financial officer of CITIC 21CN Company Limited (Stock Code: 241), a company listed on the Stock Exchange, for over three years. Prior to his career as a chief financial officer, Mr. Mak was an investment banker and has over 11 years of experience in investment banking. He was an assistant director at Peregrine, executive director at Citicorp and the managing director and head of the investment banking group of a securities firm based in Hong Kong. Mr. Mak also worked in the private equity business for over three years as an investment director at CVC Asia Capital and Citicorp. Prior to Mr. Mak's career in investment banking and private equity, he worked for seven years in the accounting profession at Price Waterhouse (subsequently renamed as PricewaterhouseCoopers) in Hong Kong, and KPMG and Deloitte in Canada. Mr. Mak has a bachelor's degree in Commerce from the University of British Columbia in Canada. He is a chartered accountant certified by the Canadian Institute of Chartered Accountants.

Non-executive Director

Wang Sing, aged 46, has been our non-executive Director since his appointment on June 22, 2010. Mr. Wang is a partner of TPG and also the co-chairman of TPG Greater China & Head of TPG Growth North Asia. Prior to joining TPG, he was chief executive officer and executive director of TOM Group Limited from July 2000 to January 2006. During the period from July 1993 to May 2000, he held various positions at Goldman Sachs in both New York and Hong Kong as executive director. Prior to joining Goldman Sachs, Mr. Wang was a strategic consultant with McKinsey & Co., in Chicago, U.S.A.. In addition, Mr. Wang is the chairman of Amerinvest Group of Companies. He is also a member of the Standing Committee of the 10th Yunnan Provincial Committee of the Chinese People's Political Consultative Conference. Mr. Wang has a bachelor's degree in science from Yunnan University, PRC, and a bachelor of arts degree in Philosophy, Politics and Economics and a master's degree in Land Management from University of Oxford, U.K.

Stephen Cheuk Kin Law, aged 48, has been appointed as the alternate of our non-executive director, Mr. Wang Sing, since June 25, 2010. Mr. Law is a managing director of TPG Growth. Prior to joining TPG in July 2006, Mr. Law was a director of Morningside Technologies Inc Limited ("Morningside"), where he was responsible for a portfolio of private equity investments. Prior to Morningside, Stephen focused in corporate finance and development for Wheelock and Co. Ltd. and i-CABLE Communications Ltd. to develop various businesses in China and Hong Kong. He is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a registered practicing Certified Public Accountant in Hong Kong. He is a council member of Hong Kong Institute of Certified Public Accountants, and the chairman of the Corporate Governance Award Organizing Committee and the vice-chairman of the Corporate Finance Committee. Mr. Law received a Bachelor of Science degree from the University of Birmingham in 1984 and a Masters degree in Business Administration from the University of Hull in 1996.

Independent Non-Executive Directors

Mei Jianping, aged 50, has been our independent non-executive Director since his appointment on November 27, 2010. Mr. Mei has been a professor of finance at Cheung Kong Graduate School of Business in Beijing, China since 2006 and a fellow at Financial Institutions Center, the Wharton School of University of Pennsylvania, since 2004. He was a tenured associate professor of finance from 1996 to 2005 and an assistant professor of finance from 1990 to 1995 at New York University. From 2003 to 2008, he also taught at Tsinghua University as a special term professor of finance. Mr. Mei has been the chairman of the board of Shanghai Zhangjiang JRtan.com. Inc. since 2000 and a director of Cratings.com Inc., USA since 1999. Since 2009, Mr. Mei has served on the boards of Powerlong Real Estate Holdings Limited, a company listed on the Stock Exchange, and Zhong De Securities Company Limited. Mr. Mei worked as a consultant for various financial institutions, such as Deutsche Bank, UBS, Prudential Insurance of America and Asia Development Bank. He has published a number of books and articles on topics related to finance. Mr. Mei received a bachelor's degree in Mathematics from Fudan University in 1982, a master's degree in Economics and a Ph.D. in Economics (Finance) from Princeton University in 1988 and 1990, respectively.

Jeffrey W. Miller, aged 48, has been our independent non-executive Director since his appointment on November 27, 2010. Mr. Miller has over 25 years of experience in the oil and gas industry. Since 2008, Mr. Miller has been the director of upstream and investments for Mercuria Energy Trading Inc., one of the world's largest independent physical energy trading firms. He is responsible for Mercuria and certain of its affiliates' global portfolio of oil and natural gas assets, the majority of which are located in North and South America. Prior to Mercuria, Mr. Miller spent four years, from 2004 to 2008, as president of Moncrief Oil International, a private oil and natural gas company with assets in the former Soviet Union as well as North America. Prior to his career at Moncrief, Mr. Miller was a managing director in global energy investment banking for UBS AG, the successor of Dillon, Read & Co, which he joined in 1993. Mr. Miller was an investment banker with a focus on the energy industry and has extensive experience in the fields of corporate finance. Throughout his career as set out above, Mr. Miller has been involved in a substantial number of transactions including initial public offerings, debt offerings and mergers and acquisitions, which require expertise in financial analysis. As an investment banker, Mr. Miller also had extensive experience in valuation analysis, which involved reviewing and analyzing audited financial statements of public and private companies. Mr. Miller's professional career began in a technical capacity as a petroleum engineer with Exxon. Mr. Miller received a bachelor's degree, magna cum laude, in Petroleum Engineering from Texas A&M University and a master's degree in Business Administration from the Columbia Business School.

Cai Rucheng, aged 59, has been our independent non-executive Director since his appointment on November 27, 2010. Mr. Cai has over 30 years of experience working in the oil and gas industry. From 1968 to 2004, Mr. Cai worked at the Shengli oilfield in the Shandong Province for Sinopec and held the positions of section head at the Oilfield Geology Division, division head at the Reservoir Engineering Division and chief geologist. From 1998 to 2003, Mr. Cai was also appointed and acted as a senior member of the Technology Committee of Sinopec and the group leader of the Expert Group for Development under the Senior Members Committee of Sinopec. Since 2004, Mr. Cai has retired from the above positions. Mr. Cai is currently the vice chairman of and secretary to the board of directors of Shandong Petroleum Society. Mr. Cai is a senior engineer and received a bachelor's degree in Oil and Gas Exploration from China University of Geosciences (formerly known as Beijing Institute of Geology) in 1967.

SENIOR MANAGEMENT

Ning Deyu, aged 41, has been our executive vice president since October 2007. Mr. Ning has over 16 years of experience in the oil and gas industry, during which he acquired his experience as technician, section chief and deputy factory manager at PetroChina in the Jilin oilfields prior to joining MIE in 2007 and as the project manager at the foreign cooperation and joint venture division of the Jilin oilfields at PetroChina from 2005 to 2007. Mr. Ning graduated from Daqing Petroleum College with a bachelor's degree in Petroleum Engineering and is a senior engineer.

Cui Yujia, aged 34, has been the assistant to our chairman since December 2004. Mr. Cui has over 10 years of experience in corporate finance. Prior to joining MIE in 2004, Mr. Cui worked for Changchun Heat Shrinkable Materials Company Limited, which is a subsidiary of China Kinwa High Technology Company Limited, as financial manager. From 2004 to 2008, he was the financial manager of MIE. Mr. Cui graduated from Changchun Taxation College with a bachelor's degree in International Accountancy.

Wang Changlin, aged 60, has been the senior advisor to our chairman since October 2003 and the director of office of the Board of Directors. Mr. Wang is responsible for corporate level operation and management. He has over 30 years of experience in the oil and gas industry. Prior to joining MIE in 2003, Mr. Wang worked for PetroChina in the Jilin oilfields and held various positions such as section chief, office director and deputy factory manager and has extensive experience in the operation and management of oilfields. Mr. Wang obtained a bachelor's degree from Jilin Provincial Communist Party School and is a senior economist.

Shou Xuancheng, aged 60, has been our senior vice president since November 1, 2009. Dr. Shou joined our company in November 2009 and is responsible for our development and expansion. Dr. Shou has over 38 years of experience in the oil and gas industry, during which he acquired his experience holding a number of high-level positions in the CNPC group of companies between 1985 and 2004, including China National Oil & Gas Exploration and Development Corporation, CNPC International (Kazakhstan) Co. Ltd., PetroChina Company Limited and PetroChina International Limited, and as the vice chairman and executive director of CITIC Resources Holdings Limited, a company listed on the Stock Exchange, where he was responsible for the planning and development of oil investments and portfolio from 2005 to 2009. Dr. Shou holds a master's degree and a doctoral degree in Engineering from the Petroleum University of China.

Yang Bo, aged 33, has been our financial controller since April 10, 2007. Mr. Yang has over ten years of experience in finance and accounting. Mr. Yang is responsible for the management of financial reporting. Prior to joining us, Mr. Yang worked for Ernst & Young Hua Ming as an audit manager from 2006 to March 2007. From 2002 to 2005, Mr. Yang worked for PricewaterhouseCoopers Zhong Tian CPAs Company Limited as a senior auditor. From 2000 to 2002, Mr. Yang was an auditor at Arthur Andersen Hua Qiang CPAs. Mr. Yang graduated from Renmin University of China with a bachelor's degree in International Accounting in 1999. He is a Certified Public Accountant in China and he is a member of the Beijing Institute of Certified Public Accountants.

Lian Yunfei, aged 35, has been our general counsel since November 18, 2009. Ms. Lian joined our company in November 2009 and has over five years of experience in the legal field. Prior to joining us, Ms. Lian worked as an associate at Baker & McKenzie's Hong Kong office from 2007 to March 2009 focusing on mergers and acquisitions and general corporate transactions, and Grandall Legal Group (Shanghai), during 2009, focusing on capital markets and private and public securities offerings. In her early career, starting in 2001, she worked in a law firm in Canada, focusing on general practice in Canada, for over three years. Ms. Lian obtained a juris doctor degree in the Faculty of Law from the University of British Columbia in 2007. She received a master's degree in Materials Science and Engineering in 2001 from the University of Florida. She graduated from Shanghai University with a bachelor's degree in Materials Science and Engineering in 1996. She is admitted to practice law in New York.

Andrew S. Harper, aged 59, has been our chief geoscientist from 2001 to 2008 and recently rejoined us on April 1, 2010. Mr. Harper was our chief geologist and president of our international operations from 2001 to 2008. Mr. Harper has over 21 years of experience in the oil and gas industry, during which he acquired his experience working in the exploration and production team of ARCO International Oil & Gas Company prior to joining us in 2001. During his time with ARCO, Mr. Harper worked extensively overseas, including assignments in Chile, Dubai, Norway, the United Kingdom and Indonesia, and as ARCO's resident manager in Bogota, Colombia. Mr. Harper also worked as a basin studies director, Latin America exploration director and exploration project director at the headquarters of ARCO International in the United States from 1990 to 1996 and as an exploration manager at the Andean Basins in ARCO Latin America Inc. from 1999 to 2000. Mr. Harper received a bachelor's degree in Geology from Williams College and a master's degree in Geology from the University of Southern California.

Mei Liming, aged 29, has been our financial manager since May 27, 2009. Prior to his position as our financial manager, Mr. Mei held the position of vice financial manager from October 2006 to May 2009 and accountant from January 2005 to October 2006. Mr. Mei graduated from Beijing Institute of Petrochemical Technology with a bachelor's degree in Accounting in 2003. Prior to joining our company, Mr. Mei worked as an accountant in SONY in 2004.

Joint Company Secretaries

Mr. Allen Mak, *CA*, is our joint company secretary. Besides being a chartered accountant certified by the Canadian Institute of Chartered Accountants, Mr. Mak has over 26 years of experience in finance and accounting, as further set out in the section "Directors and Senior Management – Directors" in this prospectus. As a result of his involvement in the listing of a number of companies in Hong Kong and as adviser to various companies listed in Hong Kong on transactions involving the Listing Rules, Mr. Mak is familiar with the Listing Rules and the corporate governance of a listed company. In addition, since he joined our Group on July 9, 2009, Mr. Mak has been closely involved in the preparation of our Group's initial public offering.

Ms. Chu Man Yee, *ACS, ACIS,* aged 38, is our joint company secretary. Ms. Chu is a senior manager of the corporate services division of Tricor Services Limited. Ms. Chu is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Chu has approximately 15 years of experience in the company secretarial area. Ms. Chu currently acts as the joint company secretary of MicroPort Scientific Corporation (Stock code: 853), a company also listed on the Stock Exchange.

RELATIONSHIP AMONG DIRECTORS AND SENIOR MANAGEMENT

Save for Mr. Zhao, our vice chairman, senior vice president and executive Director, who is the brother-in-law of Mr. Zhang, our chairman, chief executive officer and executive Director, there are no family relationships between any of our Directors and senior management.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors receive remuneration in the forms of fees, salaries, allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf.

The aggregate remuneration that we paid to our Directors for each of the three financial years ended December 31, 2009 and the six months ended June 30, 2010 was approximately RMB13,550,000, RMB17,493,000, RMB18,200,000 and RMB14,090,000, respectively. The increase in aggregate remuneration for the six months ended June 30, 2010 as compared to that for the year ended December 31, 2009 was primarily due to the revision in the remuneration packages of our executive Directors in contemplation of the proposed Listing of our company, upon recommendation made by an international compensation consultant firm engaged by us, and as a result of the share-based compensation charge in relation to share options granted to some of our Directors , which was minimal in 2009 as the share options were granted close to the end of 2009 but was more significant in 2010 since there was a half year charge.

The aggregate remuneration that we paid to our five highest paid individuals of our company for each of the three financial years ended December 31, 2009 and the six months ended June 30, 2010 was approximately RMB20,604,000, RMB23,850,000, RMB20,035,000 and RMB18,273,000, respectively.

No Director nor senior management is entitled to any severance benefits upon termination of their employment with our company.

Our Directors' remuneration is subject to review by the remuneration committee and the Board of Directors at the end of each financial year of our company.

Particulars of the service agreements are set out in the paragraph headed "Appendix VII – Statutory and General Information – Further information about our Directors – Particulars of service contracts" in this prospectus.

STOCK INCENTIVE PLAN

Our Board of Directors has adopted the Stock Incentive Plan which is intended to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. Under the Stock Incentive Plan, our company has granted options to purchase 1,480,870 Shares in our company, of which options to purchase 100,400 Shares have lapsed, and stock appreciation rights pertaining to 2,572,730 of our Shares as of the Latest Practicable Date (which do not take into account any adjustments pursuant to the Capitalization Issue). The stock appreciation rights are rights to receive a cash bonus related to the value of a certain number of our company's Shares and do not give any rights over the Shares themselves. Compensation under the stock appreciation rights is measured based on the difference between the notional exercise price of the right and the fair value of the right at the end of the reporting period which is expensed over the vesting period. As no Shares will be issued in relation to the stock appreciation rights, the shareholding of our shareholders will not be diluted by the implementation of the stock appreciation rights under the Stock Incentive Plan.

Our company has undertaken that no further options shall be granted under the Stock Incentive Plan upon the Listing, but the provisions of the Stock Incentive Plan shall in all other respects remain in full force and effect and the options granted under the Stock Incentive Plan prior to the Listing may continue to be exercisable in accordance with the Stock Incentive Plan and their terms of issue. Further details are set out in the paragraph headed "Appendix VII – Statutory and General Information – Stock Incentive Plan" in this prospectus.

SHARE OPTION SCHEME

Our Board of Directors has conditionally adopted the Share Option Scheme pursuant to written shareholders resolutions dated November 27, 2010, further details of which are set out in the paragraph headed "Appendix VII – Statutory and General Information – Share Option Scheme" in this prospectus.

AUDIT COMMITTEE

Our company established an audit committee on November 23, 2010 with effect from the Listing with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our company.

The audit committee currently comprises three Directors, namely Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive Director. Mr. Miller is the chairman of the audit committee.

REMUNERATION COMMITTEE

Our company established a remuneration committee on November 23, 2010 with effect from the Listing with written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of our executive Directors and senior management. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The remuneration committee currently comprises Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive Director. Mr. Mei is the chairman of the remuneration committee.

NOMINATION COMMITTEE

Our company established a nomination committee on November 23, 2010 with effect from the Listing. The primary duties of the nomination committee are to assist the Board in selecting individuals qualified to become our Directors and in determining the composition of the Board and its committees.

The nomination committee currently comprises Mr. Cai, Mr. Mei and Mr. Miller. Each of Mr. Cai, Mr. Mei and Mr. Miller is our independent non-executive Director. Mr. Mei is the chairman of the nomination committee.

COMPLIANCE ADVISER

Our company will appoint Guotai Junan Capital Limited as our compliance adviser prior to the Listing pursuant to Rule 3A.19 of the Listing Rules to provide advisory services to our company pursuant to the requirements thereunder. Pursuant to Rule 3A.23 of the Listing Rules, Guotai Junan Capital Limited will, inter alia, advise our company with due care and skill on a timely basis when consulted by our company in the following circumstances:

- before the publication by our company of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by our company including share issues and share repurchases;
- where our company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our company deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our company under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which our company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

So far as we are aware, immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme, and assuming that the obligations of the Underwriters to subscribe and/or purchase, and procure the subscription and/or purchase of, Shares under the Underwriting Agreements will terminate on the Listing Date and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date), as at the Latest Practicable Date, the following persons (other than our Directors, chief executive(s) or members of our Group) were expected to have interests and/or short positions in the Shares or underlying shares of our company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of interested party	Capacity/Nature of interest	Total number of Shares (assuming the Over-allotment Option is not exercised)	Approximate percentage of interest in our company (assuming the Over-allotment Option is not exercised)	Total number of Shares (assuming the Over-allotment Option is fully exercised)	Approximate percentage of interest in our company (assuming the Over-allotment Option is fully exercised)
FEEL	Beneficial owner *(Note 1)*	1,414,600,000	53.6	1,414,600,000	53.6
Mr. Fung Che	Interest of controlled corporation *(Note 2)*	285,667,000	10.8	236,017,000	8.9
Harmony Energy	Beneficial owner *(Note 2)*	285,667,000	10.8	236,017,000	8.9
David Bonderman	Interest of controlled corporation *(Note 3)*	279,067,000	10.6	229,417,000	8.7
James Coulter	Interest of controlled corporation *(Note 3)*	279,067,000	10.6	229,417,000	8.7
TPG	Beneficial owner *(Note 3)*	258,497,000	9.8	210,481,000	8.0

Notes:

(1) FEEL is held by Mr. Zhang and Mr. Zhao as to 9.99% and 90%, respectively. On May 16, 2003, 9,999 shares in FEEL were issued to Mr. Zhang, who then transferred 9,000 shares out of his 9,999 shares to Mr. Zhao on October 4, 2003. Mr. Zhang and Mr. Zhao have entered into an Acting-in-Concert Agreement under which they agreed to act in concert in relation to all matters that require the decisions of the shareholders of FEEL. Pursuant to the Acting-in-Concert Agreement, if an unanimous opinion in relation to the matters that require action in concert is unable to be reached, Mr. Zhang shall be allowed to vote on both his and Mr. Zhao's shares. The Acting-in-Concert Agreement is governed by the laws of the State of New York. Our PRC legal counsel, Zhong Lun Law Firm, has confirmed that the provisions of the Acting-in-Concert Agreement do not violate the relevant laws of the PRC. After consultation with our U.S. counsel, our Directors are of the view that the Acting-in-Concert Agreement is a legally valid, binding and enforceable agreement of the parties.

(2) Consists of 285,667,000 ordinary Shares held by Harmony Energy, assuming a conversion ratio of two Series B Preferred Shares for one ordinary Share. All Series B Preferred Shares will convert into ordinary Shares immediately prior to the Listing. Harmony Energy is a wholly owned subsidiary of Ever Union Capital Limited. Mr. Fung Che is the sole shareholder of Ever Union Capital Limited and has voting and investment control over the securities beneficially owned by Ever Union Capital Limited.

(3) The interests deemed to be held by each of David Bonderman and James Coulter consists of 258,497,000 ordinary shares held by TPG and 20,570,000 ordinary shares held by TPG Star Energy Co-Invest, LLC, assuming a conversion ratio of one Series A Preferred Share for one ordinary share. All Series A Preferred Shares will convert into ordinary shares immediately prior to the Listing. The sole shareholder of TPG is TPG Star, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar Advisors, LLC., a Delaware limited liability company, whose sole member is TPG Holdings I, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Holdings I-A, LLC, a Delaware limited liability company, whose sole member is TPG Group Holdings (SBS), L.P., a Delaware limited partnership, which is managed by its general partner, TPG Group Holdings (SBS) Advisors, Inc., a Delaware company, whose shareholders are David Bonderman and James Coulter.

TPG Star Energy Co-Invest, LLC is a Delaware limited liability company, whose managing member is TPG Star Advisors, L.L.C., a Delaware limited liability company, whose sole member is TPG Ventures Holdings, L.L.C., a Delaware limited liability company, whose managing member is TPG Ventures Partners, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Ventures Professionals, L.P., a Delaware limited partnership, which is managed by its general partner, Tarrant Advisors, Inc., a Texas company, whose sole shareholder is Tarrant Capital Advisors, Inc., a Delaware company, whose shareholders are David Bonderman and James Coulter.

Except as disclosed above, we are not aware of any other person who will, immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying shares of our company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of our subsidiaries. We are not aware of any arrangement which may at a subsequent date result in a change of control of our company.

The authorized share capital of our company immediately before the Global Offering is US$230,000, divided into 150,000,000 ordinary Shares with a nominal value of US$0.001 each, 30,000,000 Series A Preferred Shares with a nominal value of US$0.001 each and 50,000,000 Series B Preferred Shares with a nominal value of US$0.001 each. On November 27, 2010, the authorized share capital of our company was increased from US$230,000 divided into 230,000,000 Shares of US$0.001 each to US$100,000,000 divided into 100,000,000,000 Shares of US$0.001 each.

The authorized and issued share capital of our company immediately after the completion of the Global Offering and the Capitalization Issue (without taking into account of any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme) will be as follows:

Number of Shares	Description of Shares	Aggregate nominal value of Shares (US$)
100,000,000,000	Authorized share capital	100,000,000.00
121,457,490	Shares in issue at the date of this prospectus	121,457.49
2,078,542,510	Shares to be issued pursuant to the Capitalization Issue	2,078,542.51
441,334,000	Shares to be issued under the Global Offering	441,334.00
2,641,334,000	Total	2,641,334.00

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our company must maintain the "minimum prescribed percentage" of 25% of our company's issued share capital in the hands of the public.

ASSUMPTIONS

The above table assumes that the Global Offering and the Capitalization Issue become unconditional and takes no account of any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme, and any Shares which may be allotted and issued, or repurchased by our company pursuant to the general mandate given to our Directors to allot and issue new Shares and general mandate to repurchase Shares as described below.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned herein, and will rank in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus.

Except as disclosed in this prospectus, no share or loan capital of our company or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

GENERAL MANDATE TO ISSUE NEW SHARES

A general unconditional mandate has been granted to our Directors authorizing them to exercise their powers to allot, issue and deal with Shares or securities convertible into Shares and to make an offer or agreement or grant an option which would or might require such Shares to be allotted and issued, provided that the aggregate nominal value of the Shares allotted or agreed conditionally or unconditionally to be allotted shall not exceed 20% of the aggregate nominal value of the share capital of our company in issue immediately following completion of the Global Offering and the Capitalization Issue (but excluding any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme).

This mandate does not apply to situations where our Directors allot, issue or deal with the Shares under any rights issue, scrip dividend scheme or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date the mandate was granted, or pursuant to the exercise of any options granted under the Stock Incentive Plan and any options which may be granted under the Share Option Scheme or pursuant to the Global Offering or pursuant to a specific authority granted by our shareholders in general meeting, on behalf of our company.

This mandate will expire:

- at the conclusion of our next shareholders' annual general meeting;
- the date by which our next shareholders' general meeting is required by applicable laws and our Articles of Association to be held; or
- such mandate being revoked or varied or renewed by ordinary resolution of our shareholders in a general meeting,

whichever is the earliest.

Particulars of this general mandate are set out in the paragraph headed "Appendix VII – Statutory and General Information – Written resolutions signed by all shareholders of our company" in this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate has been granted to our Directors authorizing them to exercise all the powers for and on behalf of our company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our company in issue immediately following completion of the Global Offering and the Capitalization Issue (but excluding any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other approved stock exchange(s) on which the securities of our company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Appendix VII – Statutory and General Information – Repurchase by our company of our Shares" in this prospectus.

This mandate will expire:

- at the conclusion of our next shareholders' annual general meeting;
- the date by which our next shareholders' general meeting is required by applicable laws and our Articles of Association to be held; or
- such mandate being revoked or varied or renewed by ordinary resolution of our shareholders in a general meeting,

whichever is the earliest.

Particulars of this general mandate are set our in the paragraph headed "Appendix VII – Statutory and General Information – Written resolutions signed by all shareholders of our company" in this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in the paragraph headed "Appendix VII – Statutory and General Information – Share Option Scheme."

The following discussion and analysis of our business, financial condition and results of operations is based on and should be read in conjunction with our financial information for each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, including the notes thereto, as set forth in the section headed "Appendix I – Accountants' Report" and other financial information appearing elsewhere in this prospectus. Our financial information has been prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section titled "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

China's oil and gas industry is dominated by three national oil companies, namely, PetroChina, Sinopec and CNOOC. Independent Upstream Oil Companies currently own an insignificant market share but are increasingly participating in China's oil and gas industry. We are one of the leading Independent Upstream Oil Companies operating onshore in China as measured by gross production under production sharing contracts. We operate the Daan, Moliqing and Miao 3 oilfields in the Songliao Basin, China's most prolific oil-producing basin, under three separate production sharing contracts with PetroChina, the largest oil company in China. We hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts, and GOC, a passive foreign contractor that is not directly involved in the operations of the oilfields, holds the remaining 10% participating interest. Under each of the production sharing contracts, we provide funding, technology and managerial experience for the development and production of oil resources in these oilfields. In exchange, we share in the production of crude oil with PetroChina after the successful development of oil reserves according to the formula set forth in the production sharing contracts. In a given period during the commercial production phase under the production sharing contracts, the revenue and operating costs may be allocated to the foreign contractors in the range of 48% to 80% based on whether the foreign contractors have fully recovered development costs. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts" for more information on the revenue and cost allocations under the production sharing contracts.

As of June 30, 2010, we had estimated net proved, probable and possible reserves, including both developed and undeveloped reserves, of approximately 29.4 million barrels, 18.3 million barrels and 13.5 million barrels, respectively, of crude oil. Our daily crude oil production has grown significantly since 2001, when we took over the operations of the three oilfields. Our net production averaged 6,439 barrels, 8,150 barrels, 7,637 barrels and 10,042 barrels of crude oil per day in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. Since FEEL acquired MIE in August 2003, our net production of crude oil grew from an average of 1,767 barrels per day in 2004 to 10,042 barrels per day in the six-month period ended June 30, 2010. Our net production decreased to an average of 6,449 barrels per day in the first half of 2009, primarily due to the global economic and financial crisis in late 2008 and early 2009 and the resulting decrease in demand for oil in China, but rebounded to an average of 8,806 barrels per day in the second half of 2009 and an average of 10,042 barrels per day in the first half of 2010. As of June 30, 2010, we operated an aggregate of 1,592 gross productive wells in our three oilfields.

In 2007, 2008, 2009 and the six months ended June 30, 2010, our revenue amounted to RMB1,221.6 million, RMB1,971.7 million, RMB1,166.8 million and RMB947.4 million, respectively. In 2007, 2008, 2009 and the six months ended June 30, 2010, our EBITDA amounted to RMB797.8 million, RMB1,256.8 million, RMB687.0 million and RMB628.2 million, respectively, and our adjusted EBITDA amounted to RMB817.5 million, RMB1,127.9 million, RMB821.3 million and RMB662.0 million, respectively. See "– Non-IFRS Financial Measures" for a discussion on the use of EBITDA and adjusted EBITDA. Our net

profit amounted to RMB308.9 million, RMB611.1 million and RMB110.5 million and RMB238.5 million for 2007, 2008, 2009 and the six month period ended June 30, 2010, respectively.

BASIS OF PRESENTATION

We prepared the accompanying consolidated financial information in accordance with the IFRS as issued by the International Accounting Standards Board. The consolidated financial information has been prepared under the historical cost convention, as modified by revaluation of financial derivative instruments at fair value through profit or loss.

Although we had a deficiency of net current assets of RMB172.6 million as of June 30, 2010 and RMB85.1 million as of October 31, 2010, we have taken certain steps to enable us to continue as a going concern. The working capital deficit was anticipated as we accelerated our capital program. We have the ability to manage these positions due to the anticipated monthly positive cash flows generated from our operations and the ability to negotiate and modify the terms with our trade creditors. After taking into consideration the above, the Directors believe that we have sufficient cash to enable us to settle our liabilities as and when they fall due. Accordingly, the consolidated interim financial information has been prepared on a going concern basis.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition over successive periods have been, and will continue to be, affected by a number of factors, including changes in crude oil prices, arrangements under the production sharing contracts, uncertainty of reserve estimates, special levy to the PRC government and our use of an oil put option to manage commodity price risk.

Crude Oil Prices

Our results of operations are significantly affected by crude oil prices. Our revenue, rate of recovery under our production sharing contracts, depreciation, depletion and amortization, and the amount of special levy paid or payable to the PRC government are affected by movements in crude oil prices. We use an oil put option to manage a part of our exposure to the crude oil price movements.

Crude oil prices are affected by, among other things, global oil supply and demand, changes in economic conditions, supply estimates from oil producing countries and other geopolitical factors, which are difficult to predict and beyond our control. The price we receive for crude oil delivered by us to PetroChina is determined each month in accordance with the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, for the previous calendar month. Such price is then reduced by a total fee for oil transportation and sales of RMB52 per ton or US$1.03 per barrel in the sales contract. The price of Daqing crude oil at Dalian Harbor closely follows the price of West Texas Intermediate crude oil, which is an international crude oil price benchmark. The table below sets forth the average price of West Texas Intermediate crude oil, average prices of Daqing crude oil at Dalian Harbor, as published in Platts Oilgram, and our average realized crude oil prices for the periods indicated.

Average Prices for Crude Oil (US$ per Barrel)	Year Ended December 31,			Six-Month Period Ended June 30,		As of the Latest Practicable Date
	2007	2008	2009	2009	2010	
West Texas Intermediate	72.23	99.92	61.99	51.57	78.35	83.77
Daqing	71.38	98.50	59.75	49.67	76.75	82.10
Realized[1]	69.00	104.78	58.58	45.48	76.72	80.94

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.03 per barrel.

Any volatility in the outlook in crude oil prices impacts our planning decisions for future investments and our production budget, which govern our expected volume of production for future periods. The joint management committee meets at least twice each year and reviews and approves our annual production budget for each of our oilfields, which provides for the estimated annual production volume and makes adjustments if necessary. The production budget is impacted by crude oil price, supply and demand outlook of crude oil and the amount of oil we can recover. We experienced significant growth in our annual net crude oil production in 2007 and 2008, but our net production declined in 2009 due to a temporary curtailment agreed with PetroChina as described below. In 2007, 2008, 2009 and the six months ended June 30, 2010, our net production of crude oil amounted to 2.4 million barrels, 3.0 million barrels, 2.8 million barrels and 1.8 million barrels, respectively. In the same periods, our net production averaged 6,439 barrels, 8,150 barrels, 7,637 barrels and 10,042 barrels of crude oil per day. In 2009, our sales volume exceeded our net production of crude oil as we sold part of the inventory oil in our storage tanks. The table below sets forth our sales volume, average realized crude oil prices and revenue for the periods indicated:

	Year Ended December 31,			Six-Month Period Ended June 30,
	2007	2008	2009	2010
Sales volume (millions of barrels)	2.33	2.72	2.92	1.81
Average realized crude oil price[(1)] (US$ per barrel)	69.00	104.78	58.58	76.72
Revenue (in RMB million)	1,221.6	1,971.7	1,166.8	947.4

(1) Before deducting a total fee for oil transportation and sales of RMB52 per ton or US$1.03 per barrel.

In the first quarter of 2009, due to the decrease in demand for oil in China as a result of the global economic and financial crisis and excess crude oil in the market, we agreed with PetroChina to curtail the amount of oil produced at the Daan oilfield. As a result, our net production of crude oil decreased to an average of 5,348 barrels per day in the first quarter of 2009. In contrast, our net production averaged 8,150 barrels of crude oil per day in 2008. The production curtailment ended in March 2009 and our net production improved in subsequent months, rebounding to an average of 8,806 barrels per day in the second half of 2009 and 10,042 barrels per day in the first half of 2010. Had the curtailment in the first quarter of 2009 not occurred, and based on the average net production rate of 8,386 barrels of crude oil per day for the second through fourth quarters of 2009, our total net production for 2009 would have been 3.06 million barrels, or US$179.3 million as calculated using the 2009 average price per barrel. Our actual production for 2009 was 2.79 million barrels, or US$163.3 million based on the average realized oil price of US$58.58 per barrel in 2009. This is the only curtailment we have experienced since we began our cooperation with PetroChina in 2001. Although we do not anticipate another similar curtailment to occur, we cannot assure you that it will not occur in the future. Any future curtailment may similarly slow our production and materially and adversely affect our results of operations. See "Risk Factors – Risks Relating to Our Company and Our Business – PetroChina controls, to a significant extent, the volume of our net production through its status as our sole customer and the influence it has over the management of the three oilfields through the joint management committee. If our net production of crude oil decreases, our business, financial condition and results of operations may be materially and adversely affected."

Crude oil prices also have an impact on our depreciation, depletion and amortization. Lower crude oil prices may result in a reduction in our net reserves, and higher crude oil prices may result in an increase in our net reserves. Therefore, changes in net proved developed producing reserves will affect our depreciation, depletion and amortization for property, plant and equipment related to oil production activities.

Furthermore, fluctuations in oil prices also affect the amount of crude oil available to us to be apportioned as cost recovery oil and profit-sharing oil and, therefore, have a significant impact on our revenue and profitability. See "Business – Production Sharing Contracts – Cost Recovery Oil and Profit-Sharing Oil" for a description of cost recovery oil and profit-sharing oil. An increase in crude oil prices tends to increase the rate of recovery of our operating costs and pilot-test and development costs and the amount of profit-sharing oil. A prolonged downturn in oil prices generally slows down our cost recovery process and depresses the level of our development and production activities and reduces the amount of profit-sharing oil. See "– Production Sharing Contracts" for more details. Crude oil prices will also impact the amount of special levy payable to the PRC government. A special levy is payable starting at US$40 per barrel and the rate increases according to the price of crude oil. See "– Special Levy" for more details. As a result of the factors discussed above, our results of operations will continue to be affected by changes in crude oil prices in the future.

Production Sharing Contracts

We perform substantially all of our business activities through our production sharing contracts with PetroChina, the largest oil and gas company in China. We derive all of our revenue from the three oilfields at Daan, Moliqing and Miao 3. The foreign contractors are entitled to share in the production of crude oil with PetroChina in accordance with the ratio agreed between PetroChina and the foreign contractors under the production sharing contracts. We hold a 90% participating interest in the foreign contractors' entitlement and obligations under the production sharing contracts and GOC holds the remaining 10% participating interest. GOC is a passive foreign contractor and is not directly involved in the operations of the oilfields. Accordingly, our revenue consists only of our participating interest in the oil produced under the production sharing contracts. Fluctuations in oil prices could affect the amount of crude oil available to us to be apportioned as cost recovery oil and profit-sharing oil, and therefore, could have a significant impact on our revenue and profitability.

Before the crude oil is allocated among PetroChina and the foreign contractors, specified amounts of the annual gross production of oil are allocated to the government in the form of value-added tax and royalties. Because the government's portions are already excluded from our gross production, such amounts are not recorded in our financial accounts. Royalties represent royalties PetroChina pays to the PRC government on production with respect to each of the oilfields. The amount of the royalties varies from 0% to 12.5% based on the annual production of the relevant oilfield. PetroChina pays value-added tax to the PRC government that is equal to 5% of oil produced under production sharing contracts.

The structure of our production sharing contracts allows us to effectively recover our costs in operating and developing our oilfields. Under the production sharing contracts, crude oil is distributed according to a production allocation provision that prioritizes recovery of our operating, pilot-test and development costs, after deducting value-added tax and royalties. After the foreign contractors have recovered all operating, pilot-test and development costs (including any unrecovered operating, pilot-test and development costs from prior periods) from the oil revenue generated each period, the remainder of the gross production of crude oil for that period is allocated 52% to PetroChina and 48% to the foreign contractors. During the commercial production phase, PetroChina and the foreign contractors each bear a part of the operating costs and share the oil revenue generated to recover such operating costs in the same ratio. In any period in which the foreign contractors have not fully recovered their pilot-test and development costs for such period and any prior periods from the revenue generated in such period, the oil revenue and operating costs are allocated 20% to PetroChina and 80% to the foreign contractors. Conversely, in any period in which the foreign contractors have fully recovered their pilot-test and development costs from the revenue generated in such period and any prior periods and no additional development costs are incurred in the same period, the oil revenue and operating costs are allocated 52% to PetroChina and 48% to the foreign contractors. Therefore, in a given period during the commercial production phase, operating costs and oil revenue allocated to the foreign contractors will range between

48% and 80%. As of June 30, 2010, total costs incurred for pilot-test and development, including related operating costs, for each of Daan oilfield, Moliqing oilfield and Miao 3 oilfield amounted to RMB3,585.5 million, RMB1,213.1 million and RMB278.5 million, respectively, of which 100%, 78.0% and 42.8%, respectively, had been recovered.

Since the proportion of the extracted oil allocated to foreign contractors, i.e., 80% or 48%, is based on the amount of the development costs incurred by the foreign contractors, if we incur a greater amount of development costs due to our capital expenditure plans, more extracted oil will be allocated to foreign contractors on an 80% basis until all of the foreign contractors' development costs are recovered, rather than on a 48% basis. For example, since the Daan oilfield generates both cost recovery oil and profit-sharing oil, new investment on the oilfield will shift the allocation of the extracted oil from profit-sharing oil to cost-recovery oil to accelerate the recovery of our investment. The amount of development costs to be incurred for a given period is a part of our capital expenditure plans, which are reviewed and adopted by the joint management committee. Operating costs relating to the oilfields, such as purchases, services and other expenses, employee compensation costs and substantially all of the distribution and administrative expenses, are allocated to the foreign contractors and PetroChina based on the allocation of extracted oil.

Although during the track record period, we sold all of our share of crude oil to PetroChina under the production sharing contracts, the production sharing contracts provide that we may sell our share of the crude oil to other third party purchasers. We may also export our share of crude oil to purchasers overseas, in which instance we will obtain, with the assistance of PetroChina, any necessary licenses or permits.

Uncertainty of Reserve Estimates

Our proved reserves are those quantities of oil which, by analysis of geoscience and engineering data, we estimate with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions. Our reserve estimates include only crude oil, and we prepare a reserve estimation for each oilfield within oil regions and using prices and costs prevailing at the time of the estimate. We calculate our reserve estimates based on the price of Daqing crude oil at Dalian Harbor, Liaoning Province, published in Platts Oilgram, as the price we receive for crude oil delivered by us to PetroChina is determined in accordance with such price. The price of Daqing crude oil at Dalian Harbor closely follows the price of West Texas Intermediate. For accounting purposes, under IFRS, we accounted for the unit of production for depreciation, depletion and amortization for the years ended December 31, 2007, 2008, 2009 and the six-month period ended June 30, 2010 based on the reserve definition under PRMS, one of the most recognized systems for reporting reserves internationally.

Estimates of net reserves includes numerous assumptions and estimates relating to factors such as initial production rates, initial oil in place estimates, production decline rates, ultimate recovery of reserves, water flooding effectiveness, future oil-water ratios, injector performance, volume conversion factor, timing and amount of capital expenditures, future oil prices and operating costs that may be imposed during the production life of the reserves. Many of these assumptions and estimates are subject to change and are beyond our control. Actual oil recovery and capital and operating expenditures may vary from the evaluation and such variations could be material.

Estimates of net proved reserves have been made by Ryder Scott, an independent petroleum engineering consulting firm based in the United States specializing in oil reservoir evaluation and economic analysis. Ryder Scott has issued reports for us dated as of September 1, 2006, July 1, 2007, January 1, 2007, 2008, 2009 and 2010, and July 1, 2010.

Along with other factors, movements of crude oil prices affect the estimate of our net reserves. Lower crude oil prices may result in a reduction in our net reserves, and higher crude oil prices may result in an increase in our net reserves. At low crude oil prices, certain future locations may become uneconomical to develop and exploit, which results in lower net reserves. As a result of both economic and geopolitical factors, future oil prices will continue to be uncertain. Reserve volume and the income attributable to the reserves are directly dependent on the crude oil prices. Therefore, the volume of reserves actually recovered and amounts of income actually received may differ significantly from the estimates. However, the reserve estimates are important data to us for making future development and production plans and estimating our expected recovery of operating costs incurred and future oil revenue. The estimates are also an important element in testing for impairment. Changes in net proved developed producing reserves will affect unit-of-production depreciation, depletion and amortization recorded in our financial statements for property, plant and equipment related to oil production activities. A reduction in net proved developed producing reserves will increase depreciation, depletion and amortization charges, assuming constant production levels, and will reduce our profit accordingly.

Special Levy

We pay a special levy to the PRC government with respect to the sale of domestic crude oil. The special levy is paid or payable on the portion of income realized by any petroleum exploration companies from the sale of domestic crude oil at prices higher than US$40 per barrel. The levy is calculated and charged at progressive ad valorem rates for five grades, ranging from 20% to 40% according to the price of crude oil. The special levy will be calculated on the basis of the monthly weighted average price of the crude oil sold by us and paid on a quarterly basis. The amount of special levy we are required to pay is therefore affected by both the crude oil prices and sales volume, but such amount is not recoverable under the production sharing contracts but is deductible for the calculation of income tax. The special levy became effective from March 26, 2006. See "Regulation – Taxes and Levies in the Petroleum Industry." The details of the currently effective special levy are as follows:

Oil Price Range	Tax Rate on the Portion Higher Than US$40 per barrel
US$/barrel	**%**
0-40	0%
40-45	20%
45-50	25%
50-55	30%
55-60	35%
>60	40%

In 2007, 2008, 2009 and the six months ended June 30, 2010, we recorded a special levy of RMB160.0 million, RMB538.1 million, RMB73.3 million and RMB148.6 million, respectively.

Oil Put Options

We use oil put options to manage our exposure to downward movements of the crude oil prices. In November 2007, we purchased oil put options to notionally sell to Standard Bank Plc 5,236,710 barrels of crude oil at a strike price of US$62.50 per barrel, in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010. The price under the oil put options are based on the price of West Texas Intermediate crude oil. Under the same agreement, we also sold oil put

options to Standard Bank Plc to notionally sell to us 5,236,710 barrels at a strike price of US$42.50 per barrel in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010 under the same terms and conditions as the options we purchased. In effect, the purchase and sale of the oil put options combine to lock-in the minimum price of oil at US$62.50 per barrel for each month during the period from January 1, 2008 to December 31, 2010 for an amount ranging from 130,061 barrels to 154,378 barrels per month, with a maximum downside protection of US$20.00 per barrel. If the price of West Texas intermediate crude oil is higher than US$62.50 per barrel, the options will not be exercised. Each month during the period from January 1, 2008 to December 31, 2010, if the average monthly spot price of oil falls below US$62.50 per barrel, we receive from Standard Bank Plc each month the difference between the strike price of US$62.50 per barrel and the price of West Texas Intermediate crude oil, in respect of the notional volume of that month, provided that the maximum payout by Standard Bank Plc is limited to US$20.00 per barrel. We paid to Standard Bank Plc premium payments of US$2.3 million in 2008 and US$11.1 million in 2009 for a total premium payment of US$13.4 million for this oil put option arrangement, which payments were the only put option premiums we paid during the Track Record Period. At the end of 2008 and in the beginning of 2009, the price of West Texas Intermediate crude oil fell below US$62.50 per barrel, and in the first six months of 2010, the price of West Texas Intermediate crude oil rose to an average of US$78.35 per barrel. In 2008, we recorded a non-cash unrealized gain of RMB129.8 million. In 2009 and the six month period ended June 30, 2010, we recorded a non-cash unrealized loss of RMB207.2 million and RMB14.0 million, respectively, due to the change in fair value of the unrealized portion of the oil put option. This non-cash unrealized gain or loss is included as other income or loss in our consolidated income statement. Any cash realized gain or loss under the oil put options contract will be reflected in our consolidated cash flow statement. We realized a cash inflow from oil put options contract of RMB25.7 million, RMB70.9 million and nil in 2008, 2009 and the six-month period ended June 30, 2010, respectively.

In October 2010, we purchased oil put options to notionally sell to Merrill Lynch Commodities, Inc. 3,000,000 barrels of crude oil at a strike price of US$70.00 per barrel, in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012. The price under the oil put options are based on the price of West Texas Intermediate crude oil. Under the same agreement, we simultaneously sold oil put options to Merrill Lynch Commodities, Inc. to notionally sell to us 3,000,000 barrels at a strike price of US$55.00 per barrel in installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012 under the same terms and conditions as the options we purchased. The oil put options expire on December 31, 2012. In effect, the purchase and sale of the oil put options combine to lock-in the minimum price of oil at US$70.00 per barrel for 150,000 barrels per month in 2011 and for 100,000 barrels per months in 2011, with a maximum protection of US$15.00 per barrel. If the price of West Texas Intermediate crude oil is higher than US$70.00 per barrel, the options will not be exercised. Each month we will receive from Merrill Lynch Commodities, Inc. the difference between the strike price of US$70.00 per barrel and the price of West Texas Intermediate crude oil, in respect of the notional volume of that month, if the average monthly spot price of oil falls below US$70.00 per barrel, provided that the maximum payout by Merrill Lynch Commodities, Inc. is limited to US$15.00 per barrel. Starting in April 2011, we will pay Merrill Lynch Commodities, Inc. premium payments over a period of eight quarters for the oil put option arrangement, paying US$3.29 million in 2011, US$4.36 million in 2012 and US$1.09 million in 2013 for a total premium payment of US$8.74 million. The oil put options do not qualify for hedge accounting under IAS 39 "Financial Instruments: Recognition and Measurement". We will record gains or losses from this oil put option as other income or loss, respectively, in our consolidated income statement. Any cash realized gain under the oil put option will be reflected in our consolidated cash flow statement.

Our hedging policy prohibits speculative oil hedging. When management makes oil hedging decisions, it takes into account factors including annual production of oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others. Our oil hedging transactions are restricted to cover a reasonable

period when the oil prices can be determined with greater degree of certainty, usually up to two years. Our hedging transactions also focus on protection against downside risk. All oil hedging transactions must be approved by the Board. Management closely monitors the movement in oil prices, and Mr. Zhang and Mr. Forrest L. Dietrich, both of whom serve as executive directors and have over 20 years of experience in the oil industry, regularly monitor oil prices and recommend to the Board and management the suitable oil price and amount at which to enter into oil hedging transactions. We may be exposed to counterparty risks in our hedging transactions; however, we mitigate counterparty risk by choosing only reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. After entering into a hedging transaction, we monitor oil prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management team also holds frequent meetings to review trends in oil prices and the effectiveness of our hedging positions and strategy. Our Directors do not consider such counterparty risk to be material as we only enter into oil hedging transactions with large international banks and financial institutions that are reputable and well-capitalized and we do not purchase from small brokers or on the secondary market.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB, appearing elsewhere in this prospectus. The preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies represent critical accounting policies as they involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this prospectus.

Property, Plant and Equipment

Property, plant and equipment, including oil and gas properties, are stated at historical cost less accumulated depreciation, depletion and amortization. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The assets’ residual values and useful lives are reviewed at each period end and adjusted if appropriate. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within other income/expenses, in the income statement.

We review property, plant and equipment, including oil and gas properties, for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Determination as to whether and how much an asset is impaired involves management estimates and judgments such as future crude oil prices and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with our business plans. Favorable changes to some assumptions may allow us to avoid the need to impair any assets in these years, whereas unfavorable changes may cause the assets to become impaired.

When assessing impairment of our oil and gas properties, we make several assumptions. We forecast production as outlined in our reserves reports and consider natural decline as well as the effect of the water flooding in the areas of the fields where injection of water is proven effective in improving rate and recovery. When we anticipate a decline in production ability for a field, we apply an estimated rate of decline for the depletion of the reserves at that field. We then apply this estimated rate of decline as the basis for estimating future production rates. We assume that our prices for oil and gas at the end of the fiscal year will remain constant, except for known and determinable escalations, for purposes of our discounted cash flow calculation.

Included in property, plant and equipment are assets amounting to RMB2,931 million (historical cost of RMB4,767 million less accumulated depreciation and impairment of RMB1,836 million) directly used in and operated under the Group's three production sharing contracts with PetroChina. The Group is currently the operator of these assets. After the earlier of full recovery of development costs or expiry of these production sharing contracts, PetroChina may become the operator of these assets.

Oil Properties

The successful efforts method of accounting is used for our oil exploitation and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in our oil 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 reserves. 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 properties and subject to impairment reviews. 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. We do not have any costs of unproved properties capitalized in oil properties.

The cost of oil properties is amortized at the field level based on the unit of production method. Unit of production rates are based on proved developed producing reserves estimated to be recoverable from existing facilities based on current terms of the respective production agreements. Our reserves estimates represent crude oil that management believes can be reasonably produced within the current terms of these production agreements.

Estimate of Proved Reserves

In 2007, 2008, 2009 and the six months ended June 30, 2010, we used reserve definitions under PRMS to calculate depreciation, depletion and amortization. Therefore, the description of proved reserves below is based on PRMS reserve definitions.

Proved reserves are those quantities of crude oil 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 and operating conditions, operating method, 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.

We classified our proved reserves into two categories: proved developed producing reserves and proved undeveloped reserves. 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.

Our reserve estimates were prepared for each oilfield and include only crude oil that we believe 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 judgment. Consequently, reserve estimates are subject to revision as additional data becomes available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved reserves are key elements in our investment decision-making process. They are also an important element in testing for impairment. A reduction in proved developed producing reserves will increase depreciation, depletion and amortization charges, assuming constant production, and reduce net profit. Proved developed producing 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 have tended to be the most significant cause of annual revisions.

Deferred Taxes

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Estimation of Asset Retirement Obligations

A provision is recognized for the future decommissioning and restoration of oil and gas properties. The amounts of the provision recognized are the present values of the estimated future expenditures. 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 our operating results and the financial position over the remaining economic lives of the oil and gas properties.

Our company's PRC legal counsel, Zhong Lun Law Firm, confirmed the method of asset retirement obligation provision is consistent with the production sharing contracts. Our Reporting Accountants, based on the work performed on the overall financial statements, do not believe any adjustment is required to the asset retirement obligations to allow the financial statements to give a true and fair view. Based on the due diligence performed by the Sole Sponsor, the Sole Sponsor is of the view that our Group's provision for asset retirement obligation is sufficient and adequate.

Share-based Compensation Expenses

On November 20, 2009, our board of directors granted options to purchase 1,480,870 ordinary shares to certain officers and employees. The exercise price of each option granted is US$2.39. Of the 1,480,870 outstanding options, none were exercisable during 2009. On November 20, 2009, our board of directors also granted certain officers and employees stock appreciation rights pertaining to 2,560,180 notional ordinary shares to which the stock appreciation rights relate. The exercise price of each stock appreciation right granted on November 20, 2009 is US$2.39. Of the 2,560,180 outstanding stock appreciation rights, none were exercisable during 2009. On February 26, 2010, our board of directors granted two additional employees stock appreciation rights pertaining to 25,100 notional ordinary shares with an exercise price of US$4.78 per notional ordinary share. The number of options and exercise price mentioned hereinabove have not taken into account any adjustments pursuant to the Capitalization Issue. Further details are set out in the paragraph headed "Appendix VII – Statutory and General Information – Stock Incentive Plan" in this prospectus. In 2009 and the six-month period ended June 30, 2010, we recorded share-based compensation expenses of RMB3.5 million and RMB19.7 million, respectively.

Employee Stock Options

For stock options, we recognize the fair value of the employee services received in exchange for the grant of the options as an expense. We determine the total amount to be expensed 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 specified vesting conditions are to be satisfied. We credit the proceeds received net of any directly attributable transaction costs to share capital (nominal value) and other reserves when the employees exercise their options. Determining the total value of our share-based compensation expenses requires the use of highly subjective assumptions, including the expected life of the stock options, estimated forfeitures and the price volatility of the underlying shares. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if we had used different assumptions, our total share-based compensation expenses could have been different. In 2009 and the first half of 2010, we recorded share-based compensation expenses of RMB1.2 million and RMB5.3 million, respectively, relating to our stock option grants. Approximately RMB10.1 million of share-based compensation expenses are expected to be recognized in 2010.

To determine the fair value of our stock options, we used a binomial option pricing model, or binomial model. The principal terms of the stock options include providing holders of the employee stock options the rights to exercise the options from the date on which the options become vested until the expiration of the options and the rights to exercise the options within 30 days after the grantee is no longer our employee during the exercisable period. These features can be modeled as an American call option with additional parameters to account for the specific nature of the share-based awards. The binomial model has the flexibility to incorporate these features and is thus appropriate for calculating the value of the employee stock options. The fair value of options as of November 20, 2009, the grant date, determined using the binomial model was US$1.93 per option. The significant inputs into the model were the fair value per share of US$3.30 at the grant date, the exercise price shown above, volatility of 64.7%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

In determining the fair value of our ordinary shares on each grant date, we relied in part on a valuation report prepared by an independent valuer based on data we provided. The valuation report provided us with guidelines in determining the fair value, but the final determination as to the fair value of our share awards was made by our management. To determine the total equity interest in our company, we considered three generally accepted approaches, including cost, market and income approaches. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of companies which are a going concern, as it does not capture the future earning potential of the business. We also believe the relevance of the market approach is low, since there had been no recent transaction that was directly comparable and we could not identify peer companies with financial metrics and stage of development comparable to us that could give us a reasonable indication on the fair value of our business. In view of the above, we considered the income approach to be the most appropriate method to derive the values of equity interest of our company.

For the income approach, we utilized a discounted cash flow, or DCF, analysis based on management's best estimate of projected cash flows as of the valuation date. This method eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks, including intrinsic and extrinsic uncertainties relating to us. The projected cash flows include among other things, an analysis of projected revenue growth, gross margins, effective tax rates, capital expenditures and working capital requirements. This method involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. The assumptions used in deriving the fair value of our total equity interest include:

- there will be no material change in the existing political, legal, technological, fiscal or economic conditions which may adversely affect our business;
- operational and contractual terms bound by the contracts and agreements entered into by us will be honored; and
- our competitive advantages and disadvantages do not change significantly during the period under consideration.

These assumptions are inherently uncertain and subjective. The discount rates reflect the risk management perceived as being associated with achieving the forecasts and were derived by using the capital asset pricing model, after taking into account systematic risks and company-specific risks. Using this method, we determined the appropriate equity discount rate was 15.50% as of November 20, 2009.

The interests in the equity value of our company on November 20, 2009 included both series A preferred shares and ordinary shares. The fair value of the equity interest allocated to the preferred shares was calculated using the option pricing method. The fair value of the ordinary shares was calculated as the residual, or the total equity value less the fair value of the preferred shares. Under the option pricing method, we treated the preferred shares as a call option on our equity value, with the exercise price based on the liquidation preference of the preferred shares. Because a call option is used, the option pricing method commonly used is the Black-Scholes model, which takes into account the expected life of the option, a risk-free interest rate, dividend yield and a measure of volatility. Because we are a private company, we approximated volatility using the historical volatility of comparable publicly traded companies. The significant assumptions used in the Black-Scholes model included: expected life of 47 months; risk-free interest rate of 1.7181%; no dividend yield; and volatility of 69.01%. Based on this methodology, we calculated the residual fair value of our ordinary shares to be US$3.30 per share.

Stock Appreciation Rights

We measure share-based compensation expense for stock appreciation rights based on the difference between the notional exercise price of the right and the fair value of the right at the end of the reporting period which is expensed over the vesting period. The change in the fair value is recorded in employee compensation costs in the consolidated statement of comprehensive income and the related liability is included in the employees' salaries and welfare payable. In 2009 and the six-month period ended June 30, 2010, we recorded share-based compensation expenses of RMB2.3 million and RMB14.4 million relating to our stock appreciation rights, respectively.

The fair value of stock appreciation rights granted on November 20, 2009, as of June 30, 2010, the latest balance sheet date, determined using the binomial model was US$3.00 per right. The significant inputs into the model were the fair value per share of US$4.88 as of June 30, 2010, the exercise price of US$2.39, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.39 years and an annual risk-free interest rate of 3.923%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

In February 26, 2010, our board of directors granted 25,100 additional stock appreciation rights (such number does not take into account any adjustments pursuant to the Capitalization Issue). The fair value of stock appreciation rights granted on February 26, 2010, as of June 30, 2010, the latest balance sheet date, determined using the binomial model was US$2.18 per right. The significant inputs into the model were the fair value per share of US$4.879 as of June 30, 2010, the exercise price of US$4.78, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.66 years, and an annual risk-free interest rate of 3.923%. For information on the method we use to determine the fair value of our ordinary shares, see "– Employee Stock Options."

We evaluate the performance of participants under the stock appreciation rights award agreement based on criteria including achievement, efficiency, quality of work, communication and teamwork, among others. Performance evaluations are completed twice a year.

TAXATION

Both the company and MIE are incorporated in the Cayman Islands. Maples and Calder, our Cayman Islands counsel, has advised us that under the current law of the Cayman Islands, both the company and MIE are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

For the periods ended December 31, 2007, 2008, 2009 and June 30, 2010, we were subject to enterprise income tax, or EIT, on our income that was effectively connected to the PRC at the rate of 30%, 25%, 25% and 25%, respectively, in the PRC. Prior to January 1, 2008, under applicable PRC tax laws, companies established in the PRC were generally subject to national and local EIT at statutory rates of 30.0% and 3.0%, respectively. We are not subject to the local EIT as our business is located in the economic development zone in Songyuan, Jilin Province.

In March 2007, the National People's Congress of China enacted the New EIT Law and in November 2007, the State Council promulgated the implementing rules of the New EIT Law, both of which became effective on January 1, 2008. The New EIT Law curtails tax incentives granted to foreign-invested enterprises under the previous tax law. The New EIT Law (i) reduces the top rate of enterprise income tax from 33.0% to 25.0%, (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules, and (iii) introduces new tax incentives, subject to various qualification criteria. Since no member of our Group is established in the PRC, and no actual management body of any member of our Group is established in the PRC, and furthermore, no member of our Group has been deemed a tax resident by any PRC tax authority in the past, therefore, our PRC legal counsel, Zhong Lun Law Firm, has advised us that the possibility of our company being regarded as tax residents in the PRC is relatively low. Because the concept of tax residency is new in China, it is possible that the tax authorities may in the future assert that the company and/or MIE are tax residents in China. In the event that this occurs, the company or MIE will become subject to the New EIT Law on its worldwide income. This would cause all of the income earned by the company and MIE to be subject to China's 25% EIT rate.

We recorded income tax expenses of RMB125.2 million, RMB162.7 million, RMB73.5 million and RMB88.7 million for the years ended December 31, 2007, 2008, 2009 and the six-month period ended June 30, 2010.

Petroleum exploration companies also pay a special levy on the portion of income realized from the sales of domestic crude oil at prices higher than a specific level set by the PRC government. This levy was imposed by the PRC government and became effective from March 26, 2006. See "– General Factors Affecting Our Results of Operations – Special Levy." In 2007, 2008, 2009 and the six months ended June 30, 2010, we recorded a special levy of approximately RMB160.0 million, RMB538.1 million, RMB73.3 million and RMB148.6 million, respectively.

SUMMARY OF RESULTS OF OPERATIONS

The table below sets out selected financial information for the periods indicated:

	Year Ended December 31,			Six-Month Period Ended June 30,	
	2007	2008	2009	2009	2010
				(Unaudited)	
	(In RMB millions)				
Consolidated Statements of Comprehensive Income Data:					
Revenue	1,221.6	1,971.7	1,166.8	363.8	947.4
Operating expenses:					
Purchases, services and other	111.7	96.9	123.6	46.6	61.5
Employee compensation costs	53.0	69.0	67.7	24.8	57.6
Depreciation, depletion and amortization	286.8	475.2	445.8	226.5	268.0
Impairment of property, plant and equipment	–	32.0	–	–	–
Distribution and administrative expenses	131.9	112.7	84.1	29.5	40.5
Taxes other than income taxes	160.0	538.1	73.3	3.5	148.6
Other (income)/losses	(32.8)	(133.8)	131.1	85.8	11.0
Total operating expenses	710.6	1,190.1	925.6	416.7	587.2
Profit/(loss) from operations	511.0	781.6	241.2	(52.9)	360.2
Finance costs, net	(76.9)	(7.8)	(57.3)	(23.6)	(33.0)
Profit/(loss) before income tax	434.1	773.8	183.9	(76.5)	327.2
Income tax (expense)/benefit	(125.2)	(162.7)	(73.4)	2.9	(88.7)
Net profit/(loss) for the year/period	308.9	611.1	110.5	(73.6)	238.5

DESCRIPTION OF SELECTED LINE ITEMS IN THE STATEMENT OF COMPREHENSIVE INCOME

Revenue. Our revenue consists of oil sold calculated based on our entitlement in the oilfields covered under our production sharing contracts. Revenue is recognized upon delivery of crude oil that is allocated under production sharing contracts. Revenue is recognized only when we have transferred to the buyer the significant risks and rewards of the ownership of the goods, and where the amount of revenue and the costs incurred or to be incurred can be measured reliably and collectability of the related receivables is assured. In the Accountants' Report, our share of the oil allocation is recorded as revenue only when the oil is sold to PetroChina. Oil allocated to PetroChina and to GOC is not recorded in our income statement and hence is not reflected in the Consolidated Statement of Comprehensive Income of the Accountants' Report.

Operating expenses. Our operating expenses consist of purchases, services and other expenses, employee compensation costs, depreciation, depletion and amortization, impairment of property, plant and equipment, distribution and administrative expenses, taxes other than income taxes, and other income or loss. Operating costs relating to the three oilfields, such as purchases, services and other expenses, employee compensation costs and substantially all of the distribution and administrative expenses, are borne by the foreign contractors in the range of 48% to 80%, which is consistent with the allocation of crude oil among foreign contractors and PetroChina. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts."

- Purchases, services and other expenses include direct operating and maintenance costs of wells and related facilities, including direct material costs, fuel costs and electricity costs, safety fees, third party costs, such as oil displacement injection costs, down hole operating costs, maintenance and repair fees, purification and recovery costs and oil and gas transportation costs, and other direct expenses and management fees.
- Employee compensation costs include employee wages, salaries and allowances, housing subsidies and welfare and other expenses.
- For details on the depreciation, depletion and amortization of our oil properties, see "– Critical Accounting Policies and Estimates – Property, Plant and Equipment" and "– Critical Accounting Policies and Estimates – Oil Properties." Under IFRS, our accounting of unit of production for depreciation, depletion and amortization was based on the reserve definition as set out in the PRMS. We apply the unit of production rates based on net proved developed producing oil reserves estimated to be recoverable from existing facilities based on terms of the respective production agreements.
- Impairment of property, plant and equipment represents the difference between the carrying value of the assets and their recoverable amount determined using the discounted cash flow method. In the year ended December 31, 2008, we incurred an impairment charge of RMB32.0 million, which is a non-cash expense arising from assessing the net recoverable amount of the Miao 3 oilfield using the discounted cash flow method with an assumed crude oil price of US$55 per barrel and a discount rate of 12%. We did not incur any impairment charge in any other year. See "– Critical Accounting Policies and Estimates – Property, Plant and Equipment."
- Distribution and administrative expenses include a distribution expense of RMB52 per barrel per ton of crude oil according to our sales contract with China National Petroleum Sales Corporation, and general and administrative expenses, including utilities, transportation, business related travel, office rental costs, equipment repairs, property and other insurance, land-use compensation, audit and legal fees, landscaping and environmental sanitation expenses, administrative-related taxes, training and personnel fees paid to PetroChina, provision for impairment of receivables and other miscellaneous expenses.
- Taxes other than income taxes represent the special levy which is paid or payable to the PRC government on the portion of income realized by any petroleum exploration companies from the sales of domestic crude oil at prices higher than a specific level set by the PRC government. See "– General Factors Affecting Our Results of Operations – Special Levy."
- Other (income)/losses include any gain or loss from the oil put option and any gain or loss on forward foreign exchange contracts.

Finance income/(costs). Finance income/(costs) includes finance income, such as interest income from savings accounts and foreign exchange translation gain, and finance costs, such as interest expenses, bank charges and foreign translation exchange loss.

Income tax expense. Income tax expense includes current income tax and deferred income tax. Income tax is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items. The PRC EIT rate applicable to us was 30% for the year ended December 31, 2007 and 25% for the years ended December 31, 2008 and 2009 and the six-month period ended June 30, 2010. See "– Taxation."

REVIEW OF HISTORICAL OPERATING RESULTS

Six-Month Period Ended June 30, 2010 Compared to Six-Month Period Ended June 30, 2009

Revenue. Our revenue increased by RMB583.6 million, or 160.4%, from RMB363.8 million for the six-month period ended June 30, 2009 to RMB947.4 million for the six-month period ended June 30, 2010. This increase was primarily due to an increase in the crude oil prices and our sales volume to PetroChina.

Average realized oil price was US$76.72 per barrel for the six-month period ended June 30, 2010, compared to US$45.48 per barrel for the six-month period ended June 30, 2009. Sales volume was 1.81 million barrels for the six-month period ended June 30, 2010, compared to 1.17 million barrels for the six-month period ended June 30, 2009.

In the six-month period ended June 30, 2010 compared to the same period in 2009, more crude oil was allocated to the foreign contractors at 80% compared to 48% as our investments in the oilfields increased. For the six-month period ended June 30, 2009, we experienced a production curtailment that we agreed with PetroChina to implement during the first quarter of 2009 and had limited investments in the oilfields during this period. Due to our limited investments, most of the revenue generated in the first half of 2009 was profit-sharing oil which was subject to the 48% allocation to the foreign contractors. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts."

Operating expenses. Our operating expenses increased by RMB170.5 million, or 40.9%, from RMB416.7 million for the six-month period ended June 30, 2009 to RMB587.2 million for the six-month period ended June 30, 2010, primarily due to an increase in special levy, depreciation, depletion and amortization, and employee compensation costs which was offset by a reduction in other losses.

- *Purchases, services and other expenses*. Our purchases, services and other expenses increased by RMB14.9 million, or 32.0%, from RMB46.6 million for the six-month period ended June 30, 2009 to RMB61.5 million for the six-month period ended June 30, 2010, primarily due to the increase in sales volume in the six-month period ended June 30, 2010.
- *Employee compensation costs*. Our employee compensation costs increased by RMB32.8 million, or 132.3%, from RMB24.8 million for the six-month period ended June 30, 2009 to RMB57.6 million for the six-month period ended June 30, 2010 primarily due to higher compensation of employees and an increase in share-based compensation expenses and higher remuneration to directors and senior management. In the first half of 2010, we also accrued more performance bonus and hired more employees.
- *Depreciation, depletion and amortization*. Our depreciation, depletion and amortization increased by RMB41.5 million, or 18.3%, from RMB226.5 million for the six-month period ended June 30, 2009 to RMB268.0 million for the six-month period ended June 30, 2010. The increase is mainly due to the increase in sales volume in the first half of 2010.
- *Distribution and administrative expenses*. Our distribution and administrative expenses increased by RMB11.0 million, or 37.3%, from RMB29.5 million for the six-month period ended June 30, 2009 to RMB40.5 million for the six-month period ended June 30, 2010 primarily due to higher distribution costs associated with increased sales volume.

- *Taxes other than income taxes*. Our taxes other than income taxes increased by RMB145.1 million, from RMB3.5 million for the six-month period ended June 30, 2009 to RMB148.6 million for the six-month period ended June 30, 2010. This increase was primarily due to (i) an increase in the special levy we paid to the PRC government in the first half of 2010 due to increased realized crude oil prices between the periods as the special levy is calculated and charged at progressive ad valorem rates based on the price of crude oil as well as 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. The average selling price for the six months ended June 30, 2009 and 2010 were US$45.48 and US$76.72 per barrel, respectively, and the sales volume for the six months ended June 30, 2009 and 2010 were 1.17 million and 1.81 million barrels, respectively. In 2008, due to the excess entitlement, we paid PetroChina's portion of the special levy in the amount of RMB108.6 million. In the six months ended June 30, 2009, PetroChina paid RMB7.3 million of the special levy due on settlement of the excess entitlement. Special levy is payable starting at US$40 per barrel and the rate increases according to the crude oil price. See "General Factors Affecting Our Results of Operations and Financial Condition – Special Levy."
- *Other (income)/losses*. We had other losses of RMB11.0 million for the six-month period ended June 30, 2010, compared to other losses of RMB85.8 million for the six-month period ended June 30, 2009, primarily due to a decrease in loss on oil put options from RMB95.0 million in the first half of 2009 to RMB14.0 million in the first half of 2010.

Profit/(loss) from operations. Our profit from operations was RMB360.2 million for the six-month period ended June 30, 2010, compared to a loss from operations of RMB52.9 million in the six-month period ended June 30, 2009. This change was primarily due to an increase in revenue, partially offset by an increase in operating expenses.

Finance income/(costs), net. Our finance cost, net, increased by RMB9.4 million, or 39.8%, from RMB23.6 million for the six-month period ended June 30, 2009 to RMB33.0 million for the six-month period ended June 30, 2010. This increase was primarily due to an increase in our outstanding loan, partially offset by lower interest rates.

Profit/(loss) before income tax. Our profit before income tax was RMB327.2 million for the six-month period ended June 30, 2010, compared to a loss before income tax of RMB76.5 million for the six-month period ended June 30, 2009. This change was primarily due to the cumulative effects of the above factors.

Income tax expense/(credit). We had income tax expense of RMB88.7 million for the six-month period ended June 30, 2010, compared to income tax credit of RMB2.9 million for the six-month period ended June 30, 2009. This change was primarily due to an increase in our taxable income.

Net profit/(loss). As a result of the foregoing, our net profit was RMB238.5 million for the six-month period ended June 30, 2010, compared to a net loss of RMB73.6 million for the six-month period ended June 30, 2009.

Total comprehensive profit/(loss). As a result of the foregoing, our total comprehensive profit was RMB238.5 million for the six-month period ended June 30, 2010, compared to a total comprehensive loss of RMB73.6 million for the six-month period ended June 30, 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue. Our revenue decreased by RMB804.9 million, or 40.8%, from RMB1,971.7 million for the year ended December 31, 2008 to RMB1,166.8 million for the year ended December 31, 2009. This decrease was primarily due to a decrease in the crude oil prices, slightly offset by an increase in sales volume.

Average realized oil price was US$58.58 per barrel for the year ended December 31, 2009, compared to US$104.78 per barrel for the year ended December 31, 2008. Sales volume was 2.92 million barrels for the year ended December 31, 2009, compared to 2.72 million barrels for the year ended December 31, 2008. Our sales volume in 2009 exceeded our net production of crude oil as we sold part of the inventory of crude oil in our storage tanks as at December 31, 2008. Sales volume in 2009 included 127,907 barrels of crude oil which were produced in 2008. As of December 31, 2008 and 2009, we had an inventory of 196,927 barrels and 69,020 barrels of crude oil, respectively.

In 2009 compared to 2008, more crude oil was allocated to the foreign contractors at 48% compared to 80%. For the year ended December 31, 2009, we had limited investments in the oilfields. Accordingly, most of the revenue generated is profit-sharing oil which is subject to the 48% allocation to the foreign contractors. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts."

Operating expenses. Our operating expenses decreased by RMB264.5 million, or 22.2%, from RMB1,190.1 million for the year ended December 31, 2008 to RMB925.6 million for the year ended December 31, 2009, primarily due to a decrease in special levy as a result of the decrease in realized crude oil prices, offset by an increase in other losses due to the movement in the fair value of the oil put option.

- *Purchases, services and other expenses*. Our purchases, services and other expenses increased by RMB26.7 million, or 27.5%, from RMB96.9 million for the year ended December 31, 2008 to RMB123.6 million for the year ended December 31, 2009, primarily due to a write-back of accrued safety fees before 2008 of RMB34.0 million in the year ended December 31, 2008 and the increase in sales volume in 2009, offset by changes in production sharing allocation. PRC regulations require us to incur expenditures on defined safety activities and to set aside an amount anticipated to be incurred based on a percentage of revenue as described below. In 2008 and 2009, more information and interpretation on the PRC regulations clarified the accounting treatment of safety fees, which specifically provides that safety fees shall not be recorded as liability but in other reserves. As a result, we wrote back the unused safety fees from 2006 and 2007 in the year ended December 31, 2008. In 2009, more crude oil was allocated to the foreign contractors at 48% compared to 80%. Since foreign contractors' share of the revenue decreased, operating costs also correspondingly decreased.
- In accordance with relevant PRC regulations, the amount of the safety fees is set at 2% of revenue for the relevant year and the amount is transferred from retained earnings to the safety fund reserve. Safety expenditure incurred by us in respect of safety-related activities is either expensed to the statement of comprehensive income or capitalized as an asset in the statement of financial position depending on the nature of the expenditures. Actual expenditure is then transferred from the safety fund reserve to retained earnings, subject to the limit of the safety fund reserve balance.
- *Employee compensation costs*. Our employee compensation costs decreased by RMB1.3 million, or 1.9%, from RMB69.0 million for the year ended December 31, 2008 to RMB67.7 million for the year ended December 31, 2009 primarily due to the changes in production sharing allocation and staff rationalization in the first half of 2009 to reduce operating costs.
- *Depreciation, depletion and amortization*. Our depreciation, depletion and amortization decreased by RMB29.4 million, or 6.2%, from RMB475.2 million for the year ended December 31, 2008 to RMB445.8 million for the year ended December 31, 2009. Lower depreciation, depletion and amortization costs in 2009 were primarily due to higher reserves in 2009 resulting in a decrease in depreciation per unit of production.

- *Impairment of property, plant and equipment*. As of December 31, 2008, due to declining oil prices, we revised our reserve projections for all of our oilfields. This reserve review and the financial results of Miao 3 suggested a possible impairment of Miao 3's carrying value. Accordingly, we undertook a detailed impairment assessment as required by IFRS. As a result, for the year ended December 31, 2008, we incurred an impairment charge of RMB32.0 million, which is a non-cash expense arising from assessing the net recoverable amount of Miao 3 using the discounted cash flow method with an assumed crude oil price of US$55 per barrel and a discount rate of 12%. We did not incur any impairment charges in any other year. As oil prices rebounded in the second half of 2009, our net proved reserves increased. As a point of reference, as of December 31, 2009 and March 31, 2010, the price of West Texas Intermediate crude oil was US$79.36 and US$83.76 per barrel, respectively.
- *Distribution and administrative expenses*. Our distribution and administrative expenses decreased by RMB28.6 million, or 25.4%, from RMB112.7 million for the year ended December 31, 2008 to RMB84.1 million for the year ended December 31, 2009 primarily due to the changes in production sharing allocation and higher general and administrative expenses in 2008 partly due to legal and accounting fees incurred in connection with our preparation for a private placement and a public offering in Hong Kong in 2008.
- *Taxes other than income taxes*. Our taxes other than income taxes decreased by RMB464.8 million, or 86.4%, from RMB538.1 million for the year ended December 31, 2008 to RMB73.3 million for the year ended December 31, 2009. This decrease was primarily due to (i) a decrease in the special levy we paid to the PRC government due to decreased realized crude oil prices between the periods as the special levy is calculated and charged at progressive ad valorem rates based on the price of crude oil 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 2008, RMB429.6 million of the special levy paid by us was not related to the excess entitlement, compared to RMB115.1 million in 2009. In 2008, due to the excess entitlement, we paid PetroChina's portion of the special levy in the amount of RMB108.6 million. In 2009, PetroChina paid RMB41.8 million of the special levy due on settlement of the excess entitlement, and therefore, our taxes other than income taxes in 2009 were RMB73.3 million.
- *Other (income)/losses*. We had other income of RMB133.8 million for the year ended December 31, 2008, primarily due to the non-cash unrealized gain of RMB129.8 million in 2008, due to the movement in the fair value of the oil put option, which was impacted by the fluctuation of the crude oil prices. We had other losses of RMB131.1 million for the year ended December 31, 2009, primarily due to a 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. Since the price of West Texas Intermediate crude oil was US$44.60 per barrel on December 31, 2008 and our oil put option with a strike price of US$62.50 per barrel does not expire until December 31, 2010, we had a non-cash unrealized gain of RMB129.8 million in 2008. However, since the price of West Texas Intermediate crude oil was US$79.36 per barrel on December 31, 2009, and our oil put option had a strike price of US$62.50 per barrel, we incurred a non-cash unrealized loss of RMB207.2 million in 2009.

Profit/(loss) from operations. Our profit from operations decreased by RMB540.4 million, or 69.1%, from RMB781.6 million for the year ended December 31, 2008 to RMB241.2 million for the year ended December 31, 2009. This decrease was primarily due to a decrease in revenue, partially offset by a decrease in operating expenses.

Finance income/(costs), net. Our finance cost, net, increased by RMB49.5 million, or 634.6%, from RMB7.8 million for the year ended December 31, 2008 to RMB57.3 million for the year ended December 31, 2009. This increase was primarily due to our foreign exchange translation loss of RMB2.2 million in 2009 compared to a foreign exchange translation gain of RMB42.8 million in 2008, due to the stabilization of the exchange rate of the Renminbi against the U.S. dollar in 2009 as our loans were denominated and settled in U.S. dollars.

Profit/(loss) before income tax. Our profit before income tax decreased by RMB589.9 million, or 76.2%, from RMB773.8 million for the year ended December 31, 2008 to RMB183.9 million for the year ended December 31, 2009. This decrease was primarily due to the cumulative effects of the above factors.

Income tax expense/(credit). We had income tax expense of RMB162.7 million for the year ended December 31, 2008, compared to income tax expense of RMB73.4 million for the year ended December 31, 2009. This decrease was primarily due to a decrease in profit before income tax between the two years.

Net profit/(loss). As a result of the foregoing, our net profit decreased by RMB500.6 million, or 81.9%, from RMB611.1 million for the year ended December 31, 2008 to RMB110.5 million for the year ended December 31, 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue. Our revenue increased by RMB750.1 million, or 61.4%, from RMB1,221.6 million for the year ended December 31, 2007 to RMB1,971.7 million for the year ended December 31, 2008. This increase was primarily due to increases in the crude oil prices and sales volume as a result of strong market demand for crude oil in the first three quarters of 2008.

Average realized oil price was US$104.78 in 2008, compared to US$69.00 in 2007. Sales volume was 2.72 million barrels in 2008, compared to 2.33 million barrels in 2007.

In 2008, due to increased crude oil prices, we were allocated more profit-sharing oil compared to 2007. See "– General Factors Affecting Our Results of Operations – Production Sharing Contracts" for more details.

Operating expenses. Operating expenses increased 67.5% from RMB710.6 million for the year ended December 31, 2007 to RMB1,190.1 million for the year ended December 31, 2008, primarily due to an increase in depreciation, depletion and amortization and an increase in special levy due to increased realized oil prices, offset by an increase in other income due to the movement in the fair value of the oil put option.

- *Purchases, services and other expenses*. Our purchases, services and other expenses decreased by RMB14.8 million, or 13.3%, from RMB111.7 million for the year ended December 31, 2007 to RMB96.9 million for the year ended December 31, 2008. This decrease was primarily due to a write back in safety fees accrued before 2008 in the amount of RMB34.0 million in 2008. This decrease was offset by an increase in expenditures for operating and maintaining wells between the periods primarily due to increased production volume and number of wells drilled.
- *Employee compensation costs*. Our employee compensation costs increased by RMB16.0 million, or 30.2%, from RMB53.0 million for the year ended December 31, 2007 to RMB69.0 million for the year ended December 31, 2008. This increase was primarily due to an increase in the number of our staff hiring in connection with our increased production, as well as increased staff salaries between the two periods, offset by the changes in production sharing allocation as we were allocated more profit-sharing oil compared to 2007.
- *Depreciation, depletion and amortization*. Our depreciation, depletion and amortization increased by RMB188.4 million, or 65.7%, from RMB286.8 million for the year ended December 31, 2007 to RMB475.2 million for the year ended December 31, 2008. This increase was primarily due to an increase in depreciation per unit of production and increased production.
- *Impairment of property, plant and equipment*. As of December 31, 2008, due to declining oil prices, we revised our reserve projections for all of our oilfields. This reserve review and the financial results of Miao 3 suggested a possible impairment of Miao 3's carrying value. Accordingly, we undertook a detailed impairment assessment as required by IFRS. As a result, in the year ended

December 31, 2008, we incurred an impairment charge of RMB32.0 million, which is a non-cash expense arising from assessing the net recoverable amount of Miao 3 using the discounted cash flow method with an assumed crude oil price of US$55 per barrel and a discount rate of 12%. We did not incur any impairment charges in any other year.

- *Distribution and administrative expenses*. Our distribution and administrative expenses decreased by RMB19.3 million, or 14.6%, from RMB131.9 million for the year ended December 31, 2007 to RMB112.7 million for the year ended December 31, 2008. This decrease was primarily due to a provision for impairment of receivables in 2007 of RMB49.8 million as a result of certain advances paid to suppliers of drilling services and equipment not having been collectible, as well as the changes in production sharing allocation as we were allocated more profit-sharing oil compared to 2007. The uncollectible advances relate to prepayments made to certain suppliers of drilling services and equipment. These suppliers did not make the delivery or provide the necessary services, and are no longer reachable. We believe these uncollectible advances were a one-time occurrence as we have since then more effectively managed our exposure to credit risks of our suppliers. The decrease was offset by increased distribution expenses as a result of higher oil sales volume between the periods and legal and accounting fees incurred in connection with our preparation for a private placement and the proposed initial public offering in Hong Kong in 2008.

- *Taxes other than income taxes*. Our taxes other than income taxes increased by RMB378.1 million, or 236.3%, from RMB160.0 million for the year ended December 31, 2007 to RMB538.1 million for the year ended December 31, 2008. This increase was primarily due to an increase in the special levy paid to the PRC government in connection with the excess entitlement in 2008 and due to increased realized oil prices between the periods.

- *Other losses/(income)*. Our other income increased by RMB101.0 million, or 308.1%, from RMB32.8 million for the year ended December 31, 2007 to RMB133.8 million for the year ended December 31, 2008. The increase was primarily due to the non-cash unrealized gain of RMB129.8 million in 2008, due to the movement in the fair value of the oil put option, which was impacted by the fluctuation of the crude oil prices. Since the price of West Texas Intermediate crude oil was US$44.60 per barrel on December 31, 2008 and our oil put option with a strike price of US$62.50 per barrel does not expire until December 31, 2010, we had a non-cash unrealized gain of RMB129.8 million in 2008. The increase was offset by a net loss on forward foreign exchange contracts due to less-than-expected appreciation of the Renminbi during the same period.

Profit from operations. Our profit from operations increased by RMB270.6 million, or 53.0%, from RMB511.0 million for the year ended December 31, 2007 to RMB781.6 million for the year ended December 31, 2008. This increase was primarily due to an increase in revenue, partially offset by an increase in operating expenses.

Finance income/(costs), net. Our finance costs, net, decreased by RMB69.1 million, or 89.9%, from RMB76.9 million for the year ended December 31, 2007 to RMB7.8 million for the year ended December 31, 2008. This decrease was primarily due to higher foreign exchange gain of RMB42.8 million in 2008. Since our loan from Standard Bank was denominated and settled in U.S. dollars and our functional currency has been the Renminbi, greater appreciation of the Renminbi against the U.S. dollar in 2008 compared to 2007 resulted in a translation gain. In 2008, all of our loans were denominated and settled in U.S. dollars. During most of 2007, our loans were short-term loans denominated in Renminbi. Therefore, there was no foreign exchange translation gain from Renminbi loans. We had higher finance costs in 2008 compared to 2007 due to higher interest expenses from more bank borrowings. In addition, we had higher bank charges in 2007 principally due to professional fees in connection with entering into the US$150 million Standard Bank loan facility in October 2007.

Profit before income tax. Our profit before income tax increased by RMB339.7 million, or 78.3%, from RMB434.1 million for the year ended December 31, 2007 to RMB773.8 million for the year ended December 31, 2008. This increase was primarily due to the cumulative effects of the above factors.

Income tax expense. Our income tax expense increased by RMB37.6 million, or 30.0%, from RMB125.2 million for the year ended December 31, 2007 to RMB162.7 million for the year ended December 31, 2008. This increase was primarily due to the increase in profit before income tax, offset by a reduction in the applicable EIT tax rate from 30% in 2007 to 25% in 2008.

Net profit. As a result of the foregoing, our net profit increased by RMB302.1 million, or 97.8%, from RMB308.9 million for the year ended December 31, 2007 to RMB611.1 million for the year ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding include cash generated by operating activities, short-term and long-term borrowings and equity investments by our shareholders, including a private equity investment from TPG in July 2009. Our primary uses of funds were for operating activities, capital expenditures, and repayment of short-term and long-term borrowings. We plan to fund our capital expenditures and acquire interests in other oilfields principally through the proceeds from the Global Offering, cash generated by operating activities, short-term and long-term borrowings and cash and cash equivalents. As of December 31, 2007, 2008, 2009 and June 30, 2010, we had cash and cash equivalents of RMB77.2 million, RMB382.1 million, RMB290.3 million and RMB268.3 million, respectively. As of December 31, 2007, 2008, 2009 and June 30, 2010, we had total borrowings of RMB730.5 million, RMB820.2 million and RMB1,345.4 million and RMB1,345.5 million, respectively. As of December 31, 2007, 2008, 2009 and June 30, 2010, we had unutilized loan facilities amounting to US$50 million, US$30 million, nil and nil, respectively. If the crude oil price declines significantly in the future, it is likely that we would delay or reduce the planned scale of the capital expenditures for our development and production activities.

In the first half of 2010, we had net cash generated from operating activities of RMB559.0 million, net cash used in investing activities of RMB444.5 million and net cash used in financing activities of RMB136.5 million, resulting in a net decrease in cash and cash equivalent of RMB22.0 million compared to the cash balance as of December 31, 2009. As of June 30, 2010, we had a working capital deficit of RMB172.6 million. See "– Working Capital" for more details. We have the ability to manage these positions due to the anticipated monthly positive cash flows generated from our operations and the ability to negotiate and modify the terms with our trade creditors. After taking into consideration the above, the Directors believe that the Group has sufficient cash to enable it to settle its liabilities as and when they come due.

In the first half of 2009 and 2010, we realized a cash inflow due to our oil put option of US$10.4 million and nil, respectively. In the first half of 2009, we had decreased cash flows due to lower revenue as a result of reductions in crude oil prices and the production curtailment we agreed with PetroChina during the first two months of 2009. Our cash flows improved in the remaining period of 2009 and the first half of 2010 as a result of improved cash flow from operations as sales volume and oil prices increased.

Cash Flows

The table below sets forth our cash flows for each of the years ended December 31, 2007, 2008, 2009 and the six-month period ended June 30, 2009 and 2010.

	Year Ended December 31,			Six-Month Period Ended June 30,	
	2007	2008	2009	2009	2010
				(Unaudited)	
	(In RMB millions)				
Net cash generated from/(used in) operating activities	517.5	1,449.5	(70.2)	(22.3)	559.0
Net cash (used in) investing activities	(715.3)	(1,278.5)	(881.8)	(262.2)	(444.5)
Net cash generated from/(used in) financing activities	248.5	136.7	860.2	–	(136.5)
Net increase/(decrease) in cash and cash equivalents	50.7	307.7	(91.8)	(284.5)	(22.0)
Exchange losses on cash and cash equivalents	–	(2.8)	–	–	–
Cash and cash equivalents at beginning of the year/period	26.5	77.2	382.1	382.1	290.3
Cash and cash equivalents at end of the year/period	77.2	382.1	290.3	97.6	268.3

Operating Activities

Net cash generated from operating activities was RMB559.0 million in the six-month period ended June 30, 2010. In the six months ended June 30, 2010, our net cash generated in operating activities included profit before income tax of RMB327.2 million adjusted for, among other things, depreciation, depletion and amortization of RMB268.0 million, higher net interest expenses of RMB33.0 million and an unrealized fair value loss on oil put option of RMB14.0 million. The cash movements in the six-month period ended June 30, 2010 included an increase in trade and other payables of RMB45.2 million, a decrease in trade and other receivable of RMB34.5 million and a decrease in inventories of RMB29.3 million.

Net cash used in operating activities was RMB22.3 million in the six-month period ended June 30, 2009. In the six months ended June 30, 2009, our net cash generated in operating activities included loss before income tax of RMB76.5 million adjusted for, among other things, higher depreciation, depletion and amortization of RMB226.5 million, net interest expenses of RMB23.6 million, an unrealized fair value loss on oil put option of RMB166.0 million and an unrealized fair value loss on currency forward of RMB14.0 million. The cash movements in the six-month period ended June 30, 2009 included a decrease in trade and other receivables of RMB20.1 million and a decrease in trade and other payables of RMB342.4 million. We recorded a loss before income tax mainly due to lower realized oil prices.

Net cash used in operating activities was RMB70.2 million in the year ended December 31, 2009. In the year ended December 31, 2009, our net cash used in operating activities included profit before income tax of RMB183.9 million adjusted for, among other things, higher depreciation, depletion and amortization of RMB445.8 million, higher interest expenses of RMB54.9 million, an unrealized fair value loss on oil put

option of RMB207.2 million, an unrealized fair value gain on currency forward of RMB25.2 million and an unrealized foreign exchange gain of RMB2.2 million. Our profit before income tax was also lower in 2009 due to lower realized oil prices. The cash movements in the year ended December 31, 2009 included a decrease in trade and other payables of RMB581.6 million primarily due to repayment to PetroChina for the excess entitlement (see the paragraph immediately below for more details) and payments to third party suppliers, an increase in trade and other receivables of RMB226.5 million due to more oil being sold in December 2009, the proceeds from which were not received until early 2010, and a slight increase in inventory of RMB22.2 million.

As of December 31, 2008, our trade and other payables included a net advance from PetroChina of RMB458.5 million, which included a liability of RMB487.8 million. This liability arose from our being credited with 671,233 barrels of oil from the production sharing contracts in excess of our entitlement under the production sharing contracts in 2007 and 2008. The excess entitlement occurred because during these years we were allocated oil at the higher cost recovery percentage of 80% though it was later determined that our allocation should have been at the profit-sharing percentage of 48% when, following year-end balancing procedures, we determined the actual annual entitlements based on the oil produced during the year allocated using the appropriate cost recovery and profit share percentages under the production sharing contracts. The amount of excess entitlement was recorded as a liability. The excess entitlement occurred due to the unanticipated high oil prices experienced during the second half of 2007 and 2008. Furthermore, since the occurrence of the excess entitlement, we and PetroChina have revised our crude oil allocation calculation form to strictly follow the production sharing contracts and PetroChina and we have since allocated oil production according to such calculation form. As a result, we expect this excess entitlement to be a one-time occurrence. We were able to resolve this disagreement with PetroChina in November 2009 without damaging the relationship between us and PetroChina and without materially affecting our operations.

Net cash generated from operating activities was RMB1,449.5 million in 2008. In 2008, we had profit before income tax of RMB773.8 million adjusted for, among other things, depreciation, depletion and amortization of RMB475.2 million and an unrealized fair value gain on oil put option of RMB129.8 million. The cash movements in 2008 included an increase in trade and other payables of RMB268.9 million and a decrease in trade and other receivables of RMB258.0 million primarily due to the excess entitlement that occurred in 2008 as described above, offset by a small increase in inventories of RMB16.4 million primarily due to higher amount of oil in our storage tanks as a result of the production curtailment we agreed to with PetroChina beginning in December 2008.

Net cash generated from operating activities was RMB517.5 million in 2007. In 2007, we had profit before income tax of RMB434.1 million adjusted for, among other things, depreciation, depletion and amortization of RMB286.8 million. The cash movements in 2007 included an increase in trade and other receivables of RMB211.7 million primarily due to oil sold to PetroChina, for which we had not received payment as our payment term is generally 30 days after an invoice is issued, offset by a slight increase in trade and other payables of RMB41.4 million due to the amount we owe to suppliers.

Investing Activities

Net cash used in investing activities in the six-month period ended June 30, 2010 amounted to RMB444.5 million, mainly as a result of project development costs of RMB427.4 million, and loans granted to GOC of RMB17.1 million.

Net cash used in investing activities in the six-month period ended June 30, 2009 amounted to RMB262.2 million, mainly as a result of project development costs of RMB216.2 million, increase in pledged deposits of RMB29.4 million and loans granted to GOC of RMB17.5 million.

Net cash used in investing activities in the year ended December 31, 2009 amounted to RMB881.8 million, mainly as a result of project development costs of RMB881.4 million, and loans granted to GOC of RMB21.7 million, partially offset by a reduction in pledged deposits of RMB19.5 million due to a bank guarantee we provided to Jilin Guotai Petroleum Development Company in July 2008, which was released in 2009.

Net cash used in investing activities amounted to RMB1,278.5 million in 2008, mainly due to project development costs of RMB1,238.5 million, offset by loan repayments from Mr. Ruilin Zhang, our chairman and chief executive officer, of RMB79.0 million. For information on our purchases of property plant and equipment, see "– Capital Expenditures."

Net cash used in investing activities amounted to RMB715.3 million in 2007, mainly as a result of project development costs of RMB831.5 million and interest-free, unsecured loans made to Mr. Ruilin Zhang in the amount of RMB207.3 million, offset by a decrease in pledged deposits of RMB231.5 million for bank issued notes to suppliers which required cash deposits as guarantee and loan repayments from Mr. Ruilin Zhang of RMB92.2 million.

Financing Activities

Net cash used in financing activities in the six-month period ended June 30, 2010 amounted to RMB136.5 million, solely due to a cash dividend paid. We did not record any cash used or generated from financing activities in the six-month period ended June 30, 2009.

Net cash generated from financing activities in the year ended December 31, 2009 amounted to RMB860.2 million due to (i) a drawdown of RMB1,243.2 million from our CITIC Bank International Limited and CITIC Bank Guangzhou long-term credit facility, (ii) a drawdown of RMB204.8 million from our CITIC Bank International Limited and CITIC Bank Guangzhou short-term revolving credit facility, and (iii) net proceeds from the issuance of series A preferred shares of RMB339.6 million, offset by (i) a repayment of RMB825.0 million under our Standard Bank loan facility and (ii) a repayment of RMB102.4 million under our CITIC Bank International Limited and CITIC Bank Guangzhou short-term revolving credit facility. The Standard Bank loan facility was terminated on July 31, 2009.

Net cash generated from financing activities in 2008 amounted to RMB136.7 million solely due to a drawdown of RMB136.7 million from our Standard Bank loan facility.

Net cash generated from financing activities amounted to RMB248.5 million in 2007, as a result of proceeds of RMB730.5 million from our long-term bank borrowings from the Standard Bank loan facility, offset by a repayment of RMB482.0 million of our short-term bank borrowings from commercial banks in the PRC.

Cash and Cash Equivalents

We had cash and cash equivalents of RMB77.2 million, RMB382.1 million, RMB290.3 million and RMB268.3 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. Our cash and cash equivalents consist of cash on hand and in banks and investments with maturities (when acquired) of three months or less that can be used freely to finance operating activities.

Working Capital

In order to maintain sufficient funds for our existing and future cash requirements, we aim to effectively manage our cash flow and capital commitments, seek bank borrowings, and explore alternative means to raise capital. Currently, having considered our relationships with our commercial lenders, we believe that based on our past repayment and credit history, our existing short-term banks loans will be accepted for renewal upon maturity and existing credit facilities will be maintained in accordance with the terms and conditions of the relevant bank loan agreements.

As of October 31, 2010, that date being the latest practicable date for the purpose of stating our net current asset (liabilities) positions, our total net current liabilities totaled approximately RMB85.1 million, comprising the following:

	As of October 31, 2010
	Unaudited (In RMB thousands)
Current assets	
Inventories	39,623
Derivative financial instruments	28,516
Trade and other receivables	367,904
Pledged deposits	30,198
Cash and cash equivalents	194,274
Total current assets	660,515
Current liabilities	
Trade and other payables	645,275
Borrowings	100,362
Total current liabilities	745,637
Total net current liabilities	85,122

Although we had a deficiency of net current assets of RMB172.6 million as of June 30, 2010 and RMB85.1 million as of October 31, 2010, the latest practicable date, we have taken certain steps to enable us to continue as a going concern. The working capital deficit was anticipated as we accelerated our capital program in order to further develop our oilfields, while the investment costs will be recovered from future crude oil output from these oilfields. We have the ability to manage these positions due to the anticipated monthly positive cash flows generated from our operations and the ability to negotiate and modify the terms with our trade creditors. After taking into consideration the above, the Directors believe that we have sufficient cash to enable us to settle our liabilities as and when they fall due.

We generate our revenue from the sale of oil. Under our production sharing contracts, the foreign contractors are required to fund all development costs. Oil, and therefore the ability to generate revenue, is allocated to each participant of the production sharing contracts after the payment of VAT and royalties, based on their participating interest first to recover operating costs, then outstanding developments costs and finally the remaining balance is allocated as profit oil. The foreign contractors are entitled to 80% of the oil, after the allocation for VAT, royalties and operating costs, when the development costs have not yet been fully recovered. We are thus able to recover the development costs over a very short period of time that ranges typically from twelve to eighteen months. As such, we use cash flows from operations to fund our development program.

We and the other production sharing contract participants have been able to accelerate the development program when we see the opportunity for increased sales and higher oil prices as was seen during the first three quarters of 2008, late 2009 and the first half of 2010. As such, we accelerated our capital program during these periods. The net working capital deficit as at December 31, 2007, December 31, 2008 and June 30, 2009 arose due to an increase in capital expenditures, and not from our incurring trading losses or making poor investments.

Taking into account the financial resources presently available to us, cash flows from our operations and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital available for 125% of our present requirements for at least twelve months from the date of this Prospectus, whether or not the Global Offering is successfully completed.

Cash Operating Costs

The following table sets forth certain cash operating costs during 2007, 2008, 2009 and the six-month period ended June 30, 2010:

	Year Ended December 31,			Six-Month Period Ended June 30,
	2007	2008	2009	2010
	(In RMB thousands)			
Workforce employment	52,995	69,014	66,426	57,596
Consumables	11,794	12,948	12,293	2,919
Fuel, electricity, water and other services	43,487	60,430	67,015	35,959
On and off-site administration	72,214	93,502	67,100	25,283
Environmental protection and monitoring	25,108	15,780	18,343	8,836
Product marketing and transport	41,142	56,955	42,949	29,015
Non-income taxes, royalties and other governmental charges	159,998	538,125	73,308	148,617
Total	406,738	846,754	347,434	308,225

We do not estimate material changes to the above cash operating costs going forward other than changes in relation to our normal growth plans, changes caused by inflation and changes to non-income taxes in relation to the special levy with respect to the sale of domestic crude oil. See "– Special Levy" for more details.

CERTAIN STATEMENT OF FINANCIAL POSITION ITEMS

Property, Plant and Equipment

The following table sets forth the net book value of our property, plant and equipment as of the dates indicated.

	Oil and Gas Properties	Construction in Progress	Office Equipment	Motor Vehicles and Production Equipment	Total
	(In RMB millions)				
As of December 31, 2007	1,559.0	134.3	3.5	10.3	1,707.1
As of December 31, 2008	2,372.4	94.2	4.5	15.8	2,486.9
As of December 31, 2009	2,495.7	147.3	3.7	18.4	2,665.1
As of June 30, 2010	2,772.4	135.7	2.6	20.8	2,931.5

Included in property, plant and equipment are assets amounting to RMB2,931,378,000 (historical cost of RMB4,767,741,000 less accumulated depreciation and impairment of RMB1,836,363,000) directly used in and operated under the Group's three production sharing contracts with PetroChina. The Group is currently the operator of these assets. After the earlier of full recovery of development costs or expiry of these production sharing contracts, PetroChina will become the operator of these assets.

Trade and Other Receivables

Our total trade and other receivables as of December 31, 2007, 2008 and 2009 and June 30, 2010 equaled RMB341.9 million, RMB175.6 million, RMB559.9 million and RMB477.2 million, respectively, and consisted primarily of receivables from PetroChina and amounts due from related parties. Our receivables from PetroChina as of December 31, 2007, 2008 and 2009 and June 30, 2010 equaled RMB141.8 million, nil, RMB50.7 million and RMB161.9 million, respectively. 100% of our June 30, 2010 total trade receivables were settled prior to October 31, 2010. Our receivables from amounts due from related parties as of December 31, 2007, 2008 and 2009 and June 30, 2010 equaled RMB79.7 million, RMB139.6 million, RMB145.8 million and RMB145.1 million, respectively, primarily due to prepayment to Jilin Guotai relating to their services and receivables from GOC, the 10% foreign contractor under the production sharing contracts. Accounts receivable turnover days averaged 27, 13, 33 and 36 days in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. We believe the usual account receivable period is approximately one month.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. The factors we consider when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

Advances to our employees increased from RMB4 million as of December 31, 2009 to RMB15 million in the six-month ended June 30, 2010, primarily due to expenses incurred during the roadshow of our proposed listing in the United States. As of October 31, 2010, most of the advances to our employees had been repaid and the balance stood at RMB6.6 million.

For the year ended December 31, 2007, we made a provision of RMB49.8 million for certain longstanding loans to third parties and advance to suppliers as such amount was considered not recoverable because of the changes in our operations and personnel in the aftermath of the transfer of the production sharing contracts from Microbes to us. During the process of preparing our audited consolidated financial statements for the year ended December 31, 2007, we reviewed the outstanding loans to third parties and advances to suppliers and made bad debt provisions for the amounts that are considered not recoverable because (i) long aging of receivable or (ii) inability to contact certain counterparty and collect from such counterparties due to the movement in personnel or termination of operations. Since 2007, we have built an experienced accounting team, strengthened our internal control and control over credit risk, improved our record-keeping and personnel management, and established a system to closely monitor the credit worthiness of our suppliers. In 2009 we completed writing off these non-recoverable loans.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, there were no trade receivables past due which are impaired.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(In RMB millions)			
0-90 days	141.8	–	50.7	161.9
Total	141.8	–	50.7	161.9

Trade and Other Payables

Our total trade and other payables as of December 31, 2007, 2008 and 2009 and June 30, 2010 equaled RMB1,497.2 million, RMB1,728.8 million, RMB1,033.9 million and RMB1,118.5 million, respectively, and consisted primarily of trade payables to our suppliers and contractors and amounts due to FEEL. 31.1% of our June 30, 2010 trade payables were settled prior to October 31, 2010. Suppliers include providers of a variety of oil operations work, including oil rig supply, well drilling services, fracturing and perforating services, well maintenance services, well logging services, oil tanker transportation services and reservoir studies, as well as suppliers of equipment and drilling materials. The movement in trade payable as of December 31, 2007, 2008 and 2009 and June 30, 2010 was in line with increases in revenue during the corresponding periods. Accounts payable turnover days averaged 266, 239, 454 and 254 days in 2007, 2008, 2009 and the six months ended June 30, 2010. The reason for the increase in accounts payable turnover days in 2009 was due to the low oil prices in the fourth quarter of 2008 and the first half of 2009 as a result of the global economic and financial crisis, which affected the overall market for oil drilling activities. As a result of significantly low drilling activities, service providers and equipment suppliers were willing to grant longer payment days because of the depressed market conditions. Similarly, prior to January 1, 2009, we were required to make advances to drilling service providers based on their credit policy. After January 1, 2009, their credit policy was generally changed, and there is no requirement for advance payment. Credit payment days under the credit policy of service providers also lengthened from one year before January 1, 2009 to two years after such date. In 2010, as the market rebounded, our accounts payable turnover days also returned to normal.

The following table sets forth an aging analysis of our trade other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(In RMB millions)			
Less than 1 year	1,497.2	1,495.1	863.7	787.0
1 year or more	–	233.7	170.2	331.5
Total	1,497.2	1,728.8	1,033.9	1,118.5

Inventory

Our inventory consists of crude oil in our oil tanks and materials and supplies for drilling and extraction of crude oil, which we store in our own warehouses. The following table sets forth our inventories as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(In RMB millions)			
Oil in tank	9.4	36.3	13.0	14.3
Materials and supplies	27.2	37.6	63.1	34.1
Total	36.6	73.9	76.1	48.4

100% of our June 30, 2010 oil in tank were sold prior to October 31, 2010, and 57.8% of our June 30, 2010 materials and supplies were consumed prior to October 31, 2010. Due to the nature of our oil production business, we do not stock up crude oil or materials and supplies for long periods. Therefore, the inventory turnover days are generally low. Our inventory turnover days averaged 31, 35, 48 and 38 days in 2007, 2008 and 2009 and the six months ended June 30, 2010. Our management monitors our oil inventory daily. For materials and supplies, we only stock up materials and supplies for our own production purposes. We conduct periodic stock-taking for accounting reporting and ad hoc stock-takes, and our management reviews inventory reports frequently and reviews the age of inventory at least monthly or as they may consider necessary, and uses computerized processes to track inventory movements and perform aging analysis.

Depreciation charges of RMB6.6 million, RMB31.4 million and RMB9.5 million and RMB11.1 million have been included in the balance above for the years ended December 31, 2007, 2008 and 2009, and the six months ended June 30, 2010, respectively. Impairment charges of RMB3.9 million were provided for during the year ended December 31, 2008 for oil in tank produced by the Miao 3 Project due to low oil prices as of December 31, 2008.

CAPITAL EXPENDITURES

Our net cash used for investing activities includes capital expenditures used for development of oilfields. The table below sets forth by oilfield our capital expenditures for the periods indicated.

	Year Ended December 31,						Six-Month Period Ended June 30,			
	2007		2008		2009		2009		2010	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Daan	732.9	88.2	934.9	75.5	585.0	66.4	146.7	67.9	264.5	61.9
Moliqing	86.4	10.4	263.0	21.2	253.1	28.7	53.2	24.6	140.3	32.8
Miao 3	11.0	1.3	34.9	2.8	43.3	4.9	16.3	7.5	22.6	5.3
Others	1.2	0.1	5.7	0.5	–	–	–	–	0.0	0.0
Total	831.5	100	1,238.5	100	881.4	100	216.2	100	427.4	100

Our capital expenditures increased 48.9% from RMB831.5 million in 2007 to RMB1,238.5 million in 2008, primarily due to an increase in project development costs as we drilled 192 gross development wells and constructed related facilities in 2007 compared to 389 gross development wells and constructed related facilities in 2008. Our capital expenditures decreased by 28.8% from RMB1,238.5 million in 2008 to RMB881.4 million in 2009, primarily due to a decrease in project development costs as we drilled 389 gross development wells and related facilities in 2008 compared to 189 gross development wells and constructed related facilities in 2009. We drilled fewer gross development wells in the first half of 2009 due to the decrease in demand for oil, but normal drilling activities resumed in the second half of 2009.

The table below sets forth by oilfield our expected capital expenditures for the period indicated.

	Year Ended December 31,			
	2010		2011	
	(RMB in millions)	%	(RMB in millions)	%
Daan	521	61.4	884	68.6
Moliqing	249	29.3	289	22.5
Miao 3	78	9.2	115	8.9
Total	848	100	1,288	100

The capital expenditure the Group expects to incur in the second half of 2010 and 2011 is discretionary and was not contracted for as at June 30, 2010. Our net capital expenditures are expected to be 90% of the gross amount because we hold a 90% participating interest in the production sharing contract and GOC holds the remaining 10% interest in the foreign contractors' entitlement and obligations. Out of the RMB943 million we expect to incur in 2010, we already incurred RMB575 million in capital expenditures in the first half of 2010. Our gross capital expenditures for 2011 are currently projected to exceed the limit originally set forth in our facility agreement with CITIC Bank International Limited and CITIC Bank Guangzhou. On November 27, 2010, we entered into a supplemental deed with the lenders, pursuant to which the 2011 capital expenditures limit was raised to RMB1,288 million.

INDEBTEDNESS

As of October 31, 2010, being the latest practicable date, we had total bank loans and other borrowings of RMB1,302.4 million. The table below sets forth a summary of our total borrowings as of the dates of the consolidated statements of financial position.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(in RMB thousands)			
Bank borrowings				
Non-current	730,460	765,475	1,242,963	1,243,630
Current	–	54,677	102,423	101,863
Total borrowings	730,460	820,152	1,345,386	1,345,493
Effective interest rates on the borrowings	7.58%	6.51%	6.56%	4.71%

The exposure of our borrowings to contractual interest rate changes based on LIBOR + 2.75% at the dates of the statements of financial position at 2007 and 2008 and LIBOR + 4.5% at December 31, 2009 and June 30, 2010. See "– Contractual Obligations and Capital Commitment" for a summary of our borrowing commitments, including interest payment obligations, as of December 31, 2007, 2008 and 2009 and June 30, 2010.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had total bank loans and other borrowings of RMB730.5 million, RMB820.2 million, RMB1,345.4 million and RMB1,345.5 million, respectively. Our bank loans and other borrowings during this time comprised interest-bearing bank borrowings and loans from related parties. Interest bearing borrowings equaled RMB730.5 million, RMB820.2 million, RMB1,345.4 million and RMB1,345.5 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. Our bank loans bore interest at floating rates ranging from 5.42% to 12.60%, 5.13% to 7.58%, 3.21% to 6.27% and 4.73% to 4.81% per year for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. We have not experienced any difficulties in renewing or extending short term loans with principal banks and have not breached any loan covenants during the Track Record Period.

In 2006 and 2007, we borrowed several short-term loans from commercial banks in the PRC, which were used primarily for working capital purposes. Our outstanding short-term bank borrowings as of December 31, 2006 were fully repaid in 2007. Our short-term loans had fixed rates of interest.

In October 2007, we obtained a US$150 million revolving U.S. dollar loan facility from Standard Bank with a term of five years. In 2007, our borrowings under the facility bore an interest rate of LIBOR plus 2.75% per annum. In January 2009, we entered into a supplementary agreement with Standard Bank to amend certain financial terms, including increasing the interest rate of our borrowings to LIBOR plus 5.75% per annum. The facility contained two financial covenants relating to asset life coverage ratio, which assesses our ability to cover our debt obligation with our assets after our liabilities have been satisfied, and debt service coverage ratio, which assesses the cash available to service our debt payments. We were required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility. The facility was secured primarily by ordinary shares in MIE held by us, an assignment of our bank accounts for the collection of oil revenue, our entitlement under the production sharing contracts, an assignment of our debt service reserve account, a fixed charge over property, plant and equipment and a floating charge over all present and future assets. All outstanding bank borrowings under this loan facility were repaid on July 31, 2009, and the facility was terminated on the same date.

On July 28, 2009, MIE entered into a five-year US$200 million term loan and revolving credit facility with CITIC Bank International Limited and CITIC Bank Guangzhou, primarily to repay the Standard Bank loan, develop oilfields and for working capital purposes. 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 facility includes two long-term term loans and one short-term revolving facility, which can be converted into a term facility towards the end of the third year. The term loans under the facility bear an interest rate of LIBOR plus 4.50% per annum. The term loan and revolving credit facility contains certain restrictive covenants that limit our ability to, among other things, incur additional indebtedness of more than US$10 million from an institution in the PRC, declare cash dividends of more than 15% of our annual consolidated net profit prior to this offering (with the exception of a cash dividend of no more than US$20 million that may be declared immediately prior to this offering) or 30% of our annual consolidated net profit after this offering, create or incur liens, acquire, merge or consolidate with others and dispose of assets. The facility contains the following financial covenants: (a) our consolidated tangible net worth, subject to certain adjustments, will be not less than (i) RMB1.0 billion from 2009 to 2011 and (ii) RMB1.5 billion for 2012; (b) our 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) our 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) our total capital expenditure in any financial year will not exceed RMB1.0 billion. Under the facility agreement, we agreed to procure that FEEL and the shareholders of FEEL would continue to beneficially own not less than 51% of the entire issued share capital of our company or MIE. The facility is secured primarily by 100% of the ordinary shares in MIE held by us, 51% of the ordinary shares in us held by FEEL, 51% of the ordinary shares in FEEL held by shareholders of FEEL, an assignment of our bank accounts for the collection of oil revenue, our entitlement under the production sharing contracts, a charge over our debt service reserve account, and an assignment of our interest in our insurance policies. We are required to maintain a debt service reserve account to ensure the payment of interest and principal due under the facility. We drew down US$122.0 million from CITIC Bank International Limited on July 31, 2009 to repay the loan from Standard Bank. As of December 31, 2009, we had outstanding bank borrowings of RMB1,345.4 million under this credit facility.

On November 27, 2010, we entered into a supplemental deed to the CITIC Bank Facility to restructure our security arrangement with CITIC Bank International Limited and CITIC Bank Guangzhou in order for our company to list on the Stock Exchange, for which CITIC Bank International Limited and CITIC Bank Guangzhou required us to pay a work fee of US$300,000 (or HK$2,327,490), a waiver fee of US$6,000,000 (or HK$46,549,800), which waiver fee will be reduced by an amount equal to the above work fee provided that such work fee is paid before one Business Day after the Listing Date, and 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. Under the supplemental deed, the lenders agreed to release the share mortgages of 51% of the ordinary shares in us 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 Listing. We have also agreed to procure FEEL to continue to be our largest shareholder, holding not less than 35% of the issued share capital in our company, and maintain management control of our company. Under the supplemental deed, the lenders also agreed to increase the capital expenditures allowable for 2011 from RMB1,000 million to RMB1,288 million. Concurrently the company agreed to provide a corporate guarantee for MIE's obligations under the credit facility. The lenders have also approved any sale of existing shares by FEEL up to 7% of our issued share capital immediately upon the occurrence of the Global Offering (including the Sale Shares of FEEL) either in or after the Global Offering, provided that FEEL shall continue to hold not less than 35% of the issued share capital in our company.

On June 19, 2009, TPG entered into a Series A Preferred Shares subscription and put option agreement (the "TPG Series A Share Purchase Agreement") with us, MIE and FEEL, under which TPG subscribed for 21,457,490 series A preferred shares for a consideration of US$53.0 million, less transaction fees of US$3.0 million. The series A preferred shares are convertible, at the option of the holder, at any time into our ordinary shares and will automatically convert into our ordinary shares immediately prior to a qualified initial public offering, such as this Global Offering. FEEL granted a put option to TPG which requires FEEL to purchase all or some of the series A preferred shares, and such option guarantees that TPG will recover its initial cost at a compounded rate of return of 15% per annum. The put option becomes exercisable starting on July 10, 2011 and terminates at the earlier of a qualified initial public offering or July 10, 2014. We and MIE are jointly and severally liable for this obligation. We issued these series A preferred shares to TPG on July 9, 2009.

Save as disclosed in this section headed "Financial Information – Indebtedness" in this document, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts and loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as of October 31, 2010, being the latest practicable date for the purpose of the indebtedness statement.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

The following table sets forth our contractual obligations and capital commitments for the periods indicated.

	Weighted average interest rates	Within 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
				(RMB in millions)			
As of December 31, 2007[(1)] . .	7.58%	47.7	106.4	756.3	–	910.4	730.5
As of December 31, 2008[(1)] . .	6.51%	107.9	271.8	609.4	–	989.1	820.2
As of December 31, 2009[(1)] . .	6.56%	168.1	61.2	1,350.1	–	1,579.4	1,345.4
As of June 30, 2010[(1)]	4.71%	167.4	65.7	1,309.2	–	1,542.3	1,345.5

(1) Includes interest payment obligations

All of our contractual obligations and capital commitments as of December 31, 2007, 2008 and 2009 and June 30, 2010 consisted of variable interest rate instruments including long-term and short-term bank borrowings. We intend to repay these commitments through cash flows from operations and if necessary, from additional borrowings from third parties.

GEARING RATIO

We require substantial funds in order to engage in oil production. We manage capital closely by monitoring our gearing ratio, which is defined by our management as net debt divided by capital plus net debt.

Our gearing ratio, as defined by management for capital management purposes, is calculated as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(In RMB millions, except percentages)			
Total borrowings	730.5	820.2	1,345.4	1,345.5
Less: cash and bank balances	(77.2)	(382.1)	(290.3)	(268.3)
Net debt.	653.3	438.1	1,055.1	1,077.2
Total equity	669.4	1,143.8	1,253.4	1,278.0
Total capital	1,322.7	1,581.9	2,308.5	2,355.2
Gearing ratio	49%	28%	46%	46%

Our gearing ratio as of June 30, 2010 did not change compared to December 31, 2009.

Our gearing ratio as of December 31, 2009 increased compared to December 31, 2008 due to an increase in our outstanding loan amount. Net debt increased primarily because we borrowed an additional US$80 million under the CITIC Bank Facility in July 2009. Equity increased primarily due to the operation results of year 2009.

Our gearing ratio as of December 31, 2008 decreased compared to December 31, 2007 due to more increase in our equity. Net debt decreased primarily due to a drawdown of US$20 million in bank loans in August 2008. Equity increased primarily due to our favorable operation results in 2008 caused by higher realized oil price in 2008.

MARKET RISKS

Our business activities are exposed to a variety of market risks, including foreign exchange risk, interest rate risk and commodity price risk.

Foreign Exchange Risk

Our foreign exchange exposure gives rise to market risk associated with exchange rate movements. All of our oil sales are denominated and settled in U.S. dollars, while our production costs and expenses are denominated and settled in Renminbi. Our functional currency is the Renminbi. As of December 31, 2007, 2008 and 2009 and June 30, 2010, if the US dollar were to have weakened or strengthened by 1% against the RMB with all other variables held constant, our profit before income tax for the year or period would have increased/decreased RMB9.7 million, RMB0.2 million, RMB9.2 million and RMB9.4 million, respectively, mainly as a result of foreign exchange gains or losses on translation of US-denominated trade and other receivables, bank deposits and borrowings.

In December 2007, we entered into forward foreign exchange contracts to manage a portion of future cash inflow against the risk of unfavorable fluctuation of foreign exchange rates. The notional principal amounts of the outstanding forward foreign exchange contracts as of December 31, 2008 and 2009 were RMB342.3 million and nil, respectively, due to the contracts ending in December 2009.

Interest Rate Risk

We have no significant interest-bearing assets. Our exposure to interest rate risk primarily relates to the interest rates for our outstanding borrowings and the interest income generated by excess cash invested in liquid investments with original maturities of three months or less. As of June 30, 2010, we had long-term borrowings in the amount of RMB1,243.6 million. Our long-term borrowings are subject to floating interest rates with interest rates varying from 4.73% to 4.81% in the six-month period ended June 30, 2010. The impact on profit before income tax for the year/period ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 of a 50 basis-point change in interest rate would result in an increase of RMB3,652,000, RMB4,100,000, RMB6,727,000 and RMB3,364,000, respectively, or a decrease of RMB3,652,000, RMB4,100,000, RMB6,727,000 and RMB3,364,000, respectively. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk.

Commodity Price Risk

We engage in a wide range of petroleum-related activities. Crude oil prices are affected by a wide range of global and domestic factors that are beyond our control. The fluctuations in such prices may have favorable or unfavorable impact to us. The crude oil prices in the international market are affected by various factors such as changes in global and regional politics and economic conditions, demand and supply of crude oil, appreciation or depreciation of the U.S. dollar, as well as unexpected political events and disputes, as well as regional conflicts or wars that may have international repercussions. The domestic crude oil price is determined with reference to the international crude oil price. A decline in crude oil prices could adversely affect our financial performance. We are exposed to the general price fluctuations of broadly traded oil commodities.

Oil Put Options

We use oil put option to partly manage our exposure to movements in the crude oil prices. In November 2007, we purchased an option, but not the obligation, to notionally sell to Standard Bank Plc 5,236,710 barrels at a strike price of US$62.50 per barrel, in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010. The price under the option is based on the

price of West Texas Intermediate crude oil. Under the same agreement, we also sold an option to Standard Bank Plc to notionally sell to us 5,236,710 barrels at a strike price of US$42.50 per barrel in monthly installments ranging from 130,061 barrels to 154,378 barrels from January 1, 2008 to December 31, 2010 under the same terms and conditions as the purchased option. The effect of the above arrangement is that we will receive from Standard Bank Plc each month the difference between the strike price of US$62.50 per barrel and the price of West Texas Intermediate crude oil, in respect of the notional volume of that month, if the average monthly spot price of oil falls below US$62.50 per barrel, provided that the maximum payout by Standard Bank Plc is limited to US$20.00 per barrel. At the end of 2008 and in the beginning of 2009, the price of West Texas Intermediate crude oil fell below US$62.50. In 2008 and 2009, we recorded a non-cash unrealized gain of RMB129.8 million and a non-cash unrealized loss of RMB207.2 million, respectively, due to the change in fair value of the unrealized portion of the oil put option. This non-cash unrealized gain or loss is included as other income or loss in our consolidated income statement. Any cash realized gain or loss under the oil put option will be reflected in our consolidated cash flow statement. We realized a cash inflow from oil put option of US$3.8 million, US$10.4 million and nil in 2008, 2009 and the first half of 2010, respectively. If the crude oil price were to increase by US$1, the impact on our profit before income tax for the years ended December 31, 2008 and 2009 and for the six months ended June 30, 2010 as a result of revaluing the put option would be a decrease of RMB9,105,000, RMB2,461,559 and RMB433,000.

Our Hedging Policy

Entering into Hedging Transactions

We enter into hedging transactions in order to protect against downward movements in the price of oil. Our maximum potential exposure under any purchased option agreement is the amount of the paid premium. We have a hedging policy that governs the hedging transactions we enter into. Only large international financial institutions are active in the primary oil hedging market and we only select the most reputable and well-capitalized institutions as our counterparties and we do not purchase from small brokers or on the secondary market. Mr. Zhang and Mr. Forrest L. Dietrich, both of whom serve as executive directors and have over 20 years of experience in the oil industry, regularly monitor oil prices and recommend to the Board and management the suitable oil price and amount at which to enter into oil hedging transactions. We enter into one- to two-year arrangements to manage the risks associated with downside movement in oil prices. We use several reputable banks that are active in the oil hedging business and various industry and financial publications to provide us with daily market information on news, economic events and other factors that affect international oil prices. These banks also provide us with spot and forward oil prices as well as their views on oil prices. Based on the expertise of our management and the information provided by these banks and other market information and news, we form a view of oil price movements for the following one to two years and decide on the quantity of monthly production volume to be covered by the hedging transaction based on our oil production and investment plans. Before entering into a hedging transaction, we request quotations from a few reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions. When considering potential counterparties, we will review the banks' publicly available financial information to verify that it exceeds certain financial benchmarks, including US$100,000 million in total assets, US$10,000 million in net assets and a market capitalization of US$5,000 million. Based on the market information we collect, we will prepare an oil price market analysis report, including historical trends and future trend analysis, together with a comparison of the quotations received. This report will then be reviewed and commented on by the two executive directors before they make their recommendation to the Board. When considering which quotation to accept, we consider lock-in price, payment and other terms of the agreement and the time frame for the hedging arrangement to be instituted. We will then enter into one- to two-year arrangements to manage the risks associated with downside movement in oil prices. All oil hedging transactions must be approved by the Board.

Our hedging policy prohibits speculative oil hedging. Oil hedging is entered into to cover a reasonable portion of our monthly oil production. When management makes oil hedging decisions, it takes into account factors including annual oil production, forward curve of oil prices, expected investments into drilling each year and the production derived from such investments, tax and government policies, among others. Our oil hedging transactions are restricted to cover a reasonable period when oil prices can be determined with greater degree of certainty, usually up to two years and also focus on protection against downside risk. We mitigate counterparty risk by choosing only reputable leading banks that are active in the oil hedging market and have well-capitalized financial positions and by requesting deferred premium payments, allowing us to spread our payments across the term of the hedging arrangement. After entering into a hedging transaction, we monitor oil prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management team also holds frequent meetings to review trends in oil prices and the effectiveness of our hedging positions and strategy.

Monitoring Hedging Transactions

Our oil put options are settled automatically every month on a date specified in the put option agreements, usually on the fifth to ninth days after the last day of each month. Calculations of the floating price of crude oil are based on the arithmetic average of the daily settlement prices for the benchmark oil price in each trading day during the relevant month.

Management closely monitors the movement in oil prices and the settlement of oil put options on a monthly basis. In our hedging transactions, our maximum exposure is the premium paid to the counterparty and after payment of the upfront or deferred hedging premiums set forth in the oil put agreements, all monthly or any other settlements will either be zero or a payment to us.

Exiting from Hedging Transactions

We usually exit from existing hedging transaction when the oil put options expire, usually one to two years after we first enter into such transactions.

EFFECTS OF INFLATION

We do not believe that inflation has had a material effect on our operating results for the periods presented.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, save as disclosed in the section headed "– Indebtedness," there are no circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

In the absence of any unforeseen circumstances and on the bases and assumptions set out in the section headed "Appendix III – Profit Forecast" in this prospectus, certain forecast data for our company for the year ending December 31, 2010 are set out below:

Forecast consolidated profit for the year ending December 31, 2010 attributable to the equity holders of our company[(1)]	not less than RMB410 million (equivalent to approximately HK$478 million)
Unaudited pro forma forecast earnings per Share for the year ending December 31, 2010[(2)]	not less than RMB0.155 (equivalent to approximately HK$0.181)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2010 have been prepared are summarised in the section headed "Appendix III – Profit Forecast" in this prospectus. Our Directors have prepared the forecast consolidated profit for the year ending December 31, 2010 attributable to the equity holders of our company based on the audited consolidated results of our Group for the six months ended June 30, 2010, the unaudited management accounts of our Group for the four months ended October 31, 2010 and a forecast of the consolidated results of our Group for the remaining two months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our company as set out in note 2 in the section headed "Appendix I – Accountants' Report" in this prospectus.

(2) The calculation of unaudited pro forma forecasted earnings per Share is calculated by dividing the forecast consolidated profit for the year ending December 31, 2010 attributable to equity holders of our company by a total of 2,641,334,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued under the Capitalization Issue and the Global Offering had been in issue on January 1, 2010 but without taking into account any Shares which may be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme).

Sensitivity analysis on average selling price

The following table illustrates the sensitivity of the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 to changes to the average selling price for crude oil from November 1, 2010 to December 31, 2010.

% change in average selling price per barrel for crude oil	-10%	-5%	+5%	+10%
Impact on forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 (RMB'000)	17,658	7,077	(5,161)	(9,596)

These numbers are significantly impacted by the put option we entered into in October 2010. Principally due to the impact of the put option, profits attributable to our shareholders decrease when oil prices increase, and profits increase when oil prices decrease. For details of our put option arrangements, please refer to the section headed "– Oil Put Options" in this prospectus.

The sensitivity range has been selected with reference to historical movements in crude oil prices. The period from 2007 to first half of 2010 has seen substantial volatility in crude oil prices, which typically reflects the global oil supply and demand balance. The price of the benchmark West Texas Intermediate (WTI) increased by approximately 38.3% from 2007 to 2008, primarily driven by the strong demand growth from emerging countries, in particular China. The WTI dropped by approximately 38.0% from 2008 to 2009, mainly caused by the global financial and economic crisis. In the first half of 2010, the WTI recovered by approximately 26.4% from 2009. The current range used for the price sensitivity analysis is +/- 10.0% for the period from November 1, 2010 to December 31, 2010. On an annualized basis, this equates to a range of +/- 60.8%, which is the largest annual move of WTI since 2007. Taking into account the historical volatility of crude oil prices, this sensitivity appears to be sufficiently broad so as to properly capture historical price volatility.

DIVIDENDS AND DIVIDEND POLICY

The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of shareholders. In addition, our controlling shareholder will be able to influence the approval by our shareholders in a general meeting for any payment of dividends.

Subject to the factors above, we plan to pay annual dividends up to 20% of our annual distributable profit attributable to equity holders of our company, commencing with respect to the year ending December 31, 2011.

On March 9, 2010, we distributed a cash dividend of US$20.0 million to our shareholders. FEEL, our Controlling Shareholder, and each Series A Preferred Shareholder participated in the dividend distribution on an as-converted basis received approximately US$0.16 per share. In December 2008, July 2009 and March 2010, we declared deemed dividends in the amount of US$20.0 million, US$50.0 million and US$11.9 million, respectively, to FEEL. The deemed dividends were non-cash because it was deemed that FEEL used the proceeds from the distributions to reduce the outstanding balance owed to us. As a result of the deemed dividends, our retained earnings decreased and our shareholder loan receivable from FEEL also decreased by the same amount.

If we are deemed to be a PRC "resident enterprise" under the New EIT Law and Implementation Rules, dividends on our shares may become subject to a 10% withholding tax. See "Taxation – People's Republic of China."

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of our company as of June 30, 2010 as if the Global Offering and the Capitalization Issue had taken place on June 30, 2010 without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as of June 30, 2010 or at any future dates following the Global Offering.

	Unadjusted audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as of June 30, 2010 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets of the Group attributable to equity holders of the company	Unaudited pro forma adjusted net tangible assets per share	
	RMB'000	RMB'000	RMB'000	RMB (Note 3)	HK$ (Note 5)
Based on an Offer Price of HK$1.70 per share	1,276,403	511,631	1,788,034	0.68	0.79
Based on an Offer Price of HK$2.16 per share	1,276,403	678,199	1,954,643	0.74	0.86

Notes:

(1) The unadjusted audited consolidated net tangible assets attributable to the equity holders of the company as of June 30, 2010 is extracted from the section headed "Appendix I – Accountant's Report" in this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the company of RMB1,278,020,000 with adjustments for the intangible assets of RMB1,617,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$1.70 per Share and HK$2.16 per Share after deduction of the underwriting fees and other related expenses payable by the company and takes no account of any Shares which may be issued upon the exercise of any options or awards granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 2,641,334,000 Shares were in issue assuming that the Capitalization Issue and the Global Offering have been completed on June 30, 2010 but takes no account of any Shares which may be issued upon the exercises of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme.

(4) Except as disclosed above, no adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2010.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.8583.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Other than some of the operating obligations set forth in the table above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

New and revised accounting standards have been published that are mandatory for future accounting periods. We are in the process of assessing the impact of these new and revised accounting standards and currently believe they are unlikely to have a significant impact on our results of operations and financial position.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2010.

NON-IFRS FINANCIAL MEASURES

We include in this prospectus the non-IFRS financial measures 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 share-based compensation expense, impairment of property, plant and equipment, impairment of inventory, net loss/(gain) on forward foreign exchange contract, realized and unrealized loss/(gain) on the oil put option and accrual/write-back of safety fees.

EBITDA and adjusted EBITDA are not standard measures under IFRS. 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 and others, to assess our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure. 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.

EBITDA and adjusted EBITDA should not be considered alternatives to net profit for the year, profit from operations or any other measure of financial performance or liquidity presented in accordance with IFRS. Our EBITDA and adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA or adjusted EBITDA in the same manner. The following table presents a reconciliation of EBITDA and adjusted EBITDA to net profit for the period for each of the periods indicated.

	Year Ended December 31,			Six-Month Period Ended June 30,	
	2007	2008	2009	2009	2010
	(in RMB millions)				
Reconciliation of net profit for the period to EBITDA and Adjusted EBITDA:					
Net profit/(loss) for the year/period	308.9	611.1	110.5	(73.6)	238.5
Income tax expense/(benefit)	125.2	162.7	73.5	(2.9)	88.7
Finance income	(11.9)	(45.7)	(1.6)	(0.9)	(7.2)
Finance costs	88.8	53.5	58.8	24.5	40.2
Depreciation, depletion and amortization	286.8	475.2	445.8	226.5	268.0
EBITDA	797.8	1,256.8	687.0	173.6	628.2
Share-based compensation expense	–	–	3.5	–	19.8
Impairment of property, plant and equipment	–	32.0	–	–	–
Impairment of inventory	–	3.9	–	–	–
Net loss/(gain) on forward foreign exchange contract	–	24.7	(5.4)	(5.7)	–
Realized gain on oil put option	–	(25.7)	(71.0)	(71.0)	–
Unrealized loss/(gain) on oil put option	–	(129.8)	207.2	166.0	14.0
Accrual/write-back of safety fees	19.7	(34.0)	–	–	–
Adjusted EBITDA	817.5	1,127.9	821.3	262.9	662.0

FUTURE PLANS

Please see the section headed "Business – Our Strategies" in this prospectus for detailed description of our business strategies and future plans.

USE OF PROCEEDS

Based on an Offer Price of HK$1.93 per Share, being the midpoint of the Offer Price range stated in this prospectus, we estimate that we will receive net proceeds from the Global Offering of approximately HK$693 million from the 441,334,000 Offer Shares to be offered by us, after deducting underwriting fees and expenses payable by us and assuming the Over-allotment Option is not exercised.

We intend to use these net proceeds for the following purposes:

- approximately HK$381 million (approximately 55% of the estimated net proceeds) will be used to expand our operations by acquiring interests in other oilfields or participating in cooperation or joint venture projects in relation to the development of oilfields which may include:

  (i) based on the current estimate of our Directors, approximately HK$58 million will be used for the cooperation with the Drilling Division of Zhongyuan Petroleum Exploration Bureau of the Sinopec group (中國石化集團中原石油勘探局鑽採處). A memorandum of understanding was signed on November 9, 2010, under which we agreed to cooperate and apply technologies towards the exploration and development of oilfields, including advanced technologies to drill and operate wells under low permeability conditions;

  (ii) based on the current estimate of our Directors, approximately HK$226 million will form part of the consideration for the purchase of a 10% participating interest in the production sharing contracts of the Daan, Moliqing and Miao 3 oilfields held by GOC. Under a memorandum of understanding signed on April 8, 2010, the consideration will be calculated based on a formula and will be paid in a combination of cash and shares to be agreed upon between the parties;

  (iii) based on the current estimate of our Directors, approximately HK$39 million will be used for the purchase of the entire interest held by Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司) in a production sharing contract covering four oil properties with a total area of 17.7 square kilometers in the Jilin oilfield. A memorandum of understanding was signed on April 2, 2010; and

  (iv) based on the current estimate of our Directors, approximately HK$58 million will be used for the joint venture with a state-owned oil and gas enterprise. We are currently negotiating to enter into a memorandum of understanding, under which we will agree to cooperate in the exploration and development of oilfields in the Shaanxi Province.

  As of the Latest Practicable Date, our company has not identified any acquisition targets, cooperation or joint venture projects other than the four memoranda of understanding in relation to GOC, Songyuan Ningjiang District Oil Exploration Company (松原市寧江區小油田開發公司), the Drilling Division of Zhongyuan Petroleum Exploration Bureau of the Sinopec group (中國石化集團中原石油勘探局鑽採處) and the state-owned oil and gas enterprise. For further details of the memoranda of understanding, please refer to the paragraph headed "History and Corporate Structure – Memoranda of Understanding" in this prospectus;

- approximately HK$243 million (approximately 35% of the estimated net proceeds) will be used for:

  (i) drilling new wells in our existing Daan, Moliqing and Miao 3 oilfields; and

  (ii) the development of advanced technologies, which is required for drilling and operating wells under low permeability conditions, such as water injection and multi-layer fracturing, in order to improve the operational efficiency of our Group, the application of which will be required for drilling new wells; and

- approximately HK$69 million (approximately 10% of the estimated net proceeds) will be used for working capital and general corporate purposes.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK$2.16 per Share, the net proceeds to us from the Global Offering will increase by approximately HK$97 million. In such case, we intend to apply the additional net proceeds in the manner stated above on a pro-rata basis to the extent achievable.

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK$1.70 per Share, the net proceeds to us from the Global Offering will decrease by approximately HK$97 million. In such case, we intend to reduce the allocation of such net proceeds in the manner stated above on a pro-rata basis to the extent achievable.

Assuming an Offer Price of HK$1.93 per Offer Shares (being mid-point of the indicative Offer Price range of between HK$1.70 and HK$2.16 per Offer Share), the Selling Shareholders will receive net proceeds of approximately HK$383 million; assuming an Offer Price of HK$2.16 per Offer Share (being the highest point of the indicative Offer Price range), the Selling Shareholders will receive net proceeds of approximately HK$431 million; and assuming an Offer Price of HK$1.70 per Offer Share (being the lowest point of the indicative Offer Price range), the Selling Shareholders will receive net proceeds of approximately HK$334 million.

All of the Shares sold pursuant to the exercise of the Over-allotment Option will be sold by the Over-allotment Selling Shareholders. In the event that the Over-allotment Option is exercised in full and taking into account the effect of the Over-allotment Option only, assuming an Offer price of HK$1.93 per Offer Share (being the mid-point of the indicative Offer Price of between HK$1.70 and HK$2.16 per Offer Share), the Over-allotment Selling Shareholders will receive net proceeds of approximately HK$183 million; assuming an Offer Price of HK$2.16 per Offer Share (being the highest point of the indicative Offer Price range), the Over-allotment Selling Shareholders will receive net proceeds of approximately HK$205 million; assuming an Offer Price of HK$1.70 per Offer Share (being the lowest point of the indicative Offer Price range), the Over-allotment Selling Shareholders will receive net proceeds of approximately HK$161 million.

Our company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering nor from the sale of the Over-allotment Sale Shares by the Over-allotment Selling Shareholders in the event the Over-allotment Option is exercised. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering and the sale of the Over-allotment Sale Shares by the Over-allotment Selling Shareholders in the event the Over-allotment Option is exercised will be for the account of the Selling Shareholders and the Over-allotment Selling Shareholders, respectively.

To the extent that the proceeds from the Global Offering are not immediately applied for the above purposes, we intend to invest the proceeds, insofar as permitted by applicable laws and regulations, in a variety of capital preservation instruments, including short-term, investment-grade, and/or interest-bearing instruments. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

As part of the International Offering, we and the Joint Bookrunners have entered into cornerstone placing agreements (each a "**Cornerstone Placing Agreement**" and together the "**Cornerstone Placing Agreements**") with the following cornerstone investors (each a "**Cornerstone Investor**" and together the "**Cornerstone Investors**"), who have agreed to subscribe for an aggregate of US$30 million (equivalent to approximately HK$232.7 million) worth of Shares at the Offer Price. Assuming the Offer Price of HK$1.70, HK$1.93 and HK$2.16, being the minimum, mid-point and maximum of the indicative Offer Price range stated in this prospectus, the Cornerstone Investors would subscribe for a total number of 136,910,000, 120,594,000 and 107,754,000 Shares, which represent approximately 20.7%, 18.2% and 16.3% of the Offer Shares and approximately 5.2%, 4.6% and 4.1% of the total number of Shares upon completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan and any options which may be granted under the Share Option Scheme), respectively.

We set out below a brief description of each of the Cornerstone Investors:

Atlantis Investment Management Limited ("Atlantis")

Pursuant to a cornerstone placing agreement entered into among the Joint Bookrunners, Atlantis Investment Management Limited and us on November 28, 2010, Atlantis has agreed to subscribe for such number of Shares (rounded down to the nearest board lot) which may be purchased for approximately US$20 million (equivalent to approximately HK$155.2 million) at the Offer Price. Assuming the Offer Price of HK$1.70, HK$1.93 and HK$2.16 per Share, being the minimum, mid-point and maximum of the indicative Offer Price range stated in this prospectus, Atlantis Investment Management Limited would subscribe for a total number of 91,274,000, 80,396,000 and 71,836,000 Shares, which represent approximately 13.8%, 12.1% and 10.9% of the Offer Shares and approximately 3.5%, 3.0% and 2.7% of the total number of Shares immediately upon completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan and any options which may be granted under the Share Option Scheme), respectively.

Atlantis is an independent investment boutique with 15 years experience managing Asian equity strategies for global institutional clients. Atlantis Investment Management Limited manages US$4 billion across three independent business areas, namely, Asia ex-Japan, China and Japan equities.

China Huadian Capital Holdings Co. Ltd. ("Huadian")

Pursuant to a cornerstone placing agreement entered into among the Joint Bookrunners, Huadian and us on November 26, 2010, Huadian has agreed to subscribe for such number of Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$10 million (equivalent to approximately HK$77.5 million) at the Offer Price. Assuming the Offer Price of HK$1.70, HK$1.93 and HK$2.16 per Share, being the minimum, mid-point and maximum of the indicative Offer Price range stated in this prospectus, Huadian would subscribe for a total number of 45,636,000, 40,198,000 and 35,918,000 Shares which represent approximately 6.9%, 6.1% and 5.4% of the Offer Shares and approximately 1.7%, 1.5% and 1.4% of the total number of Shares immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan and any options which may be granted under the Share Option Scheme), respectively.

Huadian, a company established in the PRC, is a wholly-owned subsidiary of China Huadian Group Corporation (中國華電集團). China Huadian Group Corporation is a state-owned enterprise approved by the State Council. China Huadian Group Corporation and its subsidiaries are primarily engaged in businesses in relation to electrical power, and are also engaged in coal, finance and construction businesses. China Huadian Group Corporation is a major shareholder in several listed companies, including Huadian Power International Co., Ltd. (華電國際電力股份有限公司), Huadian Energy Co., Ltd. (華電能源股份有限公司), State Power Nanjing Automation Co., Ltd. (國電南京自動化股份有限公司), Guizhou Qianyuan Power Co., Ltd. (貴州黔源電力股份有限公司) and Shenyang Jinshan Energy Stock Corporation (瀋陽金山能源股份有限公司).

As far as our Directors are aware, none of the ultimate beneficial owners of the Cornerstone Investors is a connected person (as defined in the Listing Rules) of our company and will not become a connected person as a result of the subscription of the Offer Shares. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have representation on the Board, nor will either of them become a substantial shareholder of our company.

The investments by the Cornerstone Investors form part of the International Offering. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering, other than pursuant to the Cornerstone Placing Agreements. The Offer Shares to be subscribed by the Cornerstone Investors will rank *pari passu* in all respects with the fully paid Shares in issue and will be counted towards the public float of our company. The Offer Shares to be subscribed by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the paragraph headed "Structure of the Global Offering – The Hong Kong Public Offering" in this prospectus.

CONDITIONS PRECEDENT

The Cornerstone Placing Agreements are conditional upon (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) and not having been terminated and (ii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering, and the exercise of any options granted under the Stock Incentive Plan and any options which may be granted under the Share Option Scheme, and that such approval or permission has not been revoked, by no later than December 31, 2010.

RESTRICTIONS ON DISPOSAL BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that they will not whether directly or indirectly, at any time during the period of six months following the Listing Date (the "**Lock-up Period**"):

(i) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any options or contract to sell, grant or agree to grant any options, rights or warrants to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive Shares; and

(ii) enter into any swaps, derivatives or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Shares.

Each of the Cornerstone Investors has further agreed that, after the Lock-up Period, they will be free to dispose of any of the relevant Shares on the Stock Exchange, provided that (a) they shall first notify and consult our company and the Joint Bookrunners in writing prior to the disposal of any of the relevant Shares, (b) they will use all reasonable endeavors to ensure that any such disposal does not create a disorderly or false market in the Shares and is in compliance with the Listing Rules, the Companies Ordinance and the SFO; and (c) they may not dispose of any of the relevant Shares to another person whose business competes or potentially compete with that of our company, or to another entity which is a holding company, subsidiary or fellow subsidiary of that entity.

The above restrictions will not apply to transfers of all or part of the relevant Shares from the Cornerstone Investors to any of their wholly-owned subsidiary(ies).

Each of the Cornerstone Investors has further agreed that, save with the prior written consent of our company, the aggregate holding (direct and indirect) of them and their associates in the total issued share capital of our company will at all times be less than 10% of our company's issued share capital.

HONG KONG UNDERWRITERS

J.P. Morgan Securities (Asia Pacific) Limited
BOCI Asia Limited
Deutsche Bank AG, Hong Kong Branch

INTERNATIONAL UNDERWRITERS

J.P. Morgan Securities Ltd.
BOCI Asia Limited
Deutsche Bank AG, Hong Kong Branch

UNDERWRITING ARRANGEMENTS AND EXPENSES

(a) Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares (subject to adjustment) for subscription by the public in Hong Kong at the Offer Price on, and subject to, the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be offered pursuant to the Global Offering as mentioned herein and any Shares which may be issued pursuant to the Capitalization Issue and pursuant to the exercise of any options granted under the Stock Incentive Plan and any options which may be granted under the Share Option Scheme and to certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there develops, occurs, exists or comes into force:

  (i) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, PRC or the United States (each a "**Relevant Jurisdiction**"); or

  (ii) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States; or

(iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, riots, public disorder, economic sanction, exploitation or exploration accidents, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, large scale outbreak of diseases or epidemics, including, but not limited to, Severe Acute Respiratory Syndrome (SARS) and H1N1 or swine or avian influenza (and in the case of H1N1 or swine influenza or such related/mutated forms of disease, a material worsening of its current pandemic status) affecting any Relevant Jurisdiction; or

(iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

(v) (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange or Nasdaq National Market or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services or procedures in or affecting any Relevant Jurisdiction; or

(vi) any imposition of economic sanctions, in whatever form, directly or indirectly, affecting any of the Relevant Jurisdiction; or

(vii) any change or development, or event involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or

(viii) any change or prospective change in the assets, liabilities, profits, losses, properties, performance, conditions, results of operations, business, earnings, financial or trading position or prospects of the Group taken as a whole; or

(ix) the chairman or chief executive officer of our company vacating his or her office; or

(x) the commencement by any governmental, regulatory or political body or organisation of any action, charge or claim against a Director or any announcement by any governmental, regulatory or political body or organization that it intends to take any such action; or

(xi) any material litigation or claim of any third party being threatened or instigated against any member of the Group; or

(xii) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(xiii) any material adverse change of any of the risks set out in the section entitled "Risk Factors" in this prospectus; or

(xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

(xv) other than with the approval of the Joint Bookrunners, the issue or requirement to issue by our company of any supplement or amendment to the prospectus (or to any other documents used in connection with the contemplated offer) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xvi) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

and which, in any such case and in the sole opinion of the Joint Bookrunners (for themselves and on behalf of the other Hong Kong Underwriters):

(A) is or will be or is likely to be materially adverse to, or materially and prejudicially affect, results of operations, business, financial or trading position or prospects of the Group as a whole; or

(B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or the distribution of Offer Shares and/or make it impracticable or inadvisable for any material part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented as envisaged; or

(C) makes or will or is likely to make it inadvisable or impracticable to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

(b) there has come to the notice of the Joint Bookrunners (for themselves and on behalf of the other Hong Kong Underwriters):

(i) that any statement contained in this prospectus, the Application Forms and the formal notice and any announcements issued by our company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, has or may become untrue, inaccurate, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in any of the prospectus, the Application Forms and formal notice and/or any notices, announcements, advertisements, press releases issued or used by or on behalf of our company in connection with the Hong Kong Public Offering (including any supplemental or amendment thereto) is not fair and honest and based on reasonable assumptions when taken as a whole; or

(ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus or the Application Forms or the formal notice or any announcements issued by our company in connection with the Hong Kong Public Offering, constitutes a material omission therefrom; or

(iii) any of the representations, warranties and undertakings given by our company or the Controlling Shareholders in the Hong Kong Underwriting Agreement is (or might when repeated be) untrue, inaccurate, incorrect or misleading in any material respect or otherwise breached in any material respect; or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of our company or the Controlling Shareholders or any other indemnifying party pursuant to the indemnities given by our company or the Controlling Shareholders or them under the Hong Kong Underwriting Agreement; or

(v) any material breach of any of the obligations of our company or the Controlling Shareholders under the Hong Kong Underwriting Agreement; or

(vi) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, profits, losses, performance, conditions, financials, business, properties, results of operations, earnings or trading position, conditions or prospects of the Group as a whole; or

(vii) any material breach on the part of our company of any of the obligations imposed upon it under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(viii) approval for the listing of an permission to deal in the Shares on the Stock Exchange is refused or not granted, other than subject to customary conditions, on or before the listing approval date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld,

then the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) may, in their sole and absolute discretion and upon giving notice to our company, terminate the Hong Kong Underwriting Agreement with immediate effect.

(b) Undertakings in respect of the Global Offering

Undertakings by our company

To the Stock Exchange

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of our company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances.

Pursuant to Hong Kong Underwriting Agreement

Our company has undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, and the Controlling Shareholders undertake to procure, that except pursuant to the Global Offering, and pursuant to the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme as disclosed in this prospectus, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the "**First Six-Month Period**"), our company will not, without the prior written consent of the Joint Bookrunners and unless in compliance with the requirements of the Listing Rules:

(1) offer, accept subscription for pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, mortgage, assign or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally or repurchase, any of the share capital of our company or other securities of our company or any interest therein (including, but not limited to, any interest that are convertible into or exercisable or exchangeable for or that represent the right to receive any such capital or securities or any interest therein);

(2) enter into any swap, derivative, lending, repurchase or mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or

(3) enter into any transaction with the same economic effect as any transaction described in paragraphs (1) or (2) above; or

(4) agree or contract to, or publicly disclose that it will or may enter into any such transaction described in paragraphs (1), (2) or (3) above,

whether any such transaction described above is to be settled by delivery of share capital or other securities, in cash or otherwise or publicly disclose that our company will or may enter into transaction described above. Our company further agrees that, in the event of an issue or disposal of any Shares or any interest therein after the date falling six months from the date on which dealings in the Shares commence on the Stock Exchange, it will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market in the securities of our company.

In addition, our company shall not enter into any of the foregoing transactions in paragraphs (1), (2) and (3) above, or agree or contract to or publicly announce any intention to enter into any such transaction, such that, among others, our Controlling Shareholders would cease to be a controlling shareholder of our company during the six-month period immediately following the expiry of the First Six-Month Period ("**Second Six-Month Period**").

Undertakings by our Controlling Shareholders

To the Stock Exchange

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Capitalization Issue, the Global Offering and the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme as disclosed in this prospectus:

(i) it/he will not, at any time during the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and

(ii) it/he will not, at any time during the Second Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder of our company.

Note (2) of Rule 10.07 of the Listing Rules provides that Rule 10.07 does not prevent a controlling shareholder from using the Shares owned by it/him as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Pursuant to Note 3 to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and our company that it/he will, within the period commencing on the date by reference to which disclosure of its/his shareholding in our company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

(i) when it/he pledges or charges any Shares or other securities or interests in any securities of our company beneficially owned by it/him in favor of any authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or securities of our company so pledged or charged; and

(ii) when it/he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our company will be disposed of, immediately inform us of such indications.

Our company, upon receiving such information from any of our Controlling Shareholders, will notify the Stock Exchange and make appropriate disclosures in relation to such information by way of an announcement.

Pursuant to the Hong Kong Underwriting Agreement

Each of our Controlling Shareholders has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Capitalization Issue, the Global Offering and the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme as disclosed in this prospectus, it will not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Joint Bookrunners and unless in compliance with the requirements of the Listing Rules:

(1) during the First Six-Month Period:

(i) it/he will not offer, accept subscription for, pledge, mortgage, charge, sell, lend, assign, contract to sell, issue or allot, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, mortgage, assign or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital of our company or other securities of our company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for or that represent the right to receive, any such capital or securities or any interest therein); or

(ii) it/he will not enter into any swap derivative, lending, repurchase or mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or

(iii) it/he will not publicly disclose that it/he or our company will or may enter into any transaction described in paragraphs (i) or (ii) above, or

(iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraphs (i), (ii) or (iii) above,

whether any such transaction described in paragraphs (i) or (ii) above is to be settled by delivery of such capital or securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so;

(2) during the Second Six-Month Period, it/he will not enter into any of the foregoing transactions in paragraphs (1)(i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal, or upon the exercise or enforcement, of such options, rights, interests or encumbrances, any Controlling Shareholder will cease to be a controlling shareholder of our company; and

(3) until the expiry of the Second Six-Month Period, in the event that it/he enters into any such transaction or agrees or contracts to or publicly announces an intention to enter into any such transaction, it/he will take all reasonable steps to ensure that it/he will not create a disorderly or false market in the securities of our company.

Each of our Controlling Shareholders has further undertaken to each of our company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, within the period commencing from the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months from the Listing Date:

(1) if and when it/he pledges or charges any securities or interests in the securities of our company in respect of which it is beneficially owned by it/him, it/he will immediately inform our company and the Sole Sponsor and the Stock Exchange in writing of such pledge or charge together with the number of securities so pledged or charged; and

(2) if and when it/he receives indications, either verbal or written, from any pledgee or chargee of Shares or other securities of our company that any Shares or other securities of our company will be disposed of, it/he will immediately inform our company and the Sole Sponsor and the Stock Exchange in writing of such indications.

Our company undertakes that, upon receiving such information from any of our Controlling Shareholders, it will disclose such matters as soon as practicable by way of an announcement.

(c) Underwriting commission and expenses

The Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Offer Shares initially offered under the Global Offering, which are estimated to be approximately HK$44.7 million in aggregate (based on the mid-point of the Offer Price range and assuming the Over-allotment Option is not exercised). We will bear the underwriting commissions payable by us in connection with the sale of the New Shares. The Selling Shareholders will be responsible for the underwriting commissions attributable to the sale of the Sale Shares, on a pro-rata basis, and the Over-allotment Selling Shareholders will be responsible for the underwriting commissions attributable to the sale of the Over-allotment Sale Shares, on a pro-rata basis, together with Stock Exchange trading fees, SFC transaction levy in respect of the Sale Shares and the Over-allotment Sale Shares, on a pro-rata basis. The listing expenses will be borne by our company and the Selling Shareholders, as agreed among themselves. In addition, we will pay the Sole Global Coordinator an additional incentive fee for all the Shares sold in the Global Offering.

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK$159 million in total (assuming an Offer Price of HK$1.93 per Offer Share, being the mid-point of our indicative price range for the Global Offering).

(d) Indemnity

Each of us and the Controlling Shareholders has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us or the Controlling Shareholders of the Hong Kong Underwriting Agreement.

(e) Underwriters' interests in our company

Save as disclosed in this prospectus and save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the Underwriters has any shareholding interests in our company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe to or to nominate persons to subscribe to securities in our company or any of our subsidiaries.

(f) The Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will, on or about December 7, 2010, shortly after determination of the Offer Price, enter into the International Underwriting Agreement with the Controlling Shareholders, the Selling Shareholders, the Joint Bookrunners and the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally and not jointly agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Under the International Underwriting Agreement, the Over-allotment Selling Shareholders intend to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Bookrunners on behalf of the International Underwriters at the sole and absolute discretion of the Joint Bookrunners for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Selling Shareholders to sell up to an aggregate of 99,300,000 Over-allotment Sale Shares representing, in aggregate, 15% of the maximum number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be, among others, for the purpose of covering over-allocations in the International Offering, if any.

Pursuant to the International Underwriting Agreement, each of our company, the Controlling Shareholders, TPG, TPG LLC and Harmony Energy has agreed that, without the prior written consent of the International Underwriters, it will not, during the period ending 180 days after the closing of the Global Offering, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer of dispose of, directly or indirectly, any ordinary shares of our company or any securities convertible into or exercisable or exchangeable for ordinary shares of our company or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the ordinary shares of our company, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of the ordinary shares of our company or such other securities in cash or otherwise; provided, however, that the foregoing restrictions do not apply to, among others, the sale of Shares in the Global Offering, the Shares to be issued under the Capitalization Issue, and any Shares which may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme or any dividend re-investment plan.

We, the Controlling Shareholders and the Selling Shareholders will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$2.16 and is expected to be not less than HK$1.70. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK$2.16 per Share plus brokerage of 1.0%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% thereon amounting to a total of HK$4,363.55 per board lot of 2,000 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than HK$2.16, being the maximum price, we will refund the respective difference (including brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by agreement between the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and us on or before the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, December 7, 2010 and in any event, no later than Monday, December 13, 2010.

The Offer Price will not be more than HK$2.16 per Offer Share and is expected to be not less than HK$1.70 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners, on behalf of the Underwriters, may, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with our consent and the consent of the Selling Shareholders, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), on the website of our company at **www.mienergy.com.cn** and on the Stock Exchange's website at **www.hkexnews.hk** no later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by us and the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in this prospectus and any other financial information which may change materially as a result of such reduction.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

In the absence of any notice being published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at **www.hkexnews.hk** and our company at **www.mienergy.com.cn** of a reduction in the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the number of Offer Shares and/or the Offer Price, if agreed by us, the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters), will under no circumstances be fewer than the number of Offer Shares or be set outside the Offer Price range as stated in this prospectus.

If the Joint Bookrunners (on behalf of the Underwriters), the Selling Shareholders and our company are unable to reach agreement on the Offer Price, the Global Offering will not become unconditional and will lapse immediately.

We expect to publish an announcement of the Offer Price, together with the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allocation of the Hong Kong Offer Shares, in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at **www.hkexnews.hk** and our company at **www.mienergy.com.cn** on Monday, December 13, 2010.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering and the International Offering. We and the Selling Shareholders intend to make available initially up to 662,000,000 Shares under the Global Offering (assuming the Over-allotment Option is not exercised), of which 595,800,000 Shares will initially be conditionally placed pursuant to the International Offering and the remaining 66,200,000 Shares will initially be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under "The Hong Kong Public Offering"). We and the Selling Shareholders will conditionally place our Shares in the International Offering with professional, institutional, corporate and other investors whom we anticipate to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States to non U.S. persons, in reliance on Regulation S, and with qualified institutional buyers in the United States in reliance on Rule 144A.

Investors may apply for our Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for our Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of our Shares to professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional, corporate and other investors will be asked to specify the number of our Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to the Price Determination Date.

Allocation of our Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, our Shares, after the Listing Date. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our company and our Shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant, although such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

In connection with the Global Offering, the Over-allotment Selling Shareholders intend to grant the Over-allotment Option to the International Underwriters exercisable by the Joint Bookrunners on behalf of the International Underwriters. Further details are set out in “The Over-allotment Option” below.

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters, in each case on a several basis, each being subject to the conditions set out under “Conditions of the Hong Kong Public Offering” below. We entered into the Hong Kong Underwriting Agreement on November 30, 2010, subject to an agreement on the Offer Price between us, the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters), and expect to enter into the International Underwriting Agreement on December 7, 2010. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are expected to be conditional upon each other.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set out in the Hong Kong Underwriting Agreement) for the subscription in Hong Kong of, initially, 66,200,000 New Shares at the Offer Price (representing 10% of the total number of Shares initially available under the Global Offering). Subject to the reallocation of Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of our company’s enlarged issued share capital immediately after completion of the Global Offering assuming that none of the Over-allotment Option and the option pursuant to the Stock Incentive Plan and the Share Option Scheme are exercised.

The total number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering (after taking into account of preferential applications on **PINK** Application Forms) will be divided into two pools for allocation purposes (to the nearest board lot): pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription amount of HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription amount of more than HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the value of pool B. Applicants should be aware that applications in pool A and in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the Hong Kong Offer Shares (after taking into account of preferential applications on

PINK Application Forms), being the Hong Kong Offer Shares initially allocated to each pool are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate an interest in any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the sole discretion of the Joint Bookrunners.

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 198,600,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 264,800,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offer will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 331,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering. In each such case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated equally (subject to adjustment of odd lot size) between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Joint Bookrunners will have the discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such proportion and amounts as they deem appropriate. Conversely, the Joint Bookrunners may at their discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

Up to a maximum of 6,620,000 Hong Kong Offer Shares, representing 10% of the total number of Shares initially available under the Hong Kong Public Offering and 1% of the Offer Shares, are available for subscription by our full-time eligible employees (excluding our Directors or chief executive of our company and its subsidiaries, the existing beneficial owners of Shares and their respective associates or connected persons) (the "**Eligible Employees**") on a preferential basis, if their applications for the Hong Kong Offer Shares are made on the **PINK** Application Forms. The 6,620,000 Hong Kong Offer Shares initially available to Eligible Employees on **PINK** Application Forms will be allocated to such applicants on a pro-rata basis in proportion (as nearly as possible without involving fraction of a board lot) to the level of valid applications received from Eligible Employees, or balloted if there are insufficient Hong Kong Offer Shares available to **PINK** Application Form applicants. If balloting is conducted, some

Eligible Employees may be allocated more Hong Kong Offer Shares than others who have applied for the same number of Hong Kong Offer Shares. Allocation of these Hong Kong Offer Shares will be based on the written guidelines consistent with the allocation guidelines contained in Practice Note 20 of the Listing Rules and distributed to the Eligible Employees. Under such written guidelines, the allocation will be made in an equitable manner based solely on the level of valid applications received from Eligible Employees. The allocation will not be based on the seniority or the length of service of the Eligible Employees. No favour will be given to the Eligible Employees who apply for a large number of Hong Kong Offer Shares and applications made on **PINK** Application Forms for more than the maximum number of Hong Kong Offer Shares available for subscription by Eligible Employees will be rejected.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(a) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, our Shares issued and to be issued pursuant to the Global Offering, including any additional Shares which may be issued pursuant to the exercise of options granted under the Stock Incentive Plan and options which may be granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in our Shares on the Stock Exchange;

(b) the Offer Price having been duly agreed between our company, the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters) and the Price Determination Agreement having been entered into by our company, the Selling Shareholders and the Joint Bookrunners (on behalf of the Underwriters);

(c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective Underwriting Agreements;

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and we will notify the Stock Exchange immediately. We will publish or cause to be published a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at **www.hkexnews.hk** and our company at **www.mienergy.com.cn** on the business day immediately following such lapse.

In case the Hong Kong Public Offering lapses, we will return all application monies to the applicants, without interest and on the terms set out in the section headed "How to Apply for the Hong Kong Offer Shares – Despatch/collection of share certificates/refund cheques/e-Auto Refund payment instructions." In the meantime, we will hold all application monies in a separate bank account(s) with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

THE INTERNATIONAL OFFERING

The number of Offer Shares to be initially offered for subscription or purchase under the International Offering will be 375,134,000 New Shares to be offered by us and an aggregate of 220,666,000 Sale Shares to be offered by the Selling Shareholders, together representing 90% of the Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Pursuant to the International Offering, the International Offer Shares will be conditionally placed by the International Underwriters, or through selling agents appointed by them, with professional, institutional, corporate and other investors anticipated to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S and with qualified institutional buyers in the United States in reliance on Rule 144A.

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application for the Offer Shares under the Hong Kong Public Offering.

THE OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Over-allotment Selling Shareholders intend to grant the Over-allotment Option to the Joint Bookrunners on behalf of the International Underwriters. The Over-allotment Option gives the Joint Bookrunners the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Over-allotment Selling Shareholders to sell up to an aggregate of 99,300,000 Over-allotment Sale Shares (comprising 48,016,000, 1,634,000 and 49,650,000 of Over-allotment Sale Shares to be offered for sale by TPG, TPG LLC and Harmony Energy, respectively, in the event the Over-allotment is exercised), representing in aggregate 15% of the initial size of the Global Offering at the Offer Price, to, among other things, cover over-allotment, if any, in the International Offering. The Joint Bookrunners may also cover such over-allotment by purchasing Shares in the secondary market or by a combination of purchase in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Joint Bookrunners exercise the Over-allotment Option in full, the Over-allotment Sale Shares to be offered by the Over-allotment Selling Shareholders will represent approximately 3.76% of our enlarged share capital following the completion of the Global Offering, the Capitalization Issue and the exercise of the Over-allotment Option assuming that none of the options pursuant to the Stock Incentive Plan and the Share Option Scheme are exercised. In the event that the Over-allotment Option is exercised, a press announcement will be made.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allotments in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates, up to 99,300,000 Shares (being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option) from Over-allotment Selling Shareholders pursuant to the stock borrowing arrangement, or acquire Shares from other sources, including exercising the Over-allotment Option.

If such stock borrowing arrangement with the Over-allotment Selling Shareholders is entered into, it will only be effected by the Stabilising Manager or its agent for settlement of over-allocation in the International Offer and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to the Over-allotment Selling Shareholders or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full and the relevant Shares subject to the Over-allotment Option have been issued. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to the Over-allotment Selling Shareholders by the Stabilising Manager or its agent in relation to such stock borrowing arrangement.

STABILIZING ACTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent a decline in the prices of our Shares. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, BOCI, its affiliates or any person acting for them, as Stabilizing Manager, on behalf of the Underwriters, may effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for them, to conduct any such stabilizing action. Such stabilization action, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for them, and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering, being January 5, 2011. The number of Shares that may be over-allotted will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 99,300,000 Shares, which is 15% of our Offer Shares initially available under the Global Offering.

The Stabilizing Manager, its affiliates or any person acting for them, may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

(i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of our Shares; and/or

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allot our Shares; or

(2) sell or agree to sell our Shares so as to establish a short position in them,

for the sole purpose of preventing or minimizing any reduction in the market price of our Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of our Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or

(D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilizing Manager, its affiliates or any person acting for them, may, in connection with the stabilizing action, maintain a long position in our Shares, and there is no certainty as to the extent to which and the time period for which they will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager, its affiliates or any person acting for them, which may include a decline in the market price of our Shares.

Stabilization action cannot be taken to support the price of our Shares for longer than the stabilization period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, being January 5, 2011. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilization period in accordance with the Securities and Futures (Price Stabilizing) Rules of the SFO.

Any stabilizing action taken by the Stabilizing Manager, its affiliates or any person acting for them, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilization period. Stabilization bids or market purchases effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, December 14, 2010, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:30 a.m. on Tuesday, December 14, 2010. Our Shares will be traded on the Main Board in board lots size of 2,000 Shares each.

METHODS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are three ways to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either using a **WHITE** or **YELLOW** and/or **PINK** Application Form or by applying through the designated website of the **HK eIPO White Form** Service Provider, referred to herein as the **HK eIPO White Form** service (**www.hkeipo.hk**) or giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider.

WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you, or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the U.S.; and
- are not a legal or natural person of the PRC.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Sole Global Coordinator of the Hong Kong Public Offering (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator or the designated **HK eIPO White Form** Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of the Shares, our directors or chief executive or their respective associates or any other connected persons (as defined in the Listing Rules) of our company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for the International Offer Shares under the International Offering, but may not do both.

If you wish to apply for the Hong Kong Offer Shares online through the **HK eIPO White Form** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **HK eIPO White Form**.

1. Applying by using a WHITE or YELLOW or PINK Application Form

Which Application Form to use

Use a **WHITE** Application Form or **HK eIPO White Form** service if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form or giving **electronic application instructions** to HKSCC if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Use a **PINK** Application Form if you are an Eligible Employee, and want the Hong Kong Offer Shares to be registered in your own name and want your application to be given preferential treatment. Up to 6,620,000 Shares under the Hong Kong Public Offering representing 10% of the total number of Shares initially available under the Hong Kong Public Offering and 1% of the Offer Shares, are available for subscription by our Eligible Employees.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus from any of the following addresses of the Hong Kong Underwriters:

J.P. Morgan Securities (Asia Pacific) Limited
Level 28, Chater House
8 Connaught Road
Central
Hong Kong

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
62/F, International Commerce Centre
No.1 Austin Road West
Kowloon
Hong Kong

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island . .	Central Branch	Shop no. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Wanchai Southern Branch	Shop C2 on G/F and 1/F, Lee Wing Building, No. 156-162 Hennessy Road, Wanchai
	North Point Centre Branch	North Point Centre, 284 King's Road, North Point
	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	Causeway Bay Branch	G/F, Yee Wah Mansion, 38-40A Yee Wo Street, Causeway Bay
Kowloon	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Mei Foo Manhattan	Shop Nos.07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen
New Territories	New Town Plaza Branch	Shop 215 to 223, Phase 1, New Town Plaza, Shatin

Prospectuses and **WHITE** Application Forms will be available for collection at the above places during the following times:

Wednesday, December 1, 2010 – 9:00 a.m. to 5:00 p.m.
Thursday, December 2, 2010 – 9:00 a.m. to 5:00 p.m.
Friday, December 3, 2010 – 9:00 a.m. to 5:00 p.m.
Saturday, December 4, 2010 – 9:00 a.m. to 1:00 p.m.
Monday, December 6, 2010 – 9:00 a.m. to 12:00 noon

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, December 1, 2010 until 12:00 noon on Monday, December 6, 2010 from:

(a) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(b) Your stockbroker, who may have such Application Forms and this prospectus available.

An eligible full-time employee can collect a **PINK** Application Form and a prospectus, during normal business hours from 9:00 a.m. on Wednesday, December 1, 2010 until 4:00 p.m. on Friday, December 3, 2010 at our company's principal place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong.

How to complete the Application Form and make payment

Obtain an application form as described in the section entitled "Where to collect the Application Forms" above.

Complete the Application Form in English in ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form. Each Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out on the Application Form.

You should note that by completing and submitting the Application Form, amongst other things,

(a) you confirm that you have received a copy of this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(b) you agree that our company, the Sole Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto (and only then to the extent such liability is held to exist by a court of competent jurisdiction);

(c) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not indicated an interest for, applied for or taken up any International Offer Shares under the International Offering; and

(d) you agree to disclose to our company and/or our registrars, the receiving banker, the Sole Global Coordinator and their respective advisers and agents, personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

(a) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant): the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(b) If the application is made by an individual CCASS Investor Participant:

    (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

    (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(c) If the application is made by a joint individual CCASS Investor Participant:

    (i) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card Number of all the joint CCASS Investor Participants; and

    (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) If the application is made by a corporate CCASS Investor Participant:

(i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

(ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of the details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name), or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, our company and the Sole Global Coordinator as its agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our company and the Sole Global Coordinator, in the capacity as its agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Our company, the Sole Global Coordinator and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.

All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

No joint applications are allowed for applications made using **PINK** Application Forms.

How to apply through HK eIPO White Form

General

If you are an individual and meet the criteria set out in paragraph above entitled "Who can apply for the Hong Kong Offer Shares" under this section, you may apply through **HK eIPO White Form** by submitting an application through the designated website at **www.hkeipo.hk**. If you apply through **HK eIPO White Form**, the Shares will be issued in your own name.

Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at **www.hkeipo.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to our company.

In addition to the terms and conditions set out in this prospectus, the designated **HK eIPO White Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at **www.hkeipo.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorized the designated **HK eIPO White Form** Service Provider to transfer the details of your application to our company and our registrars.

You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.hkeipo.hk**.

You should give **electronic application instructions** through **HK eIPO White Form** at the times set out in the paragraph headed "Members of the public – Time for applying for Hong Kong Offer Shares" under this section below.

You should make payment for your application made by **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at **www.hkeipo.hk**. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Monday, December 6, 2010, or such later time as described under the paragraph headed "Effect of bad weather on the opening of the application lists" under this section, the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk**.

Warning: The application for Hong Kong Offer Shares through the **HK eIPO White Form** service is only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. Our company, our Directors, the Sole Global Coordinator, the Joint Bookrunner, the Sole Sponsor and the Joint Lead Managers, and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form** service will be submitted to our company or that you will be allotted any Hong Kong Offer Shares.

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website at **www.hkeipo.hk** for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form.

However, once you have submitted **electronic application instructions** and completed payment in full using the payment reference number provided to you on the designated website at **www.hkeipo.hk**, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC. See the paragraph entitled "How many applications you may make" under this section.

Effect of bad weather conditions on the last application day

The latest time for submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service will be 11:30 a.m., and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, December 6, 2010, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 6, 2010, the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **HK eIPO White Form** service to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at **www.hkeipo.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the paragraph entitled "Refund of application monies."

How to make payment for the application

Each completed **WHITE**, **YELLOW** or **PINK** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account with a licensed bank in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the first-named applicant), which must be either be pre-printed on the cheque, or be endorsed on the reverse of the cheque by an authorized signatory of the bank on which it is drawn. The account name must be the same as the name on your Application Form. If the application is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to "Horsford Nominees Limited – MIE Holdings Public Offer";
- be crossed "Account Payee Only"; and
- not be post dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonored on first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorized signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;
- be made payable to "Horsford Nominees Limited – MIE Holdings Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Monday, December 6, 2010. Our company will not give you a receipt for your payment. Our company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

How many applications you may make

You may make more than one application for Hong Kong Offer Shares if and only if:

(i) You are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit;

(ii) You are an eligible full time employee of our Group and apply on a **PINK** Application Form. You may also apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form or submit **HK eIPO White Form** or by giving **electronic application instructions** to HKSCC.

Otherwise, multiple applications are not allowed.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering a **WHITE** or **YELLOW** Application Form or submitting an **electronic application instruction** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (**www.hkeipo.hk**), you:

- (if the application is made for your own benefit) warrant that the application made pursuant to a **WHITE** or **YELLOW** Application Form or **electronic application instruction** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (**www.hkeipo.hk**) is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by submitting an application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** or by giving **electronic application instructions** to HKSCC;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by submitting an application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** or by giving **electronic application instructions** to HKSCC and that you are duly authorized to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by submitting an application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** or by giving **electronic application instructions** to HKSCC;

- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and submit **HK eIPO White Form** or give **electronic application instructions** to HKSCC;
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or submit **HK eIPO White Form** or by giving **electronic application instructions** to HKSCC for more than 50% of the 66,200,000 Hong Kong Offer Shares initially being offered for sale under the Hong Kong Public Offering after deducting the 6,620,000 Offer Shares available for subscription by Eligible Employees of our Group using **PINK** Application Forms (that is 29,790,000 Hong Kong Offer Shares), as more particularly described in the section entitled "Structure of the Global Offering – The Hong Kong Public Offering";
- make more than one application on **PINK** Application Forms;
- apply on one **PINK** Application Form for more than 100% of the Offer Shares being offered to Eligible Employees is the goal on a preferential basis; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) International Offer Shares under the International Offering.

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service by giving **electronic application instructions** through the designated website at **www.hkeipo.hk** and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions** unless (and limited) to the situation where you are a qualified employee of our Group who has made an application on a **PINK** Application Form). If an application is made by an unlisted company and,

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company *means a company with no equity securities listed on the Stock Exchange.*

Statutory control means you:

- control the composition of the board of directors of our company; or
- control more than half of the voting power of our company; or
- hold more than half of the issued share capital of our company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

Members of the public – Time for applying for Hong Kong Offer Shares

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Monday, December 6, 2010, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, together with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of receiving banker listed under the section entitled "Where to collect the Application Forms" above at the following times:

Wednesday, December 1, 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Thursday, December 2, 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Friday, December 3, 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Saturday, December 4, 2010	**–**	**9:00 a.m. to 1:00 p.m.**
Monday, December 6, 2010	**–**	**9:00 a.m. to 12:00 noon**

Completed **PINK** Application Form, with a cheque or banker's cashier order attached, must be returned to our company's principal place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong by 4:00 p.m. on Friday, December 3, 2010.

HK eIPO White Form

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** from 9:00 a.m. on Wednesday, December 1, 2010 until 11:30 a.m. on Monday, December 6, 2010 or such later time as described under the paragraph headed "Effect of bad weather on the opening of the application lists" under this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, December 6, 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in "Effect of bad weather on the opening of the application lists" under this section below.

You will not be permitted to submit your application to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

The application lists will open **from 11:45 a.m. to 12:00 noon** on Monday, December 6, 2010.

No proceedings will be taken on applications for the Offer Shares and no allotment of any such Offer Shares will be made until after the closing of the application lists. No allotment of any of the Offer Shares will be made later than Friday, December 31, 2010.

Applicants should note that cheques or banker's cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 6, 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offering do not open and close on Monday, December 6, 2010 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected Timetable" in this prospectus, such dates mentioned in the section headed "Expected Timetable" in this prospectus may be affected. A press announcement will be made in such event.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

Publication of results

We expect to announce the Offer Price, the general level of Indication of interest in the International Offering, the basis of allotment and the results of applications under the Hong Kong Public Offering on Monday, December 13, 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the website of the Stock Exchange (**www.hkexnews.hk**) and on the website of the Company (**www.mienergy.com.cn**). The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at **www.tricor.com.hk/ipo/result** on a 24-hour basis from 8:00 a.m. on Monday, December 13, 2010 to 12:00 midnight on Sunday, December 19, 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result.
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 369-18-488 between 9:00 a.m. and 6:00 p.m. from Monday, December 13, 2010 to Thursday, December 16, 2010 (excluding Saturday, Sunday and Public Holiday).
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Monday, December 13, 2010 to Wednesday, December 15, 2010 at all the receiving bank branches and sub-branches at the addresses set out in the section entitled "How to Apply for Hong Kong Offer Shares – Where to Collect the Application Forms."
- Results of allocation for the Hong Kong Public Offering can be found in the Company announcement to be posted on the website of the Stock Exchange at **www.hkexnews.hk** on Monday, December 13, 2010 and on the website of the Company (**www.mienergy.com.cn**).

Despatch/collection of share certificates/refund cheques/e-Auto Refund payment instructions

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the offer price of HK$2.16 per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section entitled "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your application:

(a) for applications on **WHITE** Application Forms and **HK eIPO White Form**: (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **yellow** Application Forms: share certificates for their Hong Kong Offer Shares successfully applied for will be deposited into CCASS as described below); and/or

(b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

   - Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

(c) for applicants who apply through the **HK eIPO White Form** service by paying the application monies through a single bank account and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the maximum Offer Price initially paid on applicant's application, e-Auto Refund payment instructions (if any) will be despatched to application payment bank account on or around Monday, December 13, 2010.

(d) for applicants who apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts and applicant's application is wholly or partially unsuccessful and/or the final Offer Price being different from the maximum Offer Price initially paid on applicant's application, refund cheque(s) will be sent to the address specified in applicant's application instructions to the designated **HK eIPO White Form** Service Provider on or around Monday, December 13, 2010, by ordinary post and at applicant's own risk.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **WHITE** or **YELLOW** Application Forms and share certificates for wholly and partially successful applicants under **WHITE** Application Forms and **HK eIPO White Form** are expected to be posted on or around Monday, December 13, 2010. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on Tuesday, December 14, 2010 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" has not been exercised.

You will receive one share certificate for all the Offer Shares issued to you.

(a) If you apply using a WHITE Application Form:

- If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from the Hong Kong Share Registrar from 9:00 a.m. to 1:00 p.m. on Monday, December 13, 2010 or such other place and date as notified by our company in the newspapers as the place and date of collection/despatch of refund cheques/share certificates.
- If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.
- If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.
- If you have applied for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) and/or Share certificates (where applicable) in person, your refund cheque(s) and/or Share certificates (where applicable) are expected to be despatched on Monday, December 13, 2010 to the address that is specified on your Application Form by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

- If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.
- If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) in person, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Monday, December 13, 2010, by ordinary post and at your own risk.
- If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Monday, December 13, 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

- If you are applying as a CCASS Investor Participant, our company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Monday, December 13, 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, December 13, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(c) If you apply using a PINK Application Form:

The Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to our company on your behalf on the date of despatch and our company will arrange for onward despatch to you at the address specified in your Application Form or as otherwise notified by you to our company.

(d) If you apply using HK eIPO White Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** and your application is wholly or partially successful, you may collect your share certificate(s) and/or refund cheque(s) (where applicable) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, December 13, 2010, or such other date as notified by our company in the newspapers as the date of dispatch/collection of share certificates/refund cheques/e-Auto Refund payment instruction.

If you do not collect your share certificate(s) and/or refund cheque(s) (where applicable) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** on Monday, December 13, 2010 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **HK eIPO White Form** Service Provider set out above in the paragraph entitled "How to apply through HK eIPO White Form – Additional information."

2. Applying by giving electronic application instructions to HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our company and its registrars.

Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees On Your Behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that Person's CCASS Investor Participant stock account;
- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- undertakes and confirms that that person has not applied for or taken up any International Offer Shares under the International Offering nor otherwise participated in the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our company, our Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorizes our company to place the name of HKSCC Nominees on the register of members of our company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our company and HKSCC;

- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- agrees that our company, the Sole Global Coordinator, the Underwriters and any of their respective directors, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement hereto (and only then to the extent such liability is held to exist by a court of competed jurisdiction);
- agrees to disclose that person's personal data to our company, our registrars, receiving banker, the Sole Global Coordinator, the Underwriters and any of their respective agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before Monday, December 13, 2010, such agreement to take effect as a collateral contract with our company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our company agreeing that it will not offer any Hong Kong Offer Shares to any person before Monday, December 13, 2010, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Monday, December 13, 2010 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price and related brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is

less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, December 1, 2010 – 9:00 a.m. to 8:30 p.m.[(1)]
Thursday, December 2, 2010 – 8:00 a.m. to 8:30 p.m.[(1)]
Friday, December 3, 2010 – 8:00 a.m. to 8:30 p.m.[(1)]
Saturday, December 4, 2010 – 8:00 a.m. to 1:00 p.m.[(1)]
Monday, December 6, 2010 – 8:00 a.m.[(1)] to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, December 1, 2010 until 12:00 noon on Monday, December 6, 2010 (24 hours daily, except the last application day).

Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, December 6, 2010, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, December 6, 2010, the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12 noon on such day. Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Monday, December 13, 2010, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants' applications (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the beneficial owner, if possible), your Hong Kong Identity Card/Passport number or other identification code (Hong Kong Business Registration number for corporations) and the basis of allotment of the Hong Kong Public Offering, together with the results of the Hong Kong Public Offering on Monday, December 13, 2010, in the manner as described in the section headed "How to apply for Hong Kong Offer Shares – Publication of results" in this prospectus. You should check the announcement published by our company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, December 13, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, December 13, 2010. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Hong Kong Offer Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, December 13, 2010. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form entitled "Personal Data" applies to any personal data held by our company, our registrars, receiving banker, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, December 6, 2010.

3. Circumstances in which you will not be allotted Hong Kong Offer Shares

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or to the designated **HK eIPO White Form** Service Provider or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully.

You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

- If your application is revoked

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC you agree that you cannot revoke your application or the application made by HKSCC Nominees on your behalf or by the designated **HK eIPO White Form** provider through **HK eIPO White Form** service on or before Monday, December 13, 2010. This agreement will take effect as a collateral contract with our company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees by your behalf accordingly or to the designated **HK eIPO White Form** provider through **HK eIPO White Form** service. This collateral contract will be in consideration of our company agreeing that it will not offer any Hong Kong Offer Shares to any person before Monday, December 13, 2010 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before Monday, December 13, 2010 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- Full discretion of our company, the Sole Global Coordinator or our or their respective agents to reject or accept your application

Our company, the Sole Global Coordinator (as agent for our company) or the designated HK eIPO Service Provider (where applicable), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our company, the Sole Global Coordinator and the Hong Kong Underwriters, in their capacity as our company's agents, and their agents and nominees do not have to give any reason for any rejection or acceptance.

- If the allotment of Hong Kong Offer Shares is void

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Offer Shares either:

  - within three weeks from the closing of the application lists; or
  - within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our company of that longer period within three weeks of the closing date of the application lists.

- You will not receive any allotment if:
  - you make multiple applications or suspected multiple applications;
  - you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares in the International Offering. By filling in any of the Application Forms or submitting **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service, you agree not to apply for or indicate an interest for International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
  - You apply for more than 50% of the Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering after deducting the 6,620,000 Offer Shares available for subscription by Eligible Employees of our Group using **PINK** Application Forms, as more particularly described in the section entitled "Structure of the Global Offering – The Hong Kong Public Offering" (that is, 29,790,000 Shares);
  - your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
  - your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
  - Your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.hkeipo.hk**.
  - the Underwriting Agreement does not become unconditional; or
  - the Underwriting Agreement is terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

4. How much are the Hong Kong Offer Shares

The maximum offer price is HK$2.16 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 2,000 Hong Kong Offer Shares you will pay approximately HK$4,363.55. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares up to 29,790,000 Hong Kong Offer Shares.

You must pay the amount payable upon application for the Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If the Offer Price as finally determined is less than HK$2.16 per Hong Kong Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out in the section entitled "Despatch/collection of share certificates/refunds cheques/e-Auto Refund payment instructions."

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy collected on behalf of the SFC).

5. Refund of application monies

If you do not receive any Hong Kong Offer Shares for any reason, our company will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for the benefit of our company.

If your application is accepted only in part, our company will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the offer price per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, our company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, without interest.

In a contingency situation involving a substantial over-subscription, at the discretion of our company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Monday, December 13, 2010 in accordance with the various arrangements as described above.

All refunds by cheque will be crossed "Account Payee Only," and made out to you (or in case of joint applicants, the first-named applicant on the Application Form). Part of your Hong Kong identity card number/passport number, (or in case of joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant) provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. A banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

6. Dealings and settlement

Commencement of dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, December 14, 2010.

The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares is 1555.

Offer Shares will be eligible for admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

December 1, 2010

The Directors
MIE Holdings Corporation

J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We report on the financial information of MIE Holdings Corporation (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated statements of financial position as at December 31, 2007, 2008 and 2009 and June 30, 2010, the statements of financial position of the Company as at December 31, 2008 and 2009 and June 30, 2010, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated December 1, 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on March 20, 2008 as an exempted company with limited liability under the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1 of Section II headed "General information and group reorganization" below, which was completed on January 12, 2009, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganization").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

The consolidated financial statements of the Group for each of the years ended December 31, 2007, 2008 and 2009 prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements") were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company pursuant to separate terms of engagement with the Company. The financial statements of the subsidiaries of the Company were prepared in accordance with the IFRSs.

The financial information has been prepared based on the Underlying Financial Statements, or, where appropriate, unaudited consolidated financial statements of the Company, with no adjustment made thereon.

Directors' responsibility for the financial information

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus a true and fair view of the state of affairs of the Company as at December 31, 2008 and 2009 and June 30, 2010 and of the state of affairs of the Group as at December 31, 2007, 2008 and 2009 and June 30, 2010 and of the Group's results and cash flows for each of the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2009 and a summary of significant accounting policies and other explanatory notes (the "Stub Period Comparative Financial Information").

The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRSs.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the Prospectus, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with IFRSs.

I. FINANCIAL INFORMATION

The following is the financial information of the Group as at December 31, 2007, 2008, 2009 and June 30, 2010 and for each of the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2010.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at December 31,			As at June 30,
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	1,707,106	2,486,943	2,665,143	2,931,523
Intangible asset	7	558	6,043	2,599	1,617
Derivative financial instruments	8	–	94,912	–	–
Amount due from shareholder	12	449,438	–	–	–
Trade and other receivables	9	–	71,805	70,360	114,567
		2,157,102	2,659,703	2,738,102	3,047,707
Current assets					
Inventories	11	36,582	73,858	76,078	48,408
Derivative financial instruments	8	–	132,761	20,307	6,243
Trade and other receivables	9	341,937	103,796	489,571	362,631
Amount due from shareholder	12	359,550	422,880	81,074	–
Pledged deposits	10	–	50,222	30,729	30,606
Cash and cash equivalents	13	77,166	382,119	290,271	268,329
		815,235	1,165,636	988,030	716,217
TOTAL ASSETS		2,972,337	3,825,339	3,726,132	3,763,924
EQUITY					
Capital and reserves attributable to equity holders of the Group					
Ordinary shares	14	684	684	659	535
Preferred shares	14	–	–	171	420
Other reserves	15	(270)	49,023	403,909	424,311
Retained earnings		668,953	1,094,058	848,707	852,754
Total equity		669,367	1,143,765	1,253,446	1,278,020
LIABILITIES					
Non-current liabilities					
Asset retirement obligations	16	27,702	4,624	6,978	9,270
Deferred income tax liabilities – net	17	47,574	102,770	86,400	12,625
Trade and other payables	18	–	233,688	170,235	331,554
Borrowings	19	730,460	765,475	1,242,963	1,243,630
		805,736	1,106,557	1,506,576	1,597,079
Current liabilities					
Derivative financial instruments	8	–	25,257	–	–
Trade and other payables	18	1,497,234	1,495,083	863,687	786,962
Borrowings	19	–	54,677	102,423	101,863
		1,497,234	1,575,017	966,110	888,825
Total liabilities		2,302,970	2,681,574	2,472,686	2,485,904
TOTAL EQUITY AND LIABILITIES		2,972,337	3,825,339	3,726,132	3,763,924
Net current (liabilities)/assets		(681,999)	(409,381)	21,920	(172,608)
Total assets less current liabilities		1,475,103	2,250,322	2,760,022	2,875,099

STATEMENTS OF FINANCIAL POSITION

	As at December 31,		As at June 30,
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
ASSETS			
Non-current assets			
Investment in MIE	–	1,371,125	1,390,867
Amount due from MIE	–	323,713	321,691
	–	1,694,838	1,712,558
Current assets			
Cash and cash equivalents	10	33	25
Prepaid expense	–	12,786	15,727
	10	12,819	15,752
TOTAL ASSETS	10	1,707,657	1,728,310
EQUITY			
Capital and reserves			
Ordinary shares	–	659	535
Preferred shares	–	171	420
Other reserves	–	1,707,585	1,710,588
Accumulated deficit	(368)	(3,482)	(1,346)
Total equity	(368)	1,704,933	1,710,197
LIABILITIES			
Current liabilities			
Salary payable	368	–	–
Stock appreciation rights liabilities	–	2,260	16,660
Other liabilities	–	464	1,453
Amount due to MIE	10	–	–
Total liabilities	378	2,724	18,113
TOTAL EQUITY AND LIABILITIES	10	1,707,657	1,728,310
Net current (liabilities)/assets	(368)	10,095	(2,361)
Total assets less current liabilities	(368)	1,704,933	1,710,197

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	5	1,221,624	1,971,688	1,166,827	363,760	947,364
Operating expenses						
Purchases, services and other		(111,729)	(96,905)	(123,587)	(46,587)	(61,546)
Employee compensation costs	20	(52,996)	(69,014)	(67,651)	(24,756)	(57,596)
Depreciation, depletion and amortisation		(286,792)	(475,172)	(445,824)	(226,547)	(268,015)
Impairment of property, plant and equipment	6	–	(32,000)	–	–	–
Distribution expenses		(16,962)	(23,355)	(21,861)	(6,782)	(15,183)
Administrative expenses		(65,054)	(89,249)	(62,253)	(22,762)	(25,283)
Provision for impairment of other receivables	9	(49,843)	–	–	–	–
Taxes other than income taxes	21	(159,998)	(538,126)	(73,308)	(3,497)	(148,617)
Other income/(loss)	22	32,777	133,758	(131,124)	(85,774)	(10,960)
Total operating expenses		(710,597)	(1,190,063)	(925,608)	(416,705)	(587,200)
Profit/(loss) from operations		511,027	781,625	241,219	(52,945)	360,164
Finance income	23	11,897	45,673	1,552	930	7,260
Finance costs	23	(88,808)	(53,460)	(58,832)	(24,553)	(40,246)
Finance costs – net	23	(76,911)	(7,787)	(57,280)	(23,623)	(32,986)
Profit/(loss) before income tax		434,116	773,838	183,939	(76,568)	327,178
Income tax (expense)/benefit	24	(125,163)	(162,748)	(73,462)	2,909	(88,723)
Net profit/(loss) for the year/ period		308,953	611,090	110,477	(73,659)	238,455
Total comprehensive income/(loss) for the year/period		308,953	611,090	110,477	(73,659)	238,455
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the company						
Earnings/(loss) per share, Basic (expressed in RMB per share)	29	3.1	6.1	1.0	(0.7)	2.0
Earnings/(loss) per share, Diluted (expressed in RMB per share)	29	3.1	6.1	1.0	(0.7)	2.0

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Ordinary shares	Preferred shares	Other reserves	Retained earnings	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2007		684	–	(270)	360,000	360,414
Comprehensive income for the year						
Net profit for the year		–	–	–	308,953	308,953
		–	–	–	308,953	308,953
As at January 1, 2008		684	–	(270)	668,953	669,367
Comprehensive income for the year						
Net profit for the year		–	–	–	611,090	611,090
Transfer to safety fund reserve	15	–	–	49,293	(49,293)	–
		–	–	49,293	561,797	611,090
Transactions with owners						
Deemed dividend distribution	25	–	–	–	(136,692)	(136,692)
Total transactions with owners		–	–	–	(136,692)	(136,692)
As at January 1, 2009		684	–	49,023	1,094,058	1,143,765
Comprehensive income for the year						
Net profit for the year		–	–	–	110,477	110,477
Transfer to safety fund reserve	15	–	–	14,213	(14,213)	–
		–	–	14,213	96,264	110,477
Transactions with owners						
Employees stock options	14c	–	–	1,224	–	1,224
Issuance of redeemable ordinary shares	14a	–	–	(35,043)	–	(35,043)
Cancellation of redeemable ordinary shares	14a	–	–	35,043	–	35,043
Issuance of Series A preferred shares for cash	14b	–	146	339,449	–	339,595
Issuance of Series A preferred shares in exchange for ordinary shares	14b	–	25	61,429	–	61,454
Cancellation of ordinary shares	14b,15	(25)	–	(61,429)	–	(61,454)
Deemed dividend distribution	25	–	–	–	(341,615)	(341,615)
Total transactions with owners		(25)	171	340,673	(341,615)	(796)
As at December 31,2009		659	171	403,909	848,707	1,253,446

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Note	Ordinary shares	Preferred shares	Other reserves	Retained earnings	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended June 30, 2009 (Unaudited)						
Balance at January 1, 2009		684	–	49,023	1,094,058	1,143,765
Comprehensive income for the period						
Net loss for the period		–	–	–	(73,659)	(73,659)
Transfer to safety fund reserve		–	–	3,507	(3,507)	–
		–	–	3,507	(77,166)	(73,659)
Transaction with owners						
Issuance of Redeemable Ordinary share	14a	–	–	(35,043)	–	(35,043)
As at June 30, 2009		684	–	17,487	1,016,892	1,035,063
Six months ended June 30, 2010						
Balance at January 1, 2010		659	171	403,909	848,707	1,253,446
Comprehensive income for the period						
Net profit for the period		–	–	–	238,455	238,455
Transfer to safety fund reserve	15	–	–	16,824	(16,824)	–
Current translation difference		–	–	(1,646)	–	(1,646)
		–	–	15,178	221,631	236,809
Transaction with owners						
Employees stock options		–	–	5,349	–	5,349
Cancellation of ordinary shares	14a,15	(124)	–	(614,047)	–	(614,171)
Issuance of series B preferred shares in exchange of ordinary shares	14b,15	–	249	613,922	–	614,171
Cash dividend distribution	25	–	–	–	(136,532)	(136,532)
Deemed dividend distribution	25	–	–	–	(81,052)	(81,052)
As at June 30, 2010		535	420	424,311	852,754	1,278,020

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities						
Cash generated from operations	26	587,408	1,694,427	38,631	3,049	751,161
Interest paid		(36,769)	(51,932)	(58,629)	(24,867)	(31,965)
Income tax paid		(33,134)	(192,983)	(50,264)	(500)	(160,150)
Net cash generated from/(used in) operating activities		517,505	1,449,512	(70,262)	(22,318)	559,046
Cash flows from investing activities						
Purchases of property, plant and equipment		(831,453)	(1,238,537)	(881,374)	(216,162)	(427,439)
Decrease/(increase) in pledged deposits		231,450	(50,222)	19,460	(29,449)	–
Loan repayments from shareholder		92,246	78,983	–	–	–
Loan granted to shareholder		(207,250)	–	–	–	–
Loan granted to PSC partner		(4,445)	(88,272)	(21,733)	(17,500)	(17,070)
Loan repayment from shareholder		–	16,988	–	–	–
Interest received		4,108	2,577	1,834	866	53
Net cash used in investing activities		(715,344)	(1,278,483)	(881,813)	(262,245)	(444,456)
Cash flows from financing activities						
Proceeds from borrowings		730,460	136,690	1,447,977	–	–
Repayments of borrowings		(481,950)	–	(927,345)	–	–
Proceeds from issuance of preferred shares		–	–	339,595	–	–
Cash dividends paid		–	–	–	–	(136,532)
Net cash generated from/(used in) financing activities		248,510	136,690	860,227	–	(136,532)
Net increase/(decrease) in cash and cash equivalents		50,671	307,719	(91,848)	(284,563)	(21,942)
Exchange losses on cash and cash equivalents		–	(2,766)	–	–	–
Cash and cash equivalents at beginning of the year/period		26,495	77,166	382,119	382,119	290,271
Cash and cash equivalents at end of the year/period	13	77,166	382,119	290,271	97,556	268,329

II. NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION AND GROUP REORGANIZATION

The Company was incorporated by, Far East Energy Limited ("FEEL") a company incorporated on May 16, 2003 in Hong Kong with limited liability. Prior to January 12, 2009, two of FEEL's direct and ultimate shareholders, Mr. Zhang and Mr. Zhao, together own 99.9% of FEEL. On November 20, 2009, they signed an acting-in-concert agreement. As a result of Mr Zhang and Mr Zhao share ownership and the acting-in-concert agreement, they ultimately control the Company through FEEL.

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 FEEL, the ultimate holding company of MIE throughout the financial years ended December 31, 2007, 2008 and 2009 until January 12, 2009, when MIE became a wholly owned subsidiary of the Company and the Company became a subsidiary of FEEL pursuant to the Reorganization described below. Mr. Zhang and Mr. Zhao ultimately control MIE through their controlling interest in FEEL.

On January 12, 2009, FEEL restructured its subsidiaries in preparation for a public offering of the Company's shares and as part of an amendment to MIE's then US$150 million banking facility from Standard Bank. Under the restructuring, the Company issued an additional 99,999,000 ordinary shares to FEEL in exchange for 50,000 ordinary shares of MIE, which was the entire interest in MIE held by FEEL at the time of exchange ("the Reorganization") (See Note 2(a)). As such MIE became a wholly owned subsidiary of the Company (together referred to as "the Group") and a predecessor entity for the Relevant Periods as defined below prior to the Company's incorporation. FEEL became the ultimate parent company of MIE. After the Reorganization, through FEEL, Mr. Zhang and Mr. Zhao continued to ultimately control both the Company and MIE.

The Group's 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 Miao 3 in Jilin Province with PetroChina and Luojiayi 64 block in Shengli of Shandong Province. The Group conducts its oil production business through the four production sharing projects. 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. 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 first three PSCs, respectively. (Note 2(c)).

As of January 1, 2005, the Daan project was in the commercial production phase. As of October 1, 2008, the Miao 3 project attained commercial production. As of December 1, 2008, the Moliqing project reached commercial production. In 2006, the Luojiayi 64 block stopped work and in 2005 MIE's related investment was fully written off (Note 27(b)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

The Reorganization of the Group in January 2009 involved subsidiaries of FEEL, the Company and MIE. Accordingly, the Reorganization and the combination of the Company and its predecessor MIE are considered to be a reorganization of entities under the common control of FEEL's ultimate

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(a) Basis of preparation – continued

controlling shareholders, Mr. Zhang and Mr. Zhao. In addition, FEEL directly controlled both the Company and MIE prior to the Reorganization and continues to control the Group after the Reorganization. Accordingly, in the absence of available guidance under IFRSs, the Company accounted for the Reorganization described in Note 1 above as a reorganization of entities under common control in a manner similar to a pooling of interests.

On the basis described above, this financial information presents the consolidated results of operations, and cash flows of the Company and MIE, now comprising the Group, from the earliest date presented (January 1, 2007) through the years ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2010 and the consolidated financial position of the Group as of December 31, 2007, 2008 and 2009 and June 30, 2010 as if the Reorganization had been consummated since inception and the business activities had been conducted by the Company throughout the Relevant Periods. Consequently, the assets, liabilities, revenues and expenses of the Company and MIE are included at their historical amounts. The share capital amounts in the consolidated statements of financial position for all periods presented reflect the Company's share capital after the Reorganization. Any differences during the Relevant Periods are recorded in other reserves.

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

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

Although the Group had a deficiency of net current assets of RMB172,608,000 as at June 30, 2010, the Group has taken certain steps to enable the Group to continue as a going concern. The working capital deficit was anticipated as the Group accelerated its capital program. The Group has the ability to manage these positions due to the anticipated monthly positive cash flows generated from its operations and the ability to negotiate and modify the terms with its trade creditors. After taking into consideration the above, the directors believe that the Group has sufficient cash to enable it to settle its liabilities as and when they fall due. Accordingly, the consolidated financial information has been prepared on a going concern basis.

The preparation of consolidated financial information in conformity with IFRSs 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 information are disclosed in Note 4.

New accounting pronouncements

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

- IAS 7 (Amendment) 'Statement of cash flows', effective for periods beginning on or after January 1, 2010. The amendment requires only expenditures that result in a recognised asset in the statement of financial position to be classified as investing activities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(a) Basis of preparation – continued

New accounting pronouncements – continued

- IFRS 2 (Amendments), "share-based payments" is effective for annual beginning on or after July 1, 2009. IFRS 2 (Amendments), 'Group cash-settled share-based payment transactions' effective from January 1, 2010. In addition to incorporating IFRIC Int 8 'Scope of IFRS 2' and IFRIC-Int 11, 'IFRS 2 – group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the clarification of group arrangements that were not covered by the interpretation.

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

(ii) New standards, amendments and interpretations to existing standards not yet effective and not early adopted

- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption.
- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from January 1, 2011. Earlier application, in whole or in part, is permitted.
- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after February 1, 2010. Earlier application is permitted.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010. Earlier application is permitted.
- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective January 1, 2011.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(b) Consolidation

Subsidiary

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Assets, liabilities and results of operations of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group.

They are derecognized or excluded from the consolidated financial information from the date that control ceases. The Group adopts an accounting policy that accounts for the combination of entities under common control using the carryover basis. Accordingly, assets and liabilities of the transferred entities are accounted for at the historical amounts, as determined by the previous owner under IFRS. The Reorganization referred to in Note 1 above has been accounted for using predecessor values, as if the Company has been the holding company of the subsidiaries from inception of the existence of common control by the controlling shareholder. The difference between the consideration paid and the aggregate value of the assets and liabilities of the acquired entity is recognized as an adjustment to equity and presented as capital reserves.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Production sharing contracts

The Group's development and production activities are conducted jointly with others through production sharing contracts. These contracts 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 production sharing contracts. Each participant is entitled to a predetermined share of the related output and bears an agreed share of the costs.

The consolidated financial information 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(c) Production sharing contracts – continued

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, 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.
- In any calendar years after all pilot test costs and development costs to that time have been recovered, the remainder of the gross production of crude oil for that period 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 (Note 28).

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial information 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"). Most assets and operations of the Group are located in the PRC, and functional currency of the Company and MIE is Renminbi ("RMB"). The presentation currency of the consolidated financial information is the RMB.

(ii) Transactions and balances

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.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statements of comprehensive income within 'finance income' or 'finance cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(e) 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.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the reporting year in which they are incurred.

Except for oil and gas properties, depreciation is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Office equipment	3 years
Motor vehicles and production equipment	10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress is not depreciated until it is ready for its intended use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized within other income or other expense in the consolidated statements of comprehensive income.

(f) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(f) Oil and gas properties – continued

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.

(g) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Intangible assets

Intangible assets represent computer software. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of 3 years.

(i) Loans and receivables

The Group's loans and receivables comprise 'trade and other receivables' in the consolidated statements of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for expected realization greater than 12 months after the end of the reporting period. These are classified as non-current assets.

(j) 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.

(k) Leases

Leases where the Group is a lessee in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the term of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(l) Inventories

Inventories are crude oil and materials and supplies which are stated at the lower of cost and net realizable value. Materials and supplies costs are determined by the specific identification method. Crude oil costs are determined by the weighted average cost method. The cost of crude oil comprise direct labour, depreciation, other direct costs and related production overhead, but excludes borrowing costs.

(m) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether a trade receivable is impaired include, but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statements of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statements of comprehensive income.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks with original maturities of three months or less from the time of purchase.

(o) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the territories where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(o) Current and deferred income tax – continued

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) 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.

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. 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.

(q) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(r) 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.

(s) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

(s) Employee benefits – continued

(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.

(t) Revenue recognition

Revenues are recognized upon delivery of crude oil that are allocated to MIE under the PSC (See Note 2(c)). 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 taking (lifting) oil is such that a partner may take more oil than it is entitled to as defined by the contract (PSC). For some of the reported periods, PetroChina had taken more oil than its entitlement (overlifted) due to timing difference between oil delivery and allocation and hence MIE is deemed to have sold the overlift to PetroChina.

Differences between the crude oil sold and the group's share of crude oil are overlift (liftings greater than production entitlement) and underlift (production entitlement greater than liftings), which are recorded against cost of sales and as revenue at market value, respectively.

(u) Repairs and maintenance

Repairs and maintenance are recognized as expenses in the year/period in which they are incurred.

(v) 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

(w) Dividend distributions

Dividend distributions to the Group's Shareholders are recognized as a liability in the Group's consolidated financial information in the period in which the dividends are approved by the board of directors.

(x) 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/period.

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.

(y) 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 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The majority 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. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates. The Group may enter into forward foreign exchange contracts (Note 8) to manage the risk of unfavourable fluctuations in the foreign exchange rate.

At December 31, 2007, 2008 and 2009 and June 30, 2010, if the US dollar had weakened/ strengthened by 1% against the RMB with all other variables held constant, profit before income tax for the year/period would have been RMB9,708,000, RMB222,000, RMB9,152,000 and RMB9,470,000 higher/lower respectively, mainly as a result of foreign exchange gains/losses on translation of US-denominated trade and other receivables, bank deposits and borrowings.

3 FINANCIAL RISK MANAGEMENT – continued

3.1 Financial risk factors – continued

(a) Market risk – continued

(ii) Cash flow interest rate risk

The Group has no significant interest bearing assets. 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. A detailed analysis of the Group's borrowings, together with their respective effective interest rates and maturity dates, are included in Note 19.

Based on a sensitivity analysis, the impact on profit before income tax for the year/period ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 of a 50 basis-point shift would be an increase of RMB3,652,000, RMB4,100,000, RMB6,727,000 and RMB3,364,000, respectively or decrease of RMB3,652,000, RMB4,100,000, RMB6,727,000 and RMB3,364,000, respectively.

(iii) Price risk

The Group is engaged in crude oil development, production and selling activities. Prices of crude oil are affected by both domestic and global factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Prior to 2008, the Group did not use any derivative instruments to hedge against potential price fluctuations of crude oil and therefore the Group was exposed to general price fluctuations of crude oil. During the year/period ended December 31, 2008 and 2009 and the six months ended June 30, 2010, the Group entered into put option contracts (Note 8) to manage its price risk. If the crude oil price were to increase or decrease by US$1, the impact on the Group's profit before income tax for the six months ended June 30, 2010 as a result of revaluing the put option would be a decrease of RMB433,000 and increase of RMB484,000 (2009: decrease of RMB2,462,000 or decrease of RMB1,803,000; 2008: decrease of RMB9,105,000 or increase of RMB7,841,000), respectively.

(b) Credit risk

As the majority of the cash at bank balance is placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Therefore, credit risk arises primarily from trade and other receivables. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, pledged deposits, amounts due from a related party and trade and other receivables included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk.

The Group has no significant concentration of credit risk for its cash and cash equivalents. The Group has one customer which accounts for 100% of its revenue and as such, has concentration of credit risk for its trade and other receivables. However, the Group regards it as low risk as this customer is PetroChina, a state-owned enterprise with a high credit rating.

(c) Liquidity risk

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities and net-settled derivative financial assets and liabilities into relevant maturity groupings based on the remaining year at the end of the reporting period to their contractual maturity dates.

3 **FINANCIAL RISK MANAGEMENT** – continued

3.1 **Financial risk factors** – continued

(c) ***Liquidity risk*** – continued

The amounts disclosed in the table are the contractual undiscounted cash flows of principal amount and interests.

Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2007				
Borrowings	47,678	106,428	756,265	–
Trade and other payables	1,497,234	–	–	–

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2008				
Borrowings	107,882	271,773	609,431	–
Derivative financial instruments – oil put option	(132,761)	(94,912)	–	–
Derivative financial instruments – foreign exchange	25,257	–	–	–
Trade and other payables	1,495,083	140,353	93,335	–

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2009				
Borrowings	168,164	61,200	1,350,080	–
Derivative financial instruments – oil put option	(20,307)	–	–	–
Trade and other payables	863,687	170,235	–	–

3 FINANCIAL RISK MANAGEMENT – continued

3.1 Financial risk factors – continued

(c) Liquidity risk – continued

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At June 30, 2010				
Borrowings	167,373	65,689	1,309,247	–
Derivative financial instruments				
– oil put option	(6,243)	–	–	–
Trade and other payables	786,962	331,554	–	–

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position plus net debt. The gearing ratios at December 31, 2007, 2008 and 2009 and June 30, 2010 were as follows:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings *(Note 19)*	730,460	820,152	1,345,386	1,345,493
Less: cash and cash equivalents *(Note 13)*	(77,166)	(382,119)	(290,271)	(268,329)
Net debt	653,294	438,033	1,055,115	1,077,164
Total equity	669,367	1,143,765	1,253,446	1,278,020
Total capital	1,322,661	1,581,798	2,308,561	2,355,184
Gearing ratio	49%	28%	46%	46%

3 FINANCIAL RISK MANAGEMENT – continued

3.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group are disclosed in the respective accounting policies. The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, pledged deposits, current portion of trade and other receivables, current portion of trade and other payables and current portion of borrowings.

The Group adopted the amendment to IFRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at December 31, 2007, 2008 and 2009 and June 30, 2010:

	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000
Assets			
As at December 31, 2007			
Derivative financial instruments			
– Oil put option	–	–	–
As at December 31, 2008			
Derivative financial instruments			
– Oil put option	–	227,673	–
– Forward foreign exchange contract	–	25,257	–
As at December 31, 2009			
Derivative financial instruments			
– Oil put option	–	20,307	–
As at June 30, 2010			
Derivative financial instruments			
– Oil put option	–	6,243	–

4 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 information.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – continued

(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.

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 is used for the calculation of unit-of-production depreciation, depletion and amortization recorded in the Group's consolidated financial information for property, plant and equipment related to oil and gas production activities. A reduction in Proved Developed Producing Reserves will increase depreciation, depletion and amortization charges (assuming constant production) and reduce net profit. 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 involves 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 (Note 6).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – continued

(c) Estimation of asset retirement obligations ("ARO")

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.

(d) Advance from customers

As at December 31, 2008, advance from PetroChina of RMB458.5 million included a liability of 487.8 million (2007: RMB113.9 million). The liability arose from the recovery of 671,223 barrels of oil from PSC in excess of MIE's entitlement ("Excess Entitlement"). During the period to November 2009, the Excess Entitlement was extinguished by the cumulative payment of RMB478.4 million to PetroChina.

5 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.

6 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Construction in progress	Office equipment	Motor vehicles and production equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At January 1, 2007	1,249,358	210,281	3,133	7,518	1,470,290
Additions	11,981	832,493	2,446	4,203	851,123
Transfer in/(out)	908,475	(908,475)	–	–	–
At December 31, 2007	2,169,814	134,299	5,579	11,721	2,321,413
Additions	–	1,326,020	2,323	6,548	1,334,891
Transfer in/(out)	1,366,073	(1,366,073)	–	–	–
Adjustment *(Note 16)*	(23,078)	–	–	–	(23,078)
At December 31, 2008	3,512,809	94,246	7,902	18,269	3,633,226
Additions	1,991	592,981	85	5,567	600,624
Transfer in/(out)	539,902	(539,902)	–	–	–
At December 31, 2009	4,054,702	147,325	7,987	23,836	4,233,850
Additions	17,721	514,824	–	2,475	535,020
Transfer in/(out)	526,450	(526,450)	(88)	88	–
At June 30, 2010	4,598,873	135,699	7,899	26,399	4,768,870

6 PROPERTY, PLANT AND EQUIPMENT – continued

	Oil and gas properties	Construction in progress	Office equipment	Motor vehicles and production equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation and impairment					
At January 1, 2007	(322,143)	–	(735)	(435)	(323,313)
Charge for the year	(288,688)	–	(1,356)	(950)	(290,994)
At December 31, 2007	(610,831)	–	(2,091)	(1,385)	(614,307)
Charge for the year	(497,623)	–	(1,303)	(1,050)	(499,976)
Impairment charge	(32,000)	–	–	–	(32,000)
At 31 December 2008	(1,140,454)	–	(3,394)	(2,435)	(1,146,283)
Charge for the year	(418,497)	–	(923)	(3,004)	(422,424)
At December 31, 2009	(1,558,951)	–	(4,317)	(5,439)	(1,568,707)
Charge for the period	(267,517)	–	(924)	(199)	(268,640)
At June 30, 2010	(1,826,468)	–	(5,241)	(5,638)	(1,837,347)
Net book value					
At December 31, 2007	1,558,983	134,299	3,488	10,336	1,707,106
At December 31, 2008	2,372,355	94,246	4,508	15,834	2,486,943
At December 31, 2009	2,495,751	147,325	3,670	18,397	2,665,143
At June 30, 2010	2,772,405	135,699	2,658	20,761	2,931,523

(Unaudited)	Oil and gas properties	Construction in progress	Office equipment	Motor vehicles and production equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At January 1, 2009	3,512,809	94,246	7,902	18,269	3,633,226
Additions	(357)	52,940	100	963	53,646
Transfer in/(out)	107,910	(107,910)	–	–	–
At June 30, 2009	3,620,362	39,276	8,002	19,232	3,686,872
Accumulated depreciation and impairment					
At January 1, 2009	(1,140,454)	–	(3,394)	(2,435)	(1,146,283)
Charge for the period	(215,453)	–	(821)	(1,313)	(217,587)
At June 30, 2009	(1,355,907)	–	(4,215)	(3,748)	(1,363,870)

6 PROPERTY, PLANT AND EQUIPMENT – continued

Included in property, plant and equipment are assets amounting to RMB2,931,378,000 (Cost of RMB4,767,741,000 less accumulated depreciation and impairment of RMB1,836,363,000) as at June 30, 2010 directly used in and operated under the Group's three PSCs with PetroChina. The Group is currently the operator of these assets. After the earlier of full recovery of development costs or expiry of these PSCs, PetroChina will become the operator of these assets.

The additions of oil and gas properties of the Group for the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010 included RMB11,981,000, RMBnil, RMB1,991,000 and RMB2,038,000 respectively relating to the asset retirement obligations recognized during the year (Note 16).

Depreciation charges of RMB6,612,000, RMB31,416,000, RMB9,540,000 and RMB11,096,000 relating to the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010, respectively, have been costed into inventories (Note 11).

Bank borrowing is collateralized by the property, plant and equipment for the value of RMB1,707,106,000 and RMB2,486,943,000 as at December 31, 2007 and 2008, respectively.

The impairment charge in 2008 is provided on the Group's share of oil and gas properties of the Miao 3 project which were affected the lower oil prices. The amount represents the difference between the carrying value of the assets and its recoverable amount. The recoverable amount is determined based on value in use by using the discounted cash flow method. The discount rate used was 12% and the crude oil price was assumed to be US$55 per barrel.

7 INTANGIBLE ASSET

Intangible asset represents computer software as at December 31, 2007, 2008 and 2009 and June 30, 2010 with a net book value of RMB558,000, RMB6,043,000, RMB2,599,000 and RMB1,617,000, respectively.

8 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31, 2008		As at December 31, 2009		As at June 30, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Forward foreign exchange contract	–	25,257	–	–	–	–
Oil put option	227,673	–	20,307	–	6,243	–
	227,673	25,257	20,307	–	6,243	–
Less non-current portion:						
Oil put option	(94,912)	–	–	–	–	–
Current portion	132,761	25,257	20,307	–	6,243	–

8 DERIVATIVE FINANCIAL INSTRUMENTS – continued

(a) Forward foreign exchange contract

The notional principal amount of the outstanding forward foreign exchange contract as at December 31, 2008 was RMB342,307,220. There is no outstanding forward foreign exchange contract as at December 31, 2009 and June 30, 2010.

(b) Oil put option

The Group has used oil put options purchased from Standard Bank to manage its exposure to movements in the price of crude oil. MIE has 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 has 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 to December 31, 2010 (the "Sold Option") under the same terms and conditions as the Bought Option. The effect of the above is that Group will receive 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 is limited to US$20.00 per barrel.

The balance as at June 30, 2010 represents the remaining contractual Bought Option and Sold Option of 862,920 barrels (2009: 1,896,121 barrels; 2008: 3,558,003 barrels) which will mature in December 2010.

9 TRADE AND OTHER RECEIVABLES

(a) Summary of trade and other receivables

		As at December 31,			As at June 30,
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Current					
Trade receivables from PetroChina	(Note 28)	141,772	–	50,723	161,894
Amounts due from related parties	(Note 28)	87,210	73,368	75,438	107,193
Less: Provision for impairment		(7,492)	–	–	–
Amounts due from related parties – net		79,718	73,368	75,438	107,193
Loans to third parties		65,119	–	–	–
Less: Provision for impairment		(30,080)	–	–	–
Loans to third parties-net		35,039	–	–	–
Advances to employees		9,549	10,598	4,145	15,408
Less: Provision for impairment		(1,035)	(2,995)	–	–
Advances to employees – net		8,514	7,603	4,145	15,408
Financial derivatives receivables		–	20,784	–	–
Unbilled receivables		–	–	161,429	–
Other receivables – others		–	–	655	8,322
		265,043	101,755	292,390	292,817
Non-current					
Amounts due from related party	(Note 28)	–	66,190	70,360	37,871
		265,043	167,945	362,750	330,688
Non-financial assets					
Current					
Advances to suppliers		87,746	8,709	143,796	1,834
Less: Provision for impairment		(11,236)	(6,877)	–	–
Advances to suppliers – net		76,510	1,832	143,796	1,834
Advances to suppliers – related party	(Note 28)	–	–	38,673	50,324
Prepayments to third parties		384	209	1,926	1,929
Other deferred assets		–	–	12,786	15,727
		76,894	2,041	197,181	69,814
Non-current					
Advances to suppliers		–	5,615	–	76,696
		76,894	7,656	197,181	146,510
Total		341,937	175,601	559,931	477,198
Total current		341,937	103,796	489,571	362,631
Total non-current		–	71,805	70,360	114,567
Total		341,937	175,601	559,931	477,198

9 TRADE AND OTHER RECEIVABLES – continued

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

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables from PetroChina	141,772	–	50,723	161,894
Amounts due from related parties	79,718	139,558	145,798	145,064
	221,490	139,558	196,521	306,958
Other receivables – third parties	43,553	28,387	166,229	23,730
	265,043	167,945	362,750	330,688

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

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0 – 90 days	141,772	–	50,723	161,894
	141,772	–	50,723	161,894

As of December 31, 2007, 2008 and 2009 and June 30, 2010, there were no trade receivables past due which are impaired.

(d) As of December 31, 2007, 2008 and 2009 and June 30, 2010, the amount and aging of other receivables impaired are as follows:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
< 1 year	28,800	–	–	–
1-2 years	622	1,621	–	–
2-3 years	13,299	6,087	–	–
> 3 years	7,122	2,164	–	–
	49,843	9,872	–	–

The impairment of other receivables for the year ended December 31, 2007 principally relates to the long outstanding loans to third parties and advance to suppliers which are not considered recoverable in accordance with the Group's policy (Note 2(m)).

9 TRADE AND OTHER RECEIVABLES – continued

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

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Renminbi	339,562	174,020	314,506	160,841
United States Dollars	2,375	1,581	245,425	316,357
	341,937	175,601	559,931	477,198

(f) Movements in the provision for impairment of other receivables are as follows:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At January 1	–	(49,843)	(9,872)	–
Provision for receivable impairment	(49,843)	–	–	–
Receivables written off during the year as uncollectible	–	39,971	9,872	–
At December 31	(49,843)	(9,872)	–	–

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

10 PLEDGED DEPOSITS

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Pledged deposits	–	50,222	30,729	30,606

As at December 31, 2008, pledged deposits represent the bank deposits pledged for borrowings, and guarantee of a bank loan to a related party (Note 28(e)).

10 PLEDGED DEPOSITS – continued

As at December 31, 2009 and June 30, 2010, pledged deposit represents bank deposit pledged for borrowings. The carrying amounts of pledged deposits are denominated in the following currencies:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Renminbi	–	17,055	–	–
United States Dollars	–	33,167	30,729	30,606
	–	50,222	30,729	30,606

11 INVENTORIES

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Oil in tank	9,357	36,315	13,033	14,345
Materials and supplies	27,225	37,543	63,045	34,063
	36,582	73,858	76,078	48,408
Included in inventories are amounts stated				
At cost	36,582	72,055	76,078	48,408
At net realizable value				
– oil in tank	–	1,803	–	–
	36,582	73,858	76,078	48,408

Depreciation charges of RMB6,612,000, RMB31,416,000, RMB9,540,000 and RMB11,096,000 have been included in the balance above for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 respectively (Note 6).

Impairment charges of RMB nil, RMB3,898,000, nil and nil were provided for during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 respectively, for oil in tank produced by the Miao 3 Project due to low oil prices.

12 AMOUNT DUE FROM SHAREHOLDER

		As at December 31,			As at June 30,
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current					
Amount due from the controlling shareholder of FEEL	(Note 28)	449,438	–	–	–
Current					
Amount due from the controlling shareholder of FEEL	(Note 28)	359,550	–	–	–
Amount due from FEEL	(Note 28)	–	422,880	81,074	–
		808,988	422,880	81,074	–

Since 2004, Mr Zhang obtained several loans from MIE for his personal investments and investments for FEEL and its affiliates.

In September 2007, MIE and Mr Zhang entered into a repayment agreement under which the Renminbi loans of RMB901 million were re-denominated into US dollars loans of US$119.2 million. Mr Zhang agreed to repay the amount outstanding in ten (10) equal instalments from December 31, 2007 to July 31, 2010. As a result, in the fourth quarter of 2007, Mr Zhang made repayments to MIE in the aggregate amount of RMB92 million or US$12.6 million. As of December 31, 2007, the outstanding loan due from Mr Zhang amounted to US$110.8 million (RMB809 million).

In 2008, Mr Zhang made further repayment in the aggregate amount of RMB79 million which reduced the amount outstanding to RMB730 million or US$106.8 million. In April 2008, Mr Zhang proposed to settle the amount in full upon completion of a loan reorganization plan involving MIE, FEEL, the shareholders of FEEL and third party investors. In December 2008, repayment terms of the loan reorganization plan were amended by the tripartite agreement detailed below.

MIE's prior credit facility with Standard Bank placed restrictions on declaring dividends by the Company. In December 2008, MIE reached an agreement with Standard Bank that allowed the MIE to reorganize its inter-entity balances, which resulted in the inter-entity balances being amalgamated and the distribution of a deemed dividend to FEEL. On December 31, 2008, a tripartite agreement, between MIE, FEEL and Mr Zhang, was executed (the "Tripartite Agreement"). The Tripartite Agreement provided the following:

- All rights of MIE in respect of the amount due from Mr Zhang was assigned to FEEL, in exchange for a debt incurred by FEEL in favour of MIE for the same amount and on the same terms and conditions (the "Interim Loan");
- An existing amount owed by MIE to FEEL, of approximately US$25 million, was used to partially repay the Interim Loan;
- MIE made a deemed dividend distribution of US$20 million (RMB136,692,000) to FEEL. The deemed dividend was used to partially repay the Interim Loan;
- Upon receipt by MIE of any subscription monies from any issuance of shares in MIE, envisaged by the Tripartite Agreement, MIE would declare a further distribution to FEEL, equal to the amount of the subscription monies received, and the deemed distribution would be used to partially repay the Interim Loan.

12 AMOUNT DUE FROM SHAREHOLDER – continued

Under the above Tripartite Agreement, MIE assigned US$106.8 million (RMB703 million), being the amount due from Mr Zhang to MIE, to FEEL, for an amount due from FEEL to MIE of US$106.8 million on the same terms and conditions as the loan to Mr Zhang. MIE and FEEL agreed to offset this receivable with an amount due from MIE to FEEL of approximately US$25 million. After these transactions, FEEL owed MIE US$81.9 million. On December 31, 2008, MIE made a non-cash dividend of US$20 million (RMB136,692,000) to FEEL. As at December 31, 2008, the remaining balance of the Interim Loan from the Group to FEEL was US$61.9 million (RMB422,880,000).

Following the US$50 million net investment (being gross investment of US$53 million less transaction costs of US$3 million) by TPG Star Energy into the Company in July 2009, the Company distributed a US$50 million (RMB341,615,000) deemed dividend to FEEL, as allowed by the Standard Bank facility agreement amended in January 2009. The distribution of the US$50 million deemed dividend was used by FEEL to repay a portion of the outstanding amount of the Interim Loan (Note 25).

CITIC Ka Wah Bank agreed that the remaining balance of the Interim Loan of RMB81,052,000 (US$11.9 million) could be settled by a further non-cash deemed dividend.

The amount due from FEEL of RMB81,052,000 was settled on March 31, 2010 (Note 25).

13 CASH AND CASH EQUIVALENTS

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash in hand	65	53	46	62
Cash at bank	77,101	382,066	290,225	268,267
	77,166	382,119	290,271	268,329

Cash and cash equivalents are denominated in the following currencies:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Renminbi	34,174	292,609	185,026	93,489
United States Dollars	42,992	89,510	105,245	174,840
	77,166	382,119	290,271	268,329

Renminbi-denominated deposits are placed with banks in the PRC. The conversion of these Renminbi-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government. Also, the exchange rates are determined by the PRC government.

14 SHARE CAPITAL

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Ordinary shares	684	684	659	535
Preferred shares	–	–	171	420
	684	684	830	955

As described in Note 1, the Company was incorporated in Cayman Islands on March 20, 2008. 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 per share and 30,000,000 Series A preferred shares with a par value of US$0.001 per share as at December 31, 2009. 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 per share, 30,000,000 Series A preferred shares with a par value of US$0.001 per share and 50,000,000 Series B preferred shares with a par value of US$0.001 per share.

14 SHARE CAPITAL – continued

(a) Ordinary shares

The details of the ordinary share capital of the Company for the relevant periods are as follows:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Authorized, issued and fully paid:				
At January 1				
100,000,000 ordinary shares of US$0.001 each	684	684	684	
Cancellation of ordinary shares				
3,643,730 ordinary shares at US$0.001 each *(Note 14b)*	–	–	(25)	
At December 31				
100,000,000 ordinary shares of US$0.001 each	684	684	–	
96,356,270 ordinary shares at US$0.001 each	–	–	659	
	684	684	659	
At January 1, 2010				
96,356,270 ordinary shares at US$0.001 each				659
Cancellation of ordinary shares				
18,212,560 ordinary shares at US$0.001 each				(124)
At June 30, 2010				
78,143,710 ordinary shares at US$0.001 each				535

On April 16, 2010, in preparation for the intended Qualified IPO, the shareholders approved resolutions 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 per share, such that the authorized share capital of the Company of US$230,000 is divided into 150,000,000 ordinary shares of a par value of US$0.001 each, 30,000,000 Series A preferred shares of a par value of US$0.001 each and 50,000,000 Series B preferred shares of a par value of US$0.001 each.
- Adjust 607,287 ordinary shares of a par value of US$0.01 each reserved under the 2009 Stock Incentive Compensation for delivery in connection with the grant, vesting or other issuance of stock incentive awards 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.

14 SHARE CAPITAL – continued

(a) Ordinary shares – continued

- immediately upon the closing of the Qualified IPO (which has yet to occur as at date of these financial information):
  - convert all of the then currently issued and outstanding 25,101,220 Series A preferred shares into 25,101,220 ordinary shares in accordance with the conversion rights disclosed in Note 14b; and
  - convert all of the then currently issued 36,425,120 Series B preferred shares into 18,212,560 ordinary shares in accordance with the conversion rights disclosed in Note 14b.

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

Pursuant to a resolution in writing of the shareholders of the Company passed on November 27, 2010, subject to the global offering become unconditional,

(a) immediately upon conversion of the Series A Preferred Shares and Series B Preferred Shares and prior to the completion of listing, all the unissued 30,000,000 Series A Preferred Shares and unissued 50,000,000 Series B Preferred Shares with a nominal value of US$0.001 each will be designated as Ordinary Shares with a nominal value of US$0.001 each;

(b) the authorized share capital of the Company be increased from US$230,000 divided into 230,000,000 Ordinary shares of US$0.001 each to US$100,000,000 divided into 100,000,000,000 Shares of US$0.001 each;

(c) the Directors were authorized to allot and issue a total of 2,078,542,510 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 standing to the credit of the share premium account of the Company. The shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

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 (RMB35,043,000) 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 (RMB136 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 (RMB35,043,000).

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 (RMB35,043,000) was transferred back to equity.

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

14 SHARE CAPITAL – continued

(b) Preferred shares

	As at December 31, 2009	As at June 30, 2010
	RMB'000	RMB'000
Authorized, issued and fully paid:		
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	25	
At December 31, 2009		
25,101,220 Series A preferred shares of US$0.001 each	171	
At June 30, 2010		
25,101,220 Series A preferred shares of US$0.001 each		171
At March 10, 2010		
Issuance of 36,425,120 shares Series B preferred shares of US$0.001 each		249
At June 30, 2010		
36,425,120 Series B preferred shares of US$0.001 each		249
Total preferred shares		420

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"), with the following terms:

(i) 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 (RMB362,000,000) less transaction fee US$3,000,000 (RMB20,490,000).

(ii) 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 qualified initial public offering ("IPO"); and
- is convertible to ordinary shares at the initial conversion ratio of 1:1.

(iii) FEEL granted a put option to TPG which requires FEEL to purchase all or some of the Series A preferred shares. The option guarantees that TPG 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.

14 SHARE CAPITAL – continued

(b) Preferred shares – continued

(iv) 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 rated of return of 15% from the issue of the series A preferred shares, less any distributions made to the shareholders during the investment period. The holders of the series B preferred shares are entitled to recover the original purchase price.

The above transaction incurred additional cost of RMB1.9 million and was completed and became enforceable on July 9, 2009 when the Series A preferred shares were issued to TPG.

On October 26, 2009, FEEL, 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 (RMB61,454,000). 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.

On February 5, 2010, FEEL, 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 (RMB614,171,000) (Note 33). 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:

(i) 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;

(ii) is convertible, at the option of the holder at any time, into fully paid ordinary shares at the applicable conversion rate;

(iii) will automatically convert into fully paid ordinary shares at the applicable conversion rate immediately prior to a qualified IPO; and

(iv) is convertible to ordinary shares at the initial conversion rate of 2:1.

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. 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 rated of return of 15% from the issue of the series A preferred shares, less any distributions made to the shareholders during the investment period.

14 SHARE CAPITAL – continued

(c) Stock incentive compensation plans

The board of directors of the Company has adopted a 2009 stock incentive compensation plan on November 20, 2009 which is intended to attract and retain the best available personnel for positions of substantial responsibility, and provide additional incentive to employees, directors and consultants. The Company has reserved 6,072,870 ordinary shares for issuance under the 2009 stock incentive compensation plan.

(A) Stock options

The options granted under the 2009 stock incentive compensation plan are evidenced by an option award agreement between the Company and its employees that contains, among other things, the number of shares granted and provisions concerning exercisability and forfeiture upon termination of employment, as determined by the board of the Company.

Vesting schedule The options granted under the 2009 stock incentive compensation plan vest over a two or three-year period following a specified vesting commencement date. Typically, the options granted vest at each anniversary of the grant date within the vesting period, subject to the participant continuing to be an employee on each vesting date.

Right to exercise The term of the options granted under the 2009 stock incentive compensation plan will not exceed ten years from the grant date. Where the option agreement permits, the exercise of the options that were vested before the termination of the participant or before the termination of the participant without cause by the Company, the options will terminate to the extent not exercised or purchased on the thirty-first day after such termination. Where the option agreement permits ordinary vesting and exercise upon termination due to the participant's death, permanent disability or injury, the options remain subject to ordinary vesting schedule and exercise. Upon termination of the participant by the company for cause, options not already exercised lapse immediately.

On November 20, 2009, the Company granted options for 1,480,870 ordinary shares to certain officers and employees. The exercise price of each option granted is US$2.39. During six months ended June 30, 2010, 100,400 share options have lapsed due to termination of employment. Out of the 1,480,870 and 1,380,470 outstanding options, none were exercisable during 2009 and for six months ended June 30, 2010 respectively. The share options outstanding as at December 31, 2009 and June 30, 2010 was 1,480,870 and 1,380,470, respectively with exercise price of US$2.39.

(B) Stock appreciation rights

Stock appreciation rights granted under the 2009 stock incentive compensation plan are evidenced by a stock appreciation rights award agreement between the Company and employees that contains, among other things, the number of notional ordinary shares to which the stock appreciation rights relate and the provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangement.

Vesting schedule Stock appreciation rights granted under the 2009 stock incentive compensation plan vest over a three-year period following a specified vesting commencement date. One-third of the stock appreciation rights granted vest at each anniversary of the grant date within the three-year vesting period, subject to the participant continuing to be an employee or a service provider on each vesting date. There is no entitlement to the stock appreciation right unless and until there is an IPO.

Right to exercise The term of stock appreciation rights granted under the 2009 stock incentive compensation plan will not exceed ten years from the grant date. When a participant exercises the stock appreciation rights, the Company will pay such participant an amount in cash determined by multiplying (i) the excess of the fair market value of an ordinary share on the exercise date over the grant price by (ii) the number of notional ordinary shares to which the stock appreciation rights relate stated in such participant's exercise notice.

14 SHARE CAPITAL – continued

(c) Stock incentive compensation plans – continued

(B) Stock appreciation rights – continued

On November 20, 2009, the board of directors of the Company granted certain officers and employees stock appreciation rights pertaining to 2,560,180 notional ordinary shares to which the stock appreciation rights relate. The exercise price of each stock appreciation right is US$2.39. Where the stock appreciation rights agreement permits the exercise of the stock appreciation rights that were vested before the termination by the participant or before the termination of the participant without cause by the Company, the stock appreciation rights will terminate to the extent not exercised on the thirty-first day after such termination. Where the stock appreciation rights agreement permits ordinary vesting and exercise upon termination due to participant's death, permanent disability or injury, the stock appreciation rights remain subject to ordinary vesting schedule and exercise. Upon termination of the participant by the company for cause, stock appreciation rights not already exercised lapse immediately.

Out of the 2,560,180 outstanding stock appreciation rights, none were exercisable as of December 31, 2009. The stock appreciation rights outstanding as at December 31, 2009 was 2,560,180 with exercise price of US$2.39.

On February 26, 2010, the board of directors of the Company granted certain employees stock appreciation rights pertaining to 25,100 notional ordinary shares with exercise price of $4.78 per notional ordinary shares.

On February 26, 2010, the board of directors of the Company approved amended stock appreciation rights award agreement to be implemented for certain selected participants. For these selected participants, a portion or all of the one third of the granted stock appreciation rights shall vest and become exercisable on each anniversary of the grant date according to the performance evaluation target mark attained by these participants. All other terms of the stock appreciation rights award agreement remain unchanged.

During the six months ended June 30, 2010, 12,550 stock appreciation rights with exercise price of US$2.39 have lapsed due to termination of employment.

Out of the 2,572,730 outstanding stock appreciation rights, none were exercisable as of June 30, 2010. The stock appreciation rights outstanding as at June 30, 2010 were 2,547,630 with exercise price of US$2.39 and 25,100 with exercise price of US$4.78.

(C) Fair Values of Stock Incentive Compensation Plans

The fair value of options granted on November 20, 2009 determined using the Binomial Model was US$1.93 per option. The significant inputs into the model were fair value per share of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0%, an option life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of stock appreciation rights granted on November 20, 2009 determined using the Binomial Model was US$1.85 per right. The significant inputs into the model were fair value per share price of US$3.30 at the grant date, exercise price shown above, volatility of 64.7%, dividend yield of 0%, stock appreciation rights life of ten years, and an annual risk-free interest rate of 3.417%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

14 SHARE CAPITAL – continued

(c) Stock incentive compensation plans – continued

(C) Fair Values of Stock Incentive Compensation Plans – continued

The fair value of stock appreciation rights as at December 31, 2009 determined using the Binomial Model was US$2.06 per right. The significant inputs into the model were fair value per share price of US$3.63 as of December 31, 2009, exercise price shown above, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.89 years, and an annual risk-free interest rate of 3.923%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

The fair value of stock appreciation rights granted on November 20, 2009, as of June 30, 2010, determined using the binomial model was US$3.0 per right. The significant inputs into the model were the fair value per share of US$4.88 as of June 30, 2010, the exercise price of US$2.39, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.39 years and an annual risk-free interest rate of 3.923%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of comparable companies over the last five years.

In February 26, 2010, our board of directors granted 25,100 additional stock appreciation rights. The fair value of stock appreciation rights granted on February 26, 2010, as of June 30, 2010 determined using the binomial model was US$2.18 per right. The significant inputs into the model were the fair value per share of US$4.88 as of June 30, 2010, the exercise price of US$4.78, volatility of 66.26%, dividend yield of 0%, stock appreciation rights life of 9.66 years, and an annual risk-free interest rate of 3.923%.

(D) Plans for remaining reserved shares under the plan

The Group has 6,072,870 ordinary shares for issuance under the 2009 stock incentive compensation plan. It has granted stock options for 1,380,470 ordinary shares and stock appreciation rights of 2,572,730 as at June 30, 2010. The Group plans to cancel the reservation made for the remaining of 2,006,720 shares under the plan before listing.

15 OTHER RESERVES

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Capital reserve	(270)	(270)	(270)	(270)
Issue of Series A preferred shares – share premium	–	–	400,878	400,878
Issue of Series B preferred shares – share premium	–	–	–	613,922
Cancellation of ordinary shares	–	–	(61,429)	(675,476)
Share option reserve	–	–	1,224	6,573
Safety fund reserve	–	49,293	63,506	80,330
Currency translation difference	–	–	–	(1,646)
	(270)	49,023	403,909	424,311

15 OTHER RESERVES – continued

Safety Fund Reserve

Pursuant to certain relevant PRC laws and regulations, the Group is required to set aside a certain amount in proportion to its production income for the relevant year as safety fund reserve. As the Group has no legal or constructive obligation to pay out these amounts at point of recognition, the amount has been treated as an appropriation of reserves in the equity account. The fund can be used for improvements of safety at the oil exploration projects, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from the safety fund reserve to retained earnings.

16 ASSET RETIREMENT OBLIGATIONS

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	14,556	27,702	4,624	6,978
Liabilities incurred *(Note 6)*	11,981	–	1,991	2,038
Accretion expenses	1,165	–	363	254
Reversal *(Note 6)*	–	(23,078)	–	–
At end of the year	27,702	4,624	6,978	9,270

The PSCs were unclear for the MIE's asset retirement obligations ("ARO") for onshore wells. The reversal in 2008 resulted from clarification MIE sought and received from legal counsel that year. Based on that clarification, MIE would be obligated only for wells abandoned during contractual periods, not wells abandoned after the PSC expiry. The previous estimate assumed an obligation to pay for MIE's share of abandonment costs for all wells in existence at December 31, 2007 even if such wells were scheduled to be abandoned after the expiry of the PSC. Therefore, MIE revised downward the estimated number of wells with ARO and reversed the net movement in the ARO against the asset retirement cost included in Oil and Gas Properties for those wells to be abandoned after the expiry of the PSC.

17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Deferred tax assets:				
Deferred tax assets to be recovered after more than 12 months	18,492	12,627	6,480	7,053
Deferred tax assets to be recovered within 12 months	15,142	4,143	1,675	1,675
	33,634	16,770	8,155	8,728
Deferred tax liabilities:				
Deferred tax liabilities to be settled after more than 12 months	(78,869)	(110,461)	(92,170)	(18,579)
Deferred tax liabilities to be settled within 12 months	(2,339)	(9,079)	(2,385)	(2,774)
	(81,208)	(119,540)	(94,555)	(21,353)
Total – Deferred income tax liabilities – net	(47,574)	(102,770)	(86,400)	(12,625)

The gross movements in the deferred tax account are as follows:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At beginning of the year	(43,013)	(47,574)	(102,770)	(86,400)
(Charged)/credited to the consolidated statement of comprehensive income	(4,561)	(55,196)	16,370	73,775
At end of the year	(47,574)	(102,770)	(86,400)	(12,625)

17 DEFERRED INCOME TAX – continued

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Asset retirement obligations	Provisions	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	4,367	–	–	4,367
Credited to the consolidated statement of comprehensive income	2,558	12,758	13,951	29,267
At December 31, 2007	6,925	12,758	13,951	33,634
Charged to the consolidated statement of comprehensive income	(5,769)	(10,290)	(805)	(16,864)
At December 31, 2008	1,156	2,468	13,146	16,770
Credited / (charged) to the consolidated statement of comprehensive income	588	(2,468)	(6,735)	(8,615)
At December 31, 2009	1,744	–	6,411	8,155
Credited to the consolidated statement of comprehensive income	573	–	–	573
At June 30, 2010	2,317	–	6,411	8,728

Others include mainly the interest expenses incurred in 2007 that are tax deductible over six (6) years as allowed by the local tax authority.

Deferred tax liabilities

	Accelerated tax depreciation
	RMB'000
At January 1, 2007	(47,380)
Charged to the consolidated statement of comprehensive income	(33,828)
At December 31, 2007	(81,208)
Charged to the consolidated statement of comprehensive income	(38,332)
At December 31, 2008	(119,540)
Credited to the consolidated statement of comprehensive income	24,985
At December 31, 2009	(94,555)
Credited to the consolidated statement of comprehensive income	73,202
At June 30, 2010	(21,353)

18 TRADE AND OTHER PAYABLES

(a) Summary of trade and other payables

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Current				
Trade payables	888,162	983,775	647,308	528,386
Amount due to related parties *(Note 28)*	19,819	–	–	1,160
Amount due to FEEL *(Note 28)*	315,780	–	–	–
Interest payable	4,943	4,896	459	857
Derivatives financial instrument premium payable *(Note 8)*	–	15,808	–	–
Other tax payable	–	32,464	40,820	21,975
Special oil levy *(Note 21)*	65,944	70,311	61,118	93,634
Other payables	75,688	35,876	38,647	47,357
Non-current				
Derivatives financial instrument premium payable *(Note 8)*	–	63,231	–	–
Amounts due to related parties *(Note 28)*	–	33,023	–	–
Trade payables	–	–	170,235	331,554
Non-financial liabilities				
Current				
Salary and welfare payable	33,070	22,451	20,283	34,089
Income tax payable	93,828	8,397	55,052	59,504
Advances from PetroChina *(Note 28)*	–	321,105	–	–
Non-current				
Advances from PetroChina *(Note 28)*	–	137,434	–	–
Total	1,497,234	1,728,771	1,033,922	1,118,516
Total current	1,497,234	1,495,083	863,687	786,962
Total non-current	–	233,688	170,235	331,554
Total	1,497,234	1,728,771	1,033,922	1,118,516

In April 2009, certain vendors agreed to accept repayment of trade payables amounting to RMB467,846,000 over a two or three year period from April 2009. As a result, RMB102,094,000 of trade payables are classified as non-current liabilities as at December 31, 2009.

Stock appreciation rights liabilities of RMB16,660,000 (2009: RMB2,260,000) has been included in salaries and welfare payable for the six months ended June 30, 2010 (Note 20).

18 TRADE AND OTHER PAYABLES – continued

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

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Renminbi	1,476,825	1,652,470	1,033,421	1,117,658
United States Dollars	20,409	76,301	501	858
	1,497,234	1,728,771	1,033,922	1,118,516

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

19 BORROWINGS

(a) Summary of Borrowings

	As at December 31.			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Bank borrowings				
Non-current	730,460	765,475	1,242,963	1,243,630
Current	–	54,677	102,423	101,863
Total borrowings	730,460	820,152	1,345,386	1,345,493

In October 2007, MIE entered into a financing arrangement with Standard Bank, for a bank facility of US$150 million (approximately RMB1,125 million) which reduces to zero in 2013. MIE utilized US$100 million (approximately RMB750 million) in 2007 and further drew down US$20 million (approximately RMB136 million) in August 2008. As at December 31, 2008, the Group's unutilized loan facilities amounted to US$30 million (approximately RMB204 million, 2007: US$50 million or approximately RMB375 million). 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 (Note 6) and a floating charge over all present and future assets.

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.

19 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) RMB1.0 billion from 2009 to 2011 and (ii) RMB1.5 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 RMB1.0 billion.

Any failure to maintain these covenants could result in an acceleration of obligations under the CITIC Facility. As at June 30, 2010, the Company did not breach these loan covenants.

The CITIC Facility is 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 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. As part of a restructure to the security arrangement in respect of the loan, after the year end the Company has agreed to provide a corporate guarantee to the lenders in respect of MIE's obligations.

MIE drew down US$122.0 million (RMB830 million) from the CITIC Facility on July 31, 2009 to repay the loan from Standard Bank. MIE further drew down US$78 million (RMB546 million) subsequently during the 2009 financial year. There is no unused facility as at December 31, 2009 and June 30, 2010.

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

	As at December 31,			**As at June 30,**
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Effective interest rates on the borrowings	7.58%	6.51%	6.56%	4.71%

19 BORROWINGS – continued

(c) The exposure of the Group's borrowings to contractual interest rate changes based on LIBOR + 2.75% at the dates of the statements of financial position at 2007 and 2008 and LIBOR + 4.5% at December 31, 2009 are as follows:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
<1 year	–	54,677	102,423	101,863
1-2 years	54,677	218,706	–	–
2-5 years	675,783	546,769	1,242,963	1,243,630
Total borrowings	730,460	820,152	1,345,386	1,345,493

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

(d) The borrowings are denominated in US dollars (Note 3).

20 EMPLOYEE COMPENSATION COSTS

	Year ended December 31,			Six months ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Wages, salaries and allowances	45,230	56,212	50,563	22,858	32,450
Housing subsidies	382	841	1,181	496	665
Share options granted	–	–	1,224	–	5,349
Stock appreciation rights granted *(Note 18)*	–	–	2,260	–	14,400
Welfare and other expenses	7,384	11,961	12,423	1,402	4,732
	52,996	69,014	67,651	24,756	57,596

20 EMPLOYEE COMPENSATION COSTS – continued

(a) Directors' emoluments

Directors' emoluments for the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 are set out below:

Name of director	Wages, salaries and allowances	Housing subsidies	Share options granted	Welfare and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2007					
Zhang Ruilin	2,300	–	–	3	2,303
Zhao Jiangwei	2,300	–	–	3	2,303
Forrest Dietrich	8,659	237	–	48	8,944
					13,550
For the year ended December 31, 2008					
Zhang Ruilin	2,208	–	–	3	2,211
Zhao Jiangwei	2,098	–	–	3	2,101
Forrest Dietrich	12,761	259	–	161	13,181
					17,493
For the year ended December 31, 2009					
Zhang Ruilin	4,993	60	–	2	5,055
Zhao Jiangwei	4,521	40	–	2	4,563
Forrest Dietrich	2,820	1,771	312	–	4,903
Allen Mark	3,232	30	417	–	3,679
Sing Wang	–	–	–	–	–
					18,200
For the six months ended June 30, 2010					
Zhang Ruilin	3,616	180	–	–	3,796
Zhao Jiangwei	3,174	120	–	–	3,294
Forrest Dietrich	1,535	130	1,367	–	3,032
Allen Mark	2,056	90	1,822	–	3,968
Sing Wang	–	–	–	–	–
					14,090
For the six months ended June 30, 2009 (Unaudited)					
Zhang Ruilin	1,729	–	–	–	1,729
Zhao Jiangwei	1,621	–	–	–	1,621
Forrest Dietrich	820	–	–	–	820
					4,170

20 EMPLOYEE COMPENSATION COSTS – continued

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009 (Unaudited)	2010
Directors	3	3	4	3	4
Non-director individuals	2	2	1	2	1

The details of emoluments paid to the five highest individuals who were directors of the Company during the years ended December 31, 2007, 2008, 2009 and six months ended June 30, 2009 and 2010 have been included in Note (a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and allowances	6,854	6,149	1,710	1,783	2,063
Housing subsidies	200	208	15	–	–
Stock appreciation rights granted	–	–	110	–	2,120
	7,054	6,357	1,835	1,783	4,183

(c) During the Relevant Periods, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

21 TAXES OTHER THAN INCOME TAXES

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Taxes other than income taxes	159,998	538,126	73,308	3,497	148,617

21 TAXES OTHER THAN INCOME TAXES – continued

Taxes other than income taxes 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.

22 OTHER INCOME/(LOSS)

	Year ended December 31,			Six months ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Net (loss)/gain on forward foreign exchange contract *(Note 8)*	–	(24,704)	5,478	5,674	–
Gain/(loss) on oil put option *(Note 8)*	–	155,505	(136,252)	(95,025)	(14,028)
Write-back of accounts payables	29,038	–	–	–	–
Others	3,739	2,957	(350)	3,577	3,068
Total	32,777	133,758	(131,124)	(85,774)	(10,960)

The net gain and loss 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 loss of RMB24,704,000 for 2008 and a gain of RMB5,478,000 for 2009.

The net gain of the oil put option in the year ended December 31, 2008 is due to the WTI oil price during November 2008 and December 2008 being lower than the oil put option exercise price of US$62.50 per barrel and the unrealized valuation gain as at December 31, 2008 on the remaining put options that can be exercised in 2009 and 2010. The net loss of the oil put option in the year ended December 31, 2009 and the six months ended June 30, 2010 is due to the change in fair value of the unrealized portion of the oil put option.

23 FINANCE COSTS – NET

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income					
Interest income from savings accounts	4,108	2,858	1,552	866	53
Exchange gain	7,789	42,815	–	64	7,207
Total finance income	11,897	45,673	1,552	930	7,260
Finance costs					
Interest expenses	41,712	53,391	56,498	24,538	40,220
Bank charges	45,932	69	88	9	26
Exchange loss	–	–	2,246	–	–
Others	1,164	–	–	6	–
Total finance costs	88,808	53,460	58,832	24,553	40,246
Finance costs – net	76,911	7,787	57,280	23,623	32,986

24 INCOME TAX EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax – domestic	120,602	107,552	89,832	(1,421)	162,498
Deferred income tax – domestic	4,561	55,196	(16,370)	(1,488)	(73,775)
	125,163	162,748	73,462	(2,909)	88,723

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 30% for the year ended December 31, 2007 and 25% for years ended December 31, 2008 and 2009 and the six months ended June 30, 2010.

24 INCOME TAX EXPENSE – continued

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:

	Year ended December 31,			Six months ended June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Profit before income tax	434,116	773,838	183,939	327,178
Statutory tax rates	30%	25%	25%	25%
Tax calculated at the statutory tax rates	130,235	193,460	45,985	81,795
Effect of changes in PRC corporate income tax rate	(9,515)	–	–	–
Tax effect of income not subject to tax	(1,362)	(33,950)	(738)	–
Expenses not deductible for tax purposes	5,805	3,238	35,394	7,664
Prior year tax filling adjustments	–	–	(7,179)	(736)
Tax charge	125,163	162,748	73,462	88,723

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 nor deductible for income tax in PRC.

25 EQUITY DISTRIBUTIONS

On December 31, 2008, pursuant to the Tripartite Agreement (Note 12), MIE declared a deemed dividend distribution amounting to US$20 million (equal to RMB136,692,000). The distribution was off-set against the outstanding balance of the amount due from FEEL.

On July 7, 2009, MIE declared a deemed dividend distribution to the Company amounting to US$50 million (equal to RMB341,630,000) and the Company declared a deemed dividend distribution to FEEL amounting to US$50 million (equal to RMB341,615,000). The deemed dividend distribution to FEEL was off-set against the outstanding balance of the amount due from FEEL (Note 12).

On March 7, 2010, the Company declared a cash dividend of US$20 million (RMB136,532,000) in favour of all the shareholders of the Company which was paid on March 9, 2010.

On April 9, 2010, the Board ratified the March 31, 2010 deemed dividend of US$11.9 million (RMB81,052,000) to Far East Energy Limited, as allowed by the Fourth Amended and Restated Memorandum and Articles of Association of the Company and the Shareholders Agreement, as the dividend was used to settle the outstanding receivables from FEEL and did not exceed US$12 million allowed under the Shareholders Agreement.

26 CASH GENERATED FROM OPERATING ACTIVITIES

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) before income tax	434,116	773,838	183,939	(76,568)	327,178
Adjustments for:					
Depreciation, depletion and amortization	286,792	475,172	445,824	226,547	268,015
Interest expenses – net *(Note 23)*	37,604	50,533	54,946	23,672	40,167
Impairment of inventory *(Note 11)*	–	3,898	–	–	–
Impairment of property, plant and equipment *(Note 6)*	–	32,000	–	–	–
Unrealized foreign exchange gain/(loss)	–	(46,998)	2,246	(64)	(7,207)
Fair value (gain)/loss on oil put option	–	(129,817)	207,243	166,016	14,028
Fair value loss/(gain) on foreign exchange contract	–	25,257	(25,240)	(13,989)	–
Changes in working capital:					
Inventories	(850)	(16,369)	(22,170)	(313)	29,276
Trade and other receivables	(211,661)	257,992	(226,528)	20,095	34,538
Trade and other payables	41,407	268,921	(581,629)	(342,347)	45,166
Cash generated from operations	587,408	1,694,427	38,631	3,049	751,161

27 COMMITMENTS AND CONTINGENCIES

(a) Commitments

Capital expenditure contracted for at the date of the consolidated statement of financial position but not recognized in the consolidated statement of financial position is as follows:

	As at December 31,			As at June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	50,000	–	–	–

The Group has operating lease commitments related to its non-cancellable operating leases for offices.

27 COMMITMENTS AND CONTINGENCIES – continued

(a) Commitments – continued

The future aggregate minimum lease payments under operating leases are as follows:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
No later than 1 year	123	–	–	–

Lease expenses for the six month ended June 30, 2010 relates to office rental of RMB3,027,000 (2009: RMB4,314,000; 2008: RMB4,314,000; 2007: RMB6,282,000).

(b) Contingencies

On August 28, 2000, MIE entered into a PSC with China Petroleum and Chemical Corporation ("Sinopec") for exploration and development of Shengli oilfield in Shandong Province. In 2000, MIE began the trial-development phase of its operations 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 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.

28 RELATED PARTY TRANSACTIONS

(a) The following transactions and balances were carried out with related parties:

	Year ended December 31.			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Transactions with PSC partners					
Global Oil Corporation					
Amounts received on behalf of GOC arising from the PSCs	120,575	198,885	112,288	40,421	109,403
Loan granted to GOC	4,445	88,272	21,733	17,500	17,070
Cost incurred on behalf of GOC from PSCs	125,030	216,250	95,631	14,972	91,339
PetroChina					
Sales to PetroChina	1,221,624	1,971,688	1,166,827	363,760	947,364
Cost incurred on behalf of PetroChina from PSCs	51,420	96,114	107,952	54,603	62,438
Transactions with a company/person related to the controlling shareholder of FEEL					
Jilin Guotai Petroleum Development Company*					
Purchases of materials and spare parts	1,878	2,913	324	–	262
Purchases of oil well drilling services	68,599	92,840	77,318	18,728	61,851
Rental of vehicles	1,310	1,724	3,613	1,731	1,149
Zhao Jiangbo					
Rental of vehicles and office premise	–	3,216	5,652	2,826	2,624

* The amount disclosed above represents gross amount transacted between MIE, acting as operator for the three oilfields in Jilin, with the related company.

28 RELATED PARTY TRANSACTIONS – continued

(b) Amounts due from related parties included in trade and other receivables:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Amounts due from related companies and PSC partners				
Current				
United Petroleum USA, LLC[1] (non-trade)	1,701	1,571	1,569	1,561
Jilin Sanhuan Petroleum Company (trade)	7,492	–	–	–
Global Oil Corporation (non-trade)	15,547	54,994	55,901	73,462
PetroChina (trade)	141,772	–	50,723	161,894
PetroChina (non-trade)	62,470	16,803	17,968	32,170
	228,982	73,368	126,161	269,087
Provision for impairment – Jilin Sanhuan Petroleum (trade)	(7,492)	–	–	–
	221,490	73,368	126,161	269,087
Non-current				
Global Oil Corporation (non-trade)	–	66,190	70,360	37,871
	221,490	139,558	196,521	306,958
Advance to Supplier Jilin Guotai Petroleum Development Company (trade)	–	–	38,673	50,324

1 United Petroleum USA, LLC is a fellow subsidiary of the Company and the Group pays miscellaneous fees on its behalf in the United States.

The above balances represent advances to related companies which arise mainly from purchase transactions with related parties and amounts received on behalf of the other PSC partners. A provision for impairment of RMB nil (2008: nil; 2007: RMB7,492,000) has been provided for the balance with Jilin Sanhuan Petroleum Company.

The non-trade amount due from the United Petroleum USA will be repaid before the Group's listing while the other balances with related parties arising from the Group's normal operations will not be fully settled before the Group's listing.

28 RELATED PARTY TRANSACTIONS – continued

(c) Amounts due to related companies included in trade and other payables:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Amounts due to ultimate parent company				
Amount due to FEEL (non-trade)	315,780	–	–	–
Amounts due to PSC partners				
Global Oil Corporation (non-trade)	18,507	–	–	–
PetroChina (trade) *(Note 4(d))*	–	458,539	–	–
Amounts due to other related parties				
Jilin Guotai Petroleum Development Company (trade)	1,312	33,023	–	–
Zhao Jiangbo (trade)	–	–	–	1,160

The above balance with Jilin Guotai Petroleum Development Company arose mainly from purchase transactions and is repayable on demand and bears no interest.

The above balance with Zhao Jiangbo, spouse of controlling shareholder of FEEL, arose from rental of vehicles and office premises.

The balance with Global Oil Corporation and PetroChina relates to the PSCs and is repayable on demand and bear no interest.

(d) Amounts due from the controlling shareholder of FEEL and from FEEL:

	As at December 31,			As at June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Amount due from the controlling shareholder of FEEL (non-trade) *(Note 12)*	808,988	–	–	–
Amount due from FEEL (non-trade) *(Note 12)*	–	422,880	81,074	–

The amount as at December 31, 2007 is unsecured, interest free and repayable in ten (10) equal instalments from December 31, 2007 to July 31, 2010.

The amount as at December 31, 2008 is unsecured, interest free and repayable in full upon the completion of the loan reorganization described in Note 12.

The amount as at December 31, 2009 is unsecured and interest free. The amount due from FEEL of RMB81,074,000 (US$11.9 million) was settled on March 31, 2010 by deemed dividend of US$11.9 million (Note 12).

28 RELATED PARTY TRANSACTIONS – continued

(e) Guarantee given in favour of a related party

In 2008, MIE pledged a deposit of RMB17 million to a bank to provide a guarantee for a bank loan to Jilin Guotai Petroleum Development Company. In 2009, MIE further pledged RMB29.4 million to a bank to provide a guarantee of a bank loan to the same related party. The pledged deposit has subsequently been released in September 2009.

(f) Key management compensation is presented below:

	Year ended December 31,			Six months ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Expenses					
Short-term benefits:					
– Salaries	2,914	6,142	10,457	4,702	8,873
– Short-term bonuses	11,209	12,483	7,842	1,557	4,631
– Share options and share appreciation rights granted	–	–	180	–	5,870
– Benefits in-kind	294	425	439	–	688
Total	14,417	19,050	18,918	6,259	20,062
Accrued liability					
Short-term benefits:					
– Short-term bonuses	11,209	12,483	7,843	1,535	4,631
	11,209	12,483	7,843	1,535	4,631

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

29 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,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net profit/(loss) attributable to equity holders of the Company	308,953	611,090	110,477	(73,659)	238,455
Adjustment for:					
Dividends entitled by Series A preferred shares	–	–	(10,311)	–	(49,281)
Dividends entitled by Series B preferred shares	–	–	–	–	(22,125)
	308,953	611,090	100,166	(73,659)	167,049
Number of ordinary shares (thousands)	100,000	100,000	99,393	100,000	85,087
Earnings/(loss) per share, Basic (RMB per share)	3.1	6.1	1.0	(0.7)	2.0

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has 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. 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. The number of ordinary shares calculated as above is compared with the number of ordinary shares that would have been issued assuming the exercise of the share options.

29 EARNINGS PER SHARE – continued

(b) Diluted – continued

	Year ended December 31,			Six months ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Net profit/(loss) attributable to equity holders of the Company	308,953	611,090	110,477	(73,659)	238,455
Net profit/(loss) used to determine diluted earnings per share	308,953	611,090	110,477	(73,659)	238,455
Weighted average number of ordinary shares in issue (thousands)	100,000	100,000	99,393	100,000	85,087
Adjustments for:					
– Assumed conversion of convertible preferred shares (thousands)	–	–	10,976	–	36,371
– Share options (thousands)	–	–	26	–	755
Weighted average number of diluted potential ordinary shares for diluted earnings per share (thousands)	100,000	100,000	110,395	100,000	122,213
Earnings/(loss) per share, Diluted (RMB per share)	3.1	6.1	1.0	(0.7)	2.0

30 SUBSEQUENT EVENTS

(a) Incorporation of new subsidiary, MIE New Ventures

On August 6, 2010, MIE New Ventures was incorporated in the Cayman Islands as an investment holding company with limited liability, and became a wholly owned subsidiary of the Company. On August 11, 2010, MIE New Ventures further allotted and issued 9,999 ordinary shares to the Company.

(b) Intention to acquire GOC's 10% participating interest in the existing PSCs

On April 8, 2010, the Company signed a Memorandum of Understanding in respect of a possible acquisition of all of GOC's 10% participating interest in the Daan, Miao 3 and Moliqing PSCs (the "interest"). Total consideration is to be the Company's equity value immediately prior to the IPO divided by 0.9 and times 10%. The consideration for the Interest will be settled by the Company in a combination of cash and stock of the Company.

30 SUBSEQUENT EVENTS – continued

(b) Intention to acquire GOC's 10% participating interest in the existing PSCs – continued

The assignment of the Interest is subject to negotiation and execution of a definitive agreement and approval by China National Petroleum Corporation, PetroChina and other relevant authorities in China. The Memorandum of Understanding terminates on 90 days after the IPO of the Company or the date of execution of the proposed SPA, whichever is earlier. At the date of the report, the proposed SPA has not been executed.

(c) Intention to acquire new interests in other PSC

On April 2, 2010, the Company signed a Memorandum of Understanding in respect of possible acquisitions of participating interest in certain PSC in the Jilin Province. If the Company wishes to acquire the participating interest, the consideration, to be paid in cash upon completion, will be based on the entitlement to oil from each participating interest, as determined by reserve reports issued by an independent international oil reserve valuation company, priced at US$12 per barrel.

The acquisition of the participating interest is subject to negotiations and execution of definitive agreements and approval by PetroChina, its local branch and other relevant authorities in China. The Memorandum of Understanding, which expires on the last day of the 6th month after the date of signature, is still under discussion at the date of this report.

(d) Oil Put Options

In October 2010, the Group 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 installments of 150,000 barrels per month in 2011 and 100,000 barrels per month in 2012. The price under the option is based on West Texas Intermediate 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 installments 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 spot price of oil falls below US$70.00 per barrel, provided that the maximum payout by MLCI is limited to US$15.00 per barrel. Starting in April 2011, the Group will pay MLCI the premium of approximately US$1.09 million per quarter for the oil put option arrangement over a period of eight quarters. The options expire on December 31, 2012.

(e) Supplementary agreement to CITIC Facility

On November 27, 2010, in order for the Company to issue new shares in connection with the initial public offer, the Group entered into a supplemental deed to the CITIC Facility to restructure the security arrangement with CITIC Bank International Limited and CITIC Bank Guangzhou ("the lenders"). Under the supplemental deed,

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 Listing;

ii. the Group has also 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;

30 SUBSEQUENT EVENTS – continued

(e) Supplementary agreement to CITIC Facility – continued

iii. the lenders also agreed to increase the capital expenditures allowable for 2011 from RMB1.0 billion to RMB1.288 billion;

iv. the Company agreed to provide a corporate guarantee for MIE's obligations under the credit facility. The lenders have also approved any sale of existing shares by FEEL up to 7% of our issued share capital immediately upon the occurrence of the Global Offering (including the Sale Shares of FEEL) either in or after the Global Offering, provided that FEEL shall continue to hold not less than 35% of the issued share capital in the Company.

The Group is required to pay a work fee of US$300,000 and a waiver fee of US$6 million. Any amount of work fee paid can be credited against the US$6 million wavier fees payable. 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.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of the Group have been prepared for the Company and its subsidiaries in respect of any period subsequent to June 30, 2010. Up to the date of this report, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to June 30, 2010.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in the section headed "Appendix I – Accountants' Report" in this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the section headed "Appendix I – Accountants' Report" in this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as of June 30, 2010 as if the Global Offering had taken place on June 30, 2010 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as of June 30, 2010 or at any future dates following the Global Offering.

	Unadjusted audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as of June 30, 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per share	
	RMB'000	RMB'000	RMB'000	RMB	HK$
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 5)*
Based on an Offer Price of HK$1.70 per share	1,276,403	511,631	1,788,034	0.68	0.79
Based on an Offer Price of HK$2.16 per share	1,276,403	678,240	1,954,643	0.74	0.86

Notes:

(1) The unadjusted audited consolidated net tangible assets attributable to the equity holders of the Company as of June 30, 2010 is extracted from the section headed "Appendix I – Accountant's Report" in this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company of RMB1,278,020,000 with adjustments for the intangible assets of RMB1,617,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$1.70 per Share and HK$2.16 per Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of any options or awards granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 2,641,334,000 Shares were in issue assuming that the Capitalization Issue and the Global Offering have been completed on June 30, 2010 but takes no account of any Shares which may be issued upon the exercises of any options or awards granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme.

(4) Except as disclosed above, no adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2010.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.8583 prevailing on November 24, 2010.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Capitalization Issue and the Global Offering as if it had been taken place on January 1, 2010. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of the Group for the year ending December 31, 2010 or any future period.

Forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 *(Note 1)*	Not less than RMB410 million (equivalent to approximately HK$478 million)
Unaudited pro forma forecast earnings per Share *(Note 2)*	Not less than RMB0.155 (equivalent to approximately HK$0.181)

Notes:

(1) The forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 is extracted from the section headed "Financial Information – Profit Forecast For the Year Ending December 31, 2010" in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarized in the section headed "Appendix III – Profit Forecast" in this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 based on the audited consolidated results of the Group for the six months ended June 30, 2010, unaudited consolidated results of the Group based on management accounts for the four months ended October 31, 2010 and a forecast of the consolidated results of the Group for the remaining two months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 2 of Section II of the section headed "Appendix I – Accountants' Report" in this prospectus.

(2) The unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit attributable to the equity holders of the Company for the year ending December 31, 2010, assuming that the Company had been listed since January 1, 2010 and a total of 2,641,334,000 Shares to be in issue immediately upon completion of the Capitalization Issue and the Global Offering were issued and outstanding during the entire year. The calculation assumes that any options or awards granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme will not be exercised.

C. REPORT FROM REPORTING ACCOUNTANT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF MIE HOLDINGS CORPORATION

We report on the unaudited pro forma financial information of MIE Holdings Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-3 under the headings of "Unaudited Pro Forma Adjusted Net Tangible Assets" and "Unaudited Pro Forma Forecast Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated December 1, 2010 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-3 of the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted audited consolidated net assets of the Group as of June 30, 2010 with the accountants' report as set out in Appendix I to the Prospectus, comparing the unaudited forecast profit attributable to equity holders of the Company for the year ending December 31, 2010 with the profit forecast as set out in the subsection headed "Profit Forecast for the Year Ending December 31, 2010" in the section headed "Financial Information" in the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– the adjusted net tangible assets of the Group as at June 30, 2010 or any future date, or

– the earnings per share of the Group for the year ending December 31, 2010 or any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, December 1, 2010

Our forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2010 is set out in the section headed "Financial Information – Profit Forecast for the Year Ending December 31, 2010" in this prospectus.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to our equity holders for the year ending December 31, 2010, based on the audited consolidated results of our Group for the six months ended June 30, 2010, the unaudited consolidated results of our Group based on management accounts for the four months ended October 31, 2010 and a forecast of the consolidated results of our Group for the remaining two months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as summarized in the section headed "Appendix I – Accountants' Report" in this prospectus. The profit forecast has been prepared on the following principal bases and assumptions:

- there will be no material changes in the existing rules, laws, regulations, or government policies (economic, political or legal), including changes in legislation or rules, regulatory, fiscal, economic or market conditions in the PRC, Hong Kong, or any of the countries in which members of our Group currently operates or are established;
- there will be no material changes in inflation rate, interest rate or foreign currency exchange rate in the countries, regions or industries applicable to the business activities of our Group from those presently prevailing;
- there will be no material changes in the bases or rates of taxation or duties in the PRC, Hong Kong, or any of the countries in which members of our Group operate or are established, except as otherwise disclosed in this prospectus;
- there will be no wars, military incidents, pandemic diseases or natural disasters that would have a material impact on our Group's business and operating activities;
- our Group's operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed "Risk Factors" in this prospectus;
- our Group's production and operation will not be significantly affected by interruptions as a result of shortage of electricity supply, labor disputes, technical barrier and any other reasons that are beyond the control of our Directors; and
- there will be no changes in technology, industry, safety standards, and environmental protection regulations in connection with the cement products that would have a significant negative impact on our Group's operation in the PRC, Hong Kong, any of the countries in which members of our Group currently operate or are established.

B. LETTER FROM REPORTING ACCOUNTANT

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

December 1, 2010

The Directors
MIE Holdings Corporation

J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of MIE Holdings Corporation (the "Company") for the year ending December 31, 2010 (the "Profit Forecast") as set out in the subsection headed "Profit Forecast for the Year Ending December 31, 2010" in the section headed "Financial information" in the prospectus of the Company dated December 1, 2010 (the "Prospectus").

We conducted our work in accordance with Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the six months ended June 30, 2010, the unaudited consolidated results of the Group based on management accounts for the four months ended October 31, 2010 and a forecast of the consolidated results of the Group for the remaining two months ending December 31, 2010.

In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in Note 2 of section II of the Financial Information section in Appendix I of the Prospectus.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Sole Sponsor, in connection with the forecast of the consolidated profit attributable to our equity holders for the year ending December 31, 2010.

J.P.Morgan

28th Floor, Chater House
8 Connaught Road Central
Central, Hong Kong

December 1, 2010

The Directors
MIE Holdings Corporation

Dear Sirs,

We refer to the consolidated profit forecast of MIE Holdings Corporation (the "Company") and its subsidiaries (together the "Group") for the year ending December 31, 2010 (the "Profit Forecast") as set out in the paragraph headed "Profit Forecast for the year ending December 31, 2010" under the section headed "Financial Information" in the prospectus issued by the Company dated December 1, 2010.

The Profit Forecast, for which the directors of the Company (the "Directors") are solely responsible, has been prepared by them based on the audited consolidated results of the Group for the six months ended June 30, 2010, the unaudited consolidated results of the Group for the four months ended October 31, 2010 and a forecast of the consolidated results of the Group for the remaining two months ending December 31, 2010.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated December 1, 2010 addressed to you and us from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited
David PW Lau
Executive Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at September 30, 2010 of the property interests of the Group.

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

December 1, 2010

The Board of Directors
MIE Holdings Corporation
Suite 406, Block C
Grand Place
5 Hui Zhong Road
Chaoyang District
Beijing, the PRC

Dear Sirs,

In accordance with your instructions to value the properties in which MIE Holdings Corporation (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and the United States of America (the "USA"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at September 30, 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion."

We have valued the property interests by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Due to the nature of the buildings and structures of the property in Group I, there are no market sales comparables readily available, the reference value stated in its footnotes has been arrived at on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Groups II and III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Zhong Lun Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interest held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at September 30, 2010 RMB
1.	Land, various buildings and structures located at the western side of Xitaiping Village, Jianshe Town, Daan City, Jilin Province, the PRC	No commercial value
	Sub-total:	**Nil**

Group II – Property interests leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at September 30, 2010 RMB
2.	Suites 402 and 406, Block C, Grand Place, No. 5 Hui Zhong Road, Chaoyang District, Beijing, the PRC	No commercial value
3.	Suite 905, Block B, Grand Place, No. 5 Hui Zhong Road, Chaoyang District, Beijing, the PRC	No commercial value
4	2 buildings, No. 2999 Youth Avenal, Songyuan Economic Development Zone, Songyuan City, Jilin Province, the PRC	No commercial value
	Sub-total:	**Nil**

Group III – Property interest leased and occupied by the Group in the USA

No.	Property	Capital value in existing state as at September 30, 2010 RMB
5.	Suite 220 on the first floor, 2203 Timberloch Place, The Woodlands, Texas 77380, USA	No commercial value
	Sub-total:	**Nil**
	Grand total:	**Nil**

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
1.	Land, various buildings and structures located at the western side of Xitaiping Village Jianshe Town Daan City Jilin Province The PRC	The property comprises a parcel of land with a site area of 3.706 hectares (37,060 sq.m.) and 31 buildings and various ancillary structures erected thereon which were completed in various stages between 2005 and 2008. The buildings have a total gross floor area of approximately 4,278.88 sq.m. The buildings mainly include an office building, valve rooms, a transformer room, pump rooms, a guard room, etc. The structures mainly include boundary fences, roads, water wells, etc. The land use rights of the property have been allocated for an undefined term for mining use.	The property is currently occupied by the Group for oil processing purpose.	No commercial value

Notes:

1. Pursuant to a Project Construction Land Use Approval Letter – Guo Tu Zi Han [2005] No. 555 dated July 26, 2005 issued by the Ministry of Land and Resources of the People's Republic of China, a parcel of collectively-owned land with a site area of 3.706 hectares was approved to be converted to construction land and was allocated to MI Energy Corporation, a wholly owned subsidiary of the Company.
2. Pursuant to a Written Decision of State-owned Construction Land Allocation – No. 20050001 dated November 30, 2005 issued by the Land and Resources Bureau of Daan City, a parcel of land with a site area of 37,060 sq.m. was allocated to MI Energy Corporation, a wholly owned subsidiary of the Company, for mining use.
3. We have not been provided with any title certificate to the land and buildings of the property.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. MI Energy Corporation is entitled to use the land;
   b. There is no legal impediment for MI Energy Corporation to apply for the Allocated Land Use Rights Certificate of the land;
   c. The land can not be mortgaged or transferred before obtaining the Allocated Land Use Rights Certificate; and
   d. MI Energy Corporation is entitled to construct and use the buildings and structures erected on the land.
5. Pursuant to the PRC legal opinion above, the land can not be freely transferred in the market, therefore we have ascribed no commercial value to the property. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings and structures of the property (excluding the land) as at the date of valuation would be RMB8,146,000 assuming all relevant title certificates have been obtained and the property could be freely transferred.

VALUATION CERTIFICATE

Group II – Property interests leased and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
2.	Suites 402 and 406 Block C, Grand Place No. 5 Hui Zhong Road Chaoyang District Beijing The PRC	The property comprises 2 units on the 4th floor of a 25-storey office building completed in about 2001. The property has a total lettable area of approximately 524.79 sq.m. The property is leased to MI Energy Corporation from a connected party for a term commencing from January 1, 2010 and expiring on December 31, 2010.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement and a Supplemental Agreement entered into between Zhao Jiangbo and MI Energy Corporation, a wholly owned subsidiary of the Company, dated January 1, 2010 and September 28, 2010 respectively, the property is leased to MI Energy Corporation from Zhao Jiangbo, a connected party, for a term commencing from January 1, 2010 and expiring on December 31, 2010 at a total rent of RMB1,126,298, exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. The Agreements are binding and enforceable under the PRC laws and regulations; and
   b. Non-registration of the lease with the government will not influence the validity of the lease.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
3.	Suite 905, Block B Grand Place No. 5 Hui Zhong Road Chaoyang District Beijing The PRC	The property comprises a unit on the 9th floor of a 25-storey office building completed in about 2001. The property has a lettable area of approximately 158.9 sq.m. The property is leased to MI Energy Corporation from an independent third party for a term commencing from January 10, 2010 and expiring on December 31, 2010.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Gong Fang'ai and MI Energy Corporation, a wholly owned subsidiary of the Company, dated January 12, 2010, the property is leased to MI Energy Corporation from Gong Fang'ai, an independent third party, for a term commencing from January 10, 2010 and expiring on December 31, 2010 at a monthly rent of RMB23,500, inclusive of management fees but exclusive of water and electricity charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Tenancy Agreement is binding and enforceable under the PRC laws and regulations; and

   b. Non-registration of the lease with the government will not influence the validity of the lease.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
4.	2 buildings No. 2999 Youth Avenal Songyuan Economic Development Zone Songyuan City Jilin Province The PRC	The property comprises a 2-storey office building and a 4-storey office building completed in about 2004. The 2 buildings have a total lettable area of approximately 2,700 sq.m. The property is leased to MI Energy Corporation from an independent third party for a term commencing from October 8, 2010 and expiring on October 7, 2011.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Li Xiaoyu as the landlord, Songyuan Risheng Drilling Co., Ltd. as the lessor and MI Energy Corporation as the lessee, a wholly owned subsidiary of the Company, dated September 16, 2010, the property is leased to MI Energy Corporation, for a term commencing from October 8, 2010 and expiring on October 7, 2011 at a total rent of RMB450,000, exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Tenancy Agreement is binding and enforceable under the PRC laws and regulations; and

   b. Non-registration of the lease with the government will not influence the validity of the lease.

VALUATION CERTIFICATE

Group III – Property interest leased and occupied by the Group in the USA

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
5.	Suite 220 on the first floor 2203 Timberloch Place The Woodlands Texas 77380 USA	The property comprises an office unit on the first floor of a 2-storey office building completed in about 1974. The unit has a lettable area of approximately 1,475 square feet. The property is leased to MI Energy Corporation from an independent third party for a term commencing from December 19, 2009 and expiring on December 31, 2012.	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

Pursuant to a Tenancy Agreement entered into between Timberloch, Inc. and MI Energy Corporation, a wholly owned subsidiary of the Company, dated December 7, 2009, the property is leased to MI Energy Corporation from Timberloch, Inc., an independent third party, for a term commencing from December 19, 2009 and expiring on December 31, 2012 at an annual base rental rate of US$19.5 per square feet.

INDEPENDENT TECHNICAL REPORT

Prepared for

MIE HOLDINGS CORPORATION

Estimated

Future Reserves and Income

Attributable to Certain

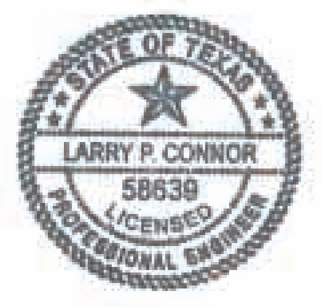
Interests Derived Through Production Sharing Contracts

Beginning

June 30, 2010

Larry P. Connor, P.E.
TBPE License No. 58639
Managing Senior Vice President

James R. Broome, P.G.
Texas Geologist License No. 1136
Senior Vice President



RYDER SCOTT COMPANY, L.P.

TBPE Firm Registration No. F-1580

**INDEPENDENT TECHNICAL REPORT ON
MIE HOLDINGS CORPORATION'S ASSETS
IN JILIN PROVINCE
IN THE PEOPLE'S REPUBLIC OF CHINA**

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December 1, 2010

The Directors,
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Beijing 100101, P,R, China

J.P. Morgan Securities (Asia Pacific) Limited
28/F Charter House
8 Connaught Road, Central, Hong Kong

INDEPENDENT TECHNICAL REPORT ON MIE HOLDINGS CORPORATION'S ASSETS IN JILIN PROVINCE IN THE PEOPLE'S REPUBLIC OF CHINA

25.2 Executive Summary

At your request, Ryder Scott Company (Ryder Scott) has prepared an estimate of the proved, probable and possible reserves, future production, and income attributable to certain interests of MIE Holdings Corporation (MI Energy) as of June 30, 2010. The subject properties are located in Jilin Province in the People's Republic of China. The reserves and income data included herein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS). For the unescalated, base case, the income data were estimated using future price and cost parameters as noted herein and held constant throughout the life of the properties (SPE-PRMS constant case). A price sensitivity was conducted using the same production forecast projections as the base case and Ryder Scott's current forecast of future oil prices and costs. This price sensitivity case is presented in summary form in section 25.8 "Price and Cost Sensitivity Case."

At your request we have also estimated the Contingent and Prospective Resources attributable to the same properties noted above. The resource volumes were estimated based on the SPE-PRMS and are before the application of a detailed economic analysis. The properties are subject to a Production Sharing Contract; therefore, the net recoverable volumes attributable to MI Energy's interests are dependent upon the specific economic parameters utilized in the analysis. We have not performed a detailed economic analysis of these contingent and prospective resource volumes to determine the net economically equivalent quantities of hydrocarbon volumes. The resource volumes presented herein utilized an estimated net interest based on the ratio of net and gross total possible reserves for each field. The estimated contingent and undiscovered prospective resource volumes presented in this report, as of June 30, 2010, have not been adjusted for the impact of economics nor truncated at the end of the license terms.

The results of our third party study, completed on August 16, 2010, are presented herein. The properties reviewed by Ryder Scott represent 100 percent of the total net proved, probable and possible liquid hydrocarbon reserves and resources of MI Energy. MI Energy's interests in the three properties we evaluated are based on individual production sharing contracts, or PSC's, and in each PSC MI Energy, through its wholly owned subsidiary MI Energy Corporation, holds 90% of the foreign contractors'

interest. The foreign contractors have the obligation to invest all the development costs and pay their proportional share of operating costs. The foreign contractors are entitled to 80% of the crude oil produced until all of the development costs are recovered, and 48% thereafter. MI Energy's net entitlement of the production is 72% before the recovery of all development costs and 43.2% thereafter.

The estimated reserves and future income amounts presented in this report's base case, as of June 30, 2010, are related to hydrocarbon prices based on unescalated price parameters. The hydrocarbon prices used in the preparation of this report's base case are based on the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements, in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As a result of both economic and political forces, there is significant uncertainty regarding the forecasting of future hydrocarbon prices. The recoverable reserves and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report. An alternative escalated price scenario is included in 25.8 "Price and Cost Sensitivity Case" of this report. The results of this study are summarized below.

	Summary of Assets Reviewed				
Asset	Location	Operating Company	Contract Type	Contract Expiration Date	Gross License Area Acreage
Daan	People's Republic of China, Jilin Province	MI Energy Corporation	PSC	12/31/2024	253.0 km^2
Miao 3	People's Republic of China, Jilin Province	MI Energy Corporation	PSC	2/29/2028	81.0 km^2
Moliqing	People's Republic of China, Jilin Province	MI Energy Corporation	PSC	11/30/2028	71.5 km^2

UNESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MI Energy Corporation
As of June 30, 2010

	Total Proved	Total Probable	Total Possible
Net Remaining Reserves			
Oil/Condensate – Barrels.	29,408,762	18,270,787	13,466,026
Income Data			
Future Gross Revenue.	$1,839,663,825	$1,144,395,447	$844,006,471
Deductions.	896,104,251	767,561,396	500,692,915
Future Net Income (FNI)	$ 943,559,574	$ 376,834,051	$343,313,556
Discounted FNI @ 10%	$ 562,384,646	$ 95,152,432	$105,307,373

	Total Proved (1P)	Total Proved + Probable (2P)	Total Proved + Probable + Possible (3P)
Net Remaining Reserves			
Oil/Condensate – Barrels.	29,408,762	47,679,549	61,145,575
Income Data			
Future Gross Revenue.	$1,839,663,825	$2,984,059,272	$3,828,065,743
Deductions.	896,104,251	1,663,665,647	2,164,358,562
Future Net Income (FNI)	$ 943,559,574	$1,320,393,625	$1,663,707,181
Discounted FNI @ 10%	$ 562,384,646	$ 657,537,078	$ 762,844,451

Liquid hydrocarbons are expressed in standard 42 gallon barrels. Monetary amounts are expressed in US$. There are no gas sales volumes associated with the subject properties.

The estimates of the reserves, future production, and income attributable to properties in this report were prepared using the economic software package PHDWin Petroleum Economic Evaluation Software, a copyrighted program of TRC Consultants L.C. The program was used solely at the request of MI Energy. Ryder Scott has found this program to be generally acceptable, but notes that certain summaries and calculations may vary due to rounding and may not exactly match the sum of the properties being summarized. Furthermore, one line economic summaries may vary slightly from the more detailed cash flow projections of the same properties, also due to rounding. The rounding differences are not material.

The future gross revenue is after the deduction of Excess Profits (EPT) and Value Added (VAT) taxes, rate based royalties and government's share of investment recovery oil and profit oil. The deductions incorporate the normal direct costs of operating the wells, tariffs, overhead (shown as other costs), recompletion costs, development costs, and certain abandonment costs net of salvage. The future net income is after the deduction of the appropriate income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income.

Liquid hydrocarbon reserves account for 100 percent of the total future gross revenue from proved, probable and possible reserves.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows.

Discounted Future Net Income (After Income Tax)
As of June 30, 2010

Discount Rate Percent	Total Proved (1P)	Total Probable	Total (2P) Proved + Probable	Total (3P) Proved + Probable + Possible
5	718,504,263	198,991,203	917,495,466	1,109,045,996
8	618,344,379	130,162,168	748,506,547	882,655,338
10	562,384,646	95,152,432	657,537,078	762,844,451
15	451,286,824	34,468,686	485,755,510	541,707,982
20	370,315,437	-724,613	369,590,824	397,241,055

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

The effective date of the asset evaluation reported in this report is June 30, 2010. As of the date of this report, Ryder Scott Company is not aware of any material change in the assets reported since the effective date.

This report covers all of the mineral assets owned by MI Energy. Ryder Scott Company is unaware of any additional property owned by MI Energy or any assets outside of the properties contained in this report.

Introduction

Basis of Opinion

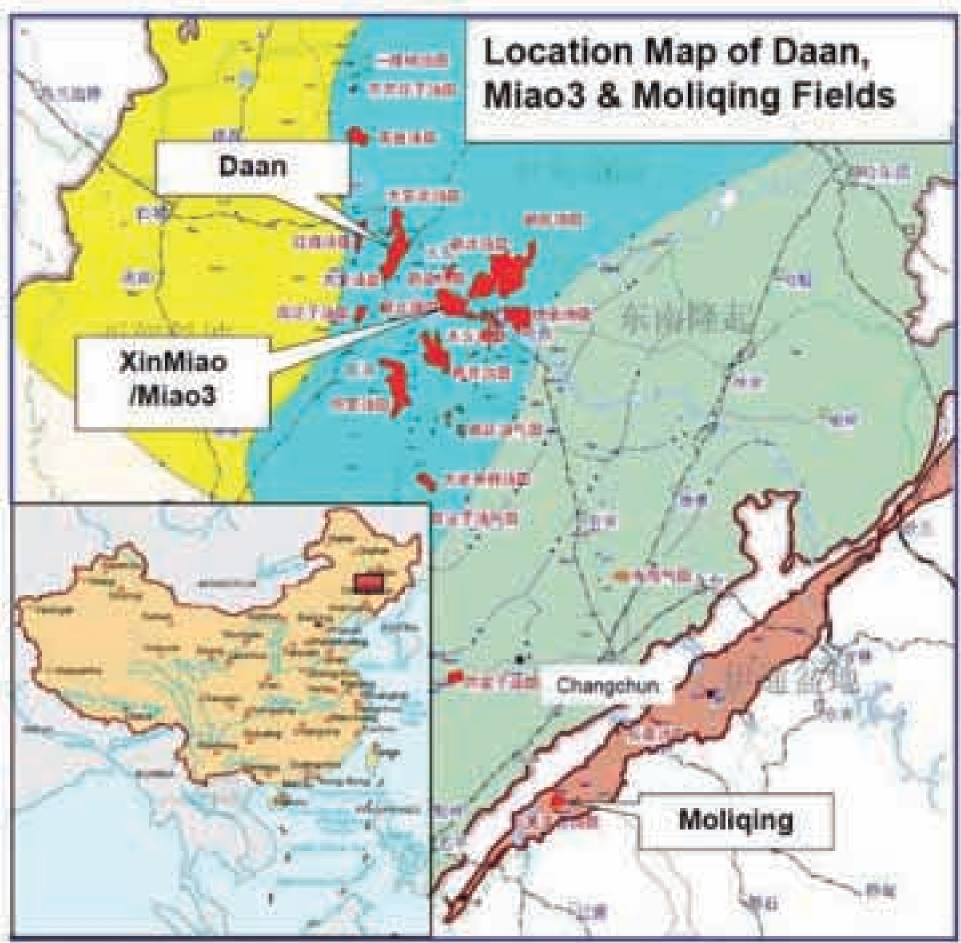
The evaluation presented herein reflects our informed judgment, based on accepted standards of professional investigation, and is consistent with petroleum engineering and geoscience practices in the industry. However, this report and the conclusions set forth in it are subject to the inherent uncertainties associated with estimates of reserve and resource volumes, and the interpretation of engineering, geological, and geophysical data. This investigation has been conducted within our understanding of the current petroleum legislation, taxation and the regulations that govern the production of hydrocarbons where the assets are located. However, Ryder Scott Company can not attest to the ownership, title, any encumbrances that may exist, or to any legal issues involving the licenses or agreements. Our estimates of reserves (proved, probable and possible) are based upon data supplied by MI Energy Corporation (operator of the assets). We accepted the data and information as presented without independent verification.

This report presents our independent professional judgment and should not be considered as a guarantee of results or our estimate of a fair market value. It should be understood that there is uncertainty in petroleum exploration and production and that all evaluations are conducted under the framework of uncertainty. As additional information becomes available, our opinions and judgments will change to incorporate the latest information.

This report only presents the assets specifically contained herein. This study is for the exclusive use of MI Energy and its advisors. Ryder Scott Company has given and not withdrawn its written consent to the inclusion of this document with its name included within it and with inclusion therein of its report and references thereto in MI Energy's prospectus for the purpose of MI Energy's initial public offering on the main board of the Stock Exchange. Ryder Scott Company accepts responsibility for the information contained in this report set out in this part of the document and to the best knowledge and belief of Ryder Scott Company, having taken all reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

Asset Portfolio

MI Energy has a portfolio of production and development assets in the Jilin Province of the People's Republic of China (see figures below). The assets consist of three license areas. The license is based on a 30 year term with a 20 year production period from the Date of Commencement of Commercial Production (DCC). The DCC varies for each of the license blocks and therefore the contract limit is different for each block. MI Energy has provided the contract terms and the appropriate dates used in this evaluation.



Reserves Included in This Report

The proved, probable and possible reserves included herein conform to definitions of proved, probable and possible reserves sponsored and approved by the Society of Petroleum Engineers (SPE), the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE) as set forth in the 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS). An abridged version of the SPE/WPC/AAPG/SPEE proved, probable and possible reserves from the SPE-PRMS entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

The various reserve status categories are defined in the attachment to this report entitled "Reserves Status Definitions and Guidelines." The developed proved, probable and possible non-producing reserves included herein consist of the behind pipe categories.

While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may also increase or decrease from existing levels, such changes were omitted from consideration in making this evaluation.

Reserves are those estimated remaining quantities of petroleum which are anticipated to be economically producible, as of a given date, from known accumulations under defined conditions. All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available

at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward. Probable reserves are those additional reserves that are less likely to be recovered than proved reserves. For probable reserves, it is equally likely that the actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. Possible reserves are those additional reserves which are less likely to be recovered than probable reserves. For possible reserves, the actual remaining quantities recovered have a low probability of exceeding the sum of the estimated proved plus probable plus possible reserves. The reserves included herein were estimated using deterministic methods and presented as incremental quantities. Under the deterministic incremental approach, discrete quantities of reserves are estimated and assigned separately as proved, probable or possible based on their individual level of uncertainty.

The reserves and income quantities attributable to the different reserve classifications that are included herein have not been adjusted to reflect these varying degrees of risk associated with them and thus are not comparable. Moreover, estimates of reserves may increase or decrease as a result of future operations, effects of regulation by governmental agencies or geopolitical risks. As a result, the estimates of oil and gas reserves have an intrinsic uncertainty. The reserves included in this report are therefore estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and if recovered, the revenues there from and the actual costs related thereto could be more or less than the estimated amounts.

The reserves reported herein are limited to the period prior to expiration of current contracts providing the legal right to produce or a revenue interest in such production. The properties are subjected to significant contractual fiscal terms that affect the net revenue to MI Energy for the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts. Therefore, when applicable, Ryder Scott reviewed the fiscal terms of such contracts and discussed with MI Energy the net economic benefit attributed to such operations for the determination of the net hydrocarbon volumes and income thereof. Ryder Scott has not conducted an exhaustive audit or verification of such contractual information. Neither our review of such contractual information or our acceptance of MI Energy's representations regarding such contractual information should be construed as a legal opinion on this matter.

This report considers the effects of government royalties and Value Added Taxes paid in kind to the government (barrels of oil). In accordance with the contracts, the net volumes attributed to MI Energy and reported herein do not include these volumes paid as royalty or Value Added Taxes.

Ryder Scott did not evaluate country and geopolitical risks in the People's Republic of China where MI Energy operates and has interests. MI Energy's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include matters relating to land tenure and leasing, the legal rights to produce hydrocarbons including the granting, extension or termination of production sharing contracts, the fiscal terms of various production sharing contracts, drilling and production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax, and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of reserves actually recovered and amounts of income actually received to differ significantly from the estimated quantities. In addition reserves estimates will generally be revised as additional geologic or engineering data become available or as economic conditions change.

The estimates of reserves presented herein were based upon a detailed study of the properties in which MI Energy derives an interest; however, we have not made any field examination of the properties during the course of this study. However, a senior Ryder Scott engineer has visited the properties for an extensive site visit during previous evaluation periods. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

Estimates of Reserves Contained in this Report

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by the SPE PRMS. The process of estimating the quantities of recoverable oil reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods, (2) volumetric-based methods and (3) analogy. These methods may be used singularly or in combination by the reserve evaluator in the process of estimating the quantities of reserves. The reserve evaluator must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated and the stage of development or producing maturity of the property.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. If the reserve quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity of the reserves is addressed by the reserve category assigned by the evaluator. Therefore, it is the categorization of reserve quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported.

Estimates of reserves quantities and their associated reserve categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserve categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The reserves for the properties included herein were estimated by performance methods, the volumetric method and/or analogy. Approximately 76 percent of the total proved reserves included herein are related to waterflood recovery, the remaining 24 percent is related to primary recovery. Approximately 85 percent of the reserves attributable to producing wells and/or reservoirs were estimated by performance methods such as decline curve analysis which utilized extrapolations of historical production data available through June 30, 2010 in those cases where such data were considered to be definitive. The remaining 15 percent of the proved producing reserves were estimated using a combination of in-field analogues and/or volumetric methods where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the reserve estimates was considered to be inappropriate. All of the probable and possible producing reserves, as well as all of the proved, probable and possible non-producing and undeveloped reserves included herein were estimated by a combination of in-field analogues and volumetric methods. The volumetric analysis utilized all pertinent well and seismic data available through June 30, 2010. The data utilized in this analysis were supplied to Ryder Scott by MI Energy and were considered sufficient for the purpose thereof.

To estimate economically recoverable oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on current costs and pricing parameters, and forecasts of future production rates. Under the SPE-PRMS Section 2.2.2 and Table 3, proved reserves must be demonstrated to be commercially recoverable under defined economic conditions, operating methods and governmental regulations from a given date forward. We have applied the same criteria for economic commerciality to the probable and possible reserves included in this report. While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may also increase or decrease from existing levels, such changes were, in accordance with rules adopted by the SPE PRMS for a constant price case, omitted from consideration in making this evaluation.

MI Energy has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future production and income, we have relied upon data furnished by MI Energy with respect to derived property interests owned, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as tariff and/or processing fees, Excess Profits (EPT) and Value Added (VAT) taxes, recompletion and development costs, abandonment costs after salvage, product prices based on the SPE PRMS guidelines for a constant price case, adjustments or differentials for product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data supplied by MI Energy. We consider the factual data used in this report appropriate and sufficient of preparing the estimates of reserves and future net revenues herein.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein. The reserves included herein were determined in conformance to definitions of proved, probable and possible reserves sponsored and approved by the Society of Petroleum Engineers (SPE), the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE) as set forth in the 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS).

Future Production Rates

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by MI Energy. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

The table below presents Mi Energy's development plan by field, year and reserve classification. Also included are summaries for the Total Proved (1P), Total Proved plus Probable (2P) and Total Proved plus Probable plus Possible (3P). We have incorporated MI Energy's development plans into our projections of production, operating and development costs.

MIE DEVELOPMENT SCHEDULE
GROSS WELLS (PROD & INJ)

	Daan					
Year	**PUD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	0	0	0	0	0	0
2011	279	9	0	279	288	288
2012	196	177	0	196	373	373
2013	94	316	15	94	410	425
2014	0	147	245	0	147	392
2015	0	43	80	0	43	123
TOTAL	**569**	**692**	**340**	**569**	**1,261**	**1,601**

	Moliqing					
Year	**PUD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	18	0	0	18	18	18
2011	21	12	8	21	33	41
2012	6	19	14	6	25	39
2013	0	36	21	0	36	57
2014	0	22	24	0	22	46
2015	0	0	50	0	0	50
2016	0	0	26	0	0	26
TOTAL	**45**	**89**	**143**	**45**	**134**	**277**

	Miao3					
Year	**PUD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	0	2	0	0	2	2
2011	0	0	0	0	0	0
2012	0	0	0	0	0	0
2013	0	0	0	0	0	0
2014	0	0	0	0	0	0
2015	0	0	0	0	0	0
TOTAL	**0**	**2**	**0**	**0**	**2**	**2**

Year	TOTAL ALL PSC's					
	PUD	Prob	Poss	1P	2P	3P
2010	18	2	0	18	20	20
2011	300	21	8	300	321	329
2012	202	196	14	202	398	412
2013	94	352	36	94	446	482
2014	0	169	269	0	169	438
2015	0	43	130	0	43	173
2016	0	0	26	0	0	26
TOTAL	**614**	**783**	**483**	**614**	**1,397**	**1,880**

All PSC's – Proved

Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	20	3,607,476	25,762,200	33,096,351
2011	300	6,934,280	126,888,000	70,937,249
2012	199	7,081,216	77,749,800	74,804,544
2013	94	7,307,229	36,535,800	75,990,462
2014	0	7,087,480	935,000	70,563,318
2015	0	6,508,307	935,000	69,441,573
2016	0	5,916,862	0	68,105,544
2017	0	5,263,002	0	66,412,875
2018	0	4,702,858	0	65,028,042
2019	0	4,195,778	0	63,932,215
2020	0	3,697,746	0	62,850,103
2021	0	3,222,919	0	61,690,160
2022	0	2,813,415	0	60,657,730
2023	0	2,452,819	0	59,539,845
2024	0	2,103,732	0	56,440,525
Sub Total		**72,895,119**	**268,805,800**	**959,490,538**
Remainder		**0**	**200,000**	**0**
Total Future	**613**	**72,895,119**	**269,005,800**	**959,490,538**

All PSC's – Probable

Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	2	63,739	649,200	180,757
2011	21	474,831	16,815,600	1,772,132
2012	196	1,198,047	83,213,756	7,550,500
2013	352	2,254,361	151,803,156	16,391,187
2014	169	3,332,909	81,145,022	25,153,124
2015	43	3,850,620	14,774,800	25,775,655
2016	0	3,973,045	0	25,498,429
2017	0	3,942,226	0	25,203,385
2018	0	3,749,287	0	20,838,178
2019	0	3,561,172	0	20,016,766
2020	0	3,412,463	0	19,629,034
2021	0	3,257,622	0	19,235,101
2022	0	3,095,376	0	19,025,866
2023	0	2,933,334	0	19,055,632
2024	0	2,795,767	0	21,147,155
Sub Total		**41,894,799**	**348,401,533**	**266,472,900**
Remainder		**1,624,992**	**0**	**64,150,163**
Total Future	**783**	**43,519,791**	**348,401,533**	**330,623,063**

All PSC's – Possible

Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	27,432	0	99,670
2011	8	180,897	9,148,800	903,837
2012	14	426,988	17,779,800	2,253,265
2013	36	791,544	31,951,600	4,494,569
2014	269	1,532,790	107,693,822	10,843,376
2015	130	2,211,821	84,667,956	15,386,615
2016	26	2,726,802	32,333,600	18,048,024
2017	0	2,974,524	0	18,076,942
2018	0	3,074,525	0	21,807,568
2019	0	3,047,501	0	21,805,937
2020	0	3,010,083	0	20,731,094
2021	0	2,835,233	0	16,733,834
2022	0	2,685,578	0	16,276,847
2023	0	2,546,654	0	15,859,553
2024	0	2,407,963	0	15,466,696
Sub Total		**30,480,335**	**283,575,578**	**198,787,827**
Remainder		**1,750,227**	**0**	**29,336,408**
Total Future	**483**	**32,230,562**	**283,575,578**	**228,124,235**

All PSC's – 1P

Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	20	3,607,476	25,762,200	33,096,351
2011	300	6,934,280	126,888,000	70,937,249
2012	199	7,081,216	77,749,800	74,804,544
2013	94	7,307,229	36,535,800	75,990,462
2014	0	7,087,480	935,000	70,563,318
2015	0	6,508,307	935,000	69,441,573
2016	0	5,916,862	0	68,105,544
2017	0	5,263,002	0	66,412,875
2018	0	4,702,858	0	65,028,042
2019	0	4,195,778	0	63,932,215
2020	0	3,697,746	0	62,850,103
2021	0	3,222,919	0	61,690,160
2022	0	2,813,415	0	60,657,730
2023	0	2,452,819	0	59,539,845
2024	0	2,103,732	0	56,440,525
Sub Total		**72,895,119**	**268,805,800**	**959,490,538**
Remainder		**0**	**200,000**	**0**
Total Future	**613**	**72,895,119**	**269,005,800**	**959,490,538**

All PSC's – 2P

Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	22	3,671,215	26,411,400	33,277,107
2011	321	7,409,111	143,703,600	72,709,381
2012	395	8,279,263	160,963,556	82,355,044
2013	446	9,561,590	188,338,956	92,381,649
2014	169	10,420,389	82,080,022	95,716,442
2015	43	10,358,927	15,709,800	95,217,227
2016	0	9,889,907	0	93,603,973
2017	0	9,205,228	0	91,616,260
2018	0	8,452,145	0	85,866,220
2019	0	7,756,950	0	83,948,981
2020	0	7,110,209	0	82,479,137
2021	0	6,480,541	0	80,925,261
2022	0	5,908,791	0	79,683,596
2023	0	5,386,153	0	78,595,478
2024	0	4,899,499	0	77,587,681
Sub Total		**114,789,918**	**617,207,333**	**1,225,963,438**
Remainder		**1,624,992**	**200,000**	**64,150,163**
Total Future	**1,396**	**116,414,910**	**617,407,333**	**1,290,113,601**

Year	All PSC's – 3P Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	22	3,698,647	26,411,400	33,376,777
2011	329	7,590,008	152,852,400	73,613,218
2012	409	8,706,251	178,743,356	84,608,310
2013	482	10,353,134	220,290,556	96,876,217
2014	438	11,953,179	189,773,844	106,559,819
2015	173	12,570,748	100,377,756	110,603,842
2016	26	12,616,709	32,333,600	111,651,997
2017	0	12,179,752	0	109,693,202
2018	0	11,526,670	0	107,673,788
2019	0	10,804,451	0	105,754,918
2020	0	10,120,292	0	103,210,232
2021	0	9,315,774	0	97,659,095
2022	0	8,594,369	0	95,960,443
2023	0	7,932,807	0	94,455,031
2024	0	7,307,462	0	93,054,376
Sub Total		**145,270,253**	**900,782,911**	**1,424,751,265**
Remainder		**3,375,219**	**200,000**	**93,486,571**
Total Future	**1,879**	**148,645,472**	**900,982,911**	**1,518,237,836**

Hydrocarbon Prices

MI Energy furnished us with the above mentioned average prices in effect on June 30, 2010 and the historical posted prices at Daqing. The hydrocarbon prices used herein are based on SPE PRMS price parameters for a constant case and the Listing Rule requirements using the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

The product prices which were used to determine the future gross revenue for each property reflect the Daqing posted price, as stipulated in the Production Sharing Contract.

In addition, the table below summarizes the net volume weighted benchmark prices adjusted for differentials and referred to herein as the "average realized prices." The average realized prices shown in the table below were determined from the total future gross revenue before production taxes and the total net reserves for the geographic area and presented in accordance with Listing Rule's disclosure requirements for each of the geographic areas included in the report.

Geographic Area	Product	Price Reference	Avg Benchmark Prices	Avg Realized Prices
People's Republic of China	Oil	Daqing	$73.35	$73.35

The prices used in the preparation of this report are provided in the attached "Economic Parameters" table.

The effects of derivative instruments designated as price hedges of oil quantities are not reflected in our individual property evaluations.

A price sensitivity case using Ryder Scott's current price and costs forecasts is presented in a later section of this report.

Costs

Operating costs for the leases and wells in this report are based on the operating expense reports of MI Energy and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. For operated properties, the operating costs include an appropriate level of corporate general administrative and overhead costs. The tariff cost of $1.02 per barrel is included and the overhead calculated as 1.5% of costs plus investments is included as "other deductions". No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the leases or wells.

Development costs were furnished to us by MI Energy and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were significant. The estimates of the net abandonment costs furnished by MI Energy were accepted without independent verification.

The non-producing and undeveloped reserves in this report have been incorporated herein in accordance with MI Energy's plans to develop these reserves as of June 30, 2010. The implementation of MI Energy's development plans as presented to us and incorporated herein is subject to the approval process adopted by MI Energy's management. As the result of our inquiries during the course of preparing this report, MI Energy has informed us that the development activities included herein have been subjected to and received the internal approvals required by MI Energy's management at the appropriate local, regional and/or corporate level. In addition to the internal approvals as noted, certain development activities may still be subject to specific partner AFE processes, Joint Operating Agreement (JOA) requirements or other administrative approvals external to MI Energy. Additionally, MI Energy has informed us that they are not aware of any legal, regulatory, political or economic obstacles that would significantly alter their plans.

Current costs used by MI Energy were held constant throughout the life of the properties.

Resources Included in This Report

The 1C, 2C and 3C Contingent Resources and the Low, Best and High Undiscovered Prospective Resources included herein conform to definitions of 1C, 2C and 3C, Low Best and High Contingent and Prospective resources as specified in the (SPE-PRMS). The definitions of resources are included in the section "Petroleum Resources Definitions" in this report. All Contingent Resources included herein are discovered and penetrated by wellbores but are considered to be below the current economic threshold. We have utilized the well tests and additional information from the wells in the area to estimate the volumes.

The recoverable contingent resource volumes and undiscovered prospective resource volumes have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of contingent and undiscovered prospective resources actually recovered may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

Gross Technically Recoverable Oil Resources
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation
As of June 30, 2010

	Contingent Resources		
	1C	**2C**	**3C**
Net Remaining Resources			
Oil/Condensate – Barrels.	2,283,299	4,203,978	5,291,256

	Undiscovered Prospective Resources		
	Low	**Best**	**High**
Net Remaining Resources			
Oil/Condensate – Barrels.	2,518,377	4,490,431	5,672,423

Note: In accordance with SPE PRMS definitions, the resource volumes shown above are cumulative (2C includes 1C, and 3C includes 2C plus 1C) and (Best includes Low, and High includes Best plus Low)

Estimates of Resources

The Contingent Resources and Undiscovered Prospective Resources for the reservoirs within the subject properties were estimated by a deterministic volumetric model. All resources included are based on the assumption of an oil reservoir with solution gas. The volumetric parameters utilized for each reservoir are presented in the resource discussion of each field in this report. The resources included are subject to a license agreement which is described in the economic discussion section for the contract area. The resources included in this report are estimates only and should not be construed as being exact quantities. They may or may not be actually recovered, and estimates of resources may increase or decrease as a result of future operations or as data become available. By definition, the C1, C2, and the C3 resource estimates presented herein are characterized as having different degrees of associated risk and are therefore not comparable.

The Contingent Resources are from areas of the field that currently represent sub-economic volumes. In accordance with the SPE PRMS these volumes are classified as Contingent Resources.

The Prospective Resources are those areas or fault blocks that do not have wellbore penetrations. In accordance with the SPE PRMS these volumes are classified as Undiscovered Prospective Resources.

In the course of our study MI Energy did not provide the drilling schedule for well locations included in the Contingent and Prospective Resource areas. Ryder Scott did not project these volumes or conduct an economic evaluation and therefore can not quantify the volumes that will be recovered within the current license term. At MI Energy's request we have included the entire technically recoverable volumes in this report.

Terms of Usage

The results of our third party study, presented in report form herein, were prepared in accordance with the "Competent Person's" requirements under the Listing Rules and as a part of the prospectus for listing on the Stock Exchange.

This report was prepared for the exclusive use and sole benefit of MIE Holdings Corporation and may not be put to other use without our prior written consent for such use. We have provided MIE Holdings Corporation with a digital version of the original signed copy of this report. In the event there are any differences between the digital version included in filings made by MIE Holdings Corporation and the original signed report letter, the original signed report letter shall control and supersede the digital version. The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

25.3 Introduction

Standards of Independence and Professional Qualification

This report relied on and incorporated data supplied by MI Energy as described in the Executive Summary. We consider the data used in this report appropriate and sufficient for the preparation of the estimates of reserves and future net reserves here in. The reserves are supported by detailed Geologic and Engineering analysis and incorporate such data presented by MI Energy.

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over seventy years. Ryder Scott is employee owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any publicly traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to MI Energy, including its directors, senior management, and advisers. Neither we nor any of our employees have any interest in the subject properties, and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The professional qualifications of the undersigned, the technical persons primarily responsible for reviewing and approving the reserves information discussed in this report, are included below.

Professional Qualifications of Primary Technical Person – Mr. Larry Connor

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Larry Connor was the primary technical person responsible for preparing the estimate of the reserves and future production included in this report.

Mr. Connor, an employee of Ryder Scott Company L.P. (Ryder Scott) since 1981, is a Managing Senior Vice President and is responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Connor

served in a number of engineering positions with Amoco Production Company. For more information regarding Mr. Connor's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Experience/Employees. Mr. Connor can be contacted at 1100 Louisiana, Suite 3800, Houston, Texas 77002, USA.

Mr. Connor earned a Bachelor of Science degree in Industrial Engineering from Texas A&M University in 1977 and is a registered Professional Engineer in the State of Texas, and the Provinces of Alberta, British Columbia and Saskatchewan, Canada. He is also a member of the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers. Currently Mr. Connor is serving as the Chairman of the Houston Chapter of the Society of Petroleum Evaluation Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Connor fulfills. As part of his 2009 continuing education hours, Mr. Connor attended an internally presented 16 hours of formalized training as well as a day long public forum, 2009 RSC Reserves Conference, relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Connor attended an additional 12 hours of formalized in-house training as well as 8 hours of formalized external training during 2009 covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants. Mr. Connor has served as course instructor for the formalized in-house training of PSA programming using PHDwintm software and using Crystal Balltm to analyze prospect evaluations.

Based on his educational background, professional training and more than 32 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Connor has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

Professional Qualifications of Primary Technical Person – Mr. Jim Broome

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Mr. James R. Broome was the primary technical person responsible for overseeing the analysis of certain petrophysical, geophysical and geological data relating to the volumetric estimates in this report.

Mr. Broome, an employee of Ryder Scott Company L.P. (Ryder Scott) since 1982, is a Senior Vice President responsible for coordinating and supervising staff and consulting geoscientists of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Broome served in a number of geological positions with Union Oil Company of California and Longhorn Oil and Gas. For more information regarding Mr. Broome's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com. Mr. Broome can be contacted at 1100 Louisiana, Suite 3800, Houston, Texas 77002, USA.

Mr. Broome earned a Bachelor of Arts degree in Geology from the University of South Florida in 1975 and a Master of Science in Geology from the University of Texas at Arlington in 1983. He is a registered Professional Geologist in the State of Texas as well as a Certified Petroleum Geologist (AAPG). Mr. Broome is also a member of the American Association of Petroleum Geologists and the Houston Geological Society.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Geologists/Geophysicists requires a minimum of fifteen hours of continuing education

annually, including at least one hour in the area of professional ethics, which Mr. Broome fulfills. As part of his 2009 continuing education hours, Mr. Broome attended an internally presented 16 hours of formalized training relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Broome has also attended an additional 9 hours of formalized in-house training as well as 5 hours of formalized external training during 2009 covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants.

Based on his educational background, professional training and more than 31 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Broome has attained the professional qualifications as a Reserves Estimator as set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

The reserves and income data included herein were estimated based on the definitions and disclosure guidelines contained in the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), and Society of Petroleum Evaluation Engineers (SPEE) Petroleum Resources Management System (SPE-PRMS).

SPE-PRMS Definitions
Recoverable Resources Classes and Sub-Classes
As Adapted From:
2007 Petroleum Resources Management System[1]

Class/Sub-Class	Definition	Guidelines
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.	Reserves must satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

Class/Sub-Class	Definition	Guidelines
On Production	The development project is currently producing and selling petroleum to market.	The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.
Approved for Development	All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.	At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies, such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Class/Sub-Class	Definition	Guidelines
Justified for Development	Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.	In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.	Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Class/Sub-Class	Definition	Guidelines
Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.	The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.
Development Unclarified or on Hold	A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.	The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a re-classification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Class/Sub-Class	Definition	Guidelines
Development Not Viable	A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.	The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.	Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.
Prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.	Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.
Lead	A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.
Play	A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.	Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

SPE-PRMS Definitions
Table 2: Reserves Status Definitions and Guidelines

Status	Definition	Guidelines
Developed Reserves	Developed Reserves are expected quantities to be recovered from existing wells and facilities.	Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.
Developed Producing Reserves	Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.	Improved recovery reserves are considered producing only after the improved recovery project is in operation.
Developed Non-Producing Reserves	Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.	Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing; (2) wells which were shut-in for market conditions or pipeline connections; or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.
Undeveloped Reserves	Undeveloped Reserves are quantities expected to be recovered through future investments:	Undeveloped Reserves are expected to be recovered from (1) new wells on undrilled acreage in known accumulations; (2) deepening existing wells to a different (but known) reservoir; (3) from infill wells that will increase recovery; or (4) where a relatively large expenditure (e.g., when compared to the cost of drilling a new well) is required to (a) recomplete an existing well; or (b) install production or transportation facilities for primary or improved recovery projects.

[1] Petroleum Resources Management System, prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE), March 2007.

25.4 Summary of Assets

25.4.a

The estimated reserves and future income amounts presented in this report, as of June 30, 2010, are related to hydrocarbon prices based on unescalated price parameters. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements, in accordance with the Listing Rules. As a result of both economic and political forces, there is significant uncertainty regarding the forecasting of future hydrocarbon prices. The recoverable reserves and the income attributable thereto have a direct relationship to the hydrocarbon prices actually received; therefore, volumes of reserves actually recovered and amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized below.

	Summary of Assets Reviewed					
Asset	**Location**	**Operating Company**	**Contract Type**	**Contract Expiration Date**	**Gross License Area Acreage**	**Net License Area Acreage**
Daan	People's Republic of China, Jilin Province	MI Energy	PSC	12/31/2024	253.0 km^2	182.2 km^2
Miao 3	People's Republic of China, Jilin Province	MI Energy	PSC	2/29/2028	81.0 km^2	58.3 km^2
Moliqing	People's Republic of China, Jilin Province	MI Energy	PSC	11/30/2028	71.5 km^2	51.5 km^2

	Gross Remaining Reserves		Net Remaining Reserves	
	Oil/Condensate – Barrels		Oil/Condensate – Barrels	
	Proved (1P)	**Proved + Probable (2P)**	**Proved (1P)**	**Proved + Probable (2P)**
Daan	61,948,356	96,075,271	24,626,665	38,745,557
Miao-3	441,160	1,089,243	277,613	623,691
Moliqing	10,505,603	19,250,397	4,504,484	8,310,302
Total	72,895,119	116,414,911	29,408,762	47,679,550

	Gross Remaining Reserves	Net Remaining Reserves
	Oil/Condensate – Barrels	Oil/Condensate – Barrels
	Possible	**Possible**
Daan	19,896,402	7,995,093
Miao-3	611,054	198,782
Moliqing	11,723,104	5,272,151
Total	32,230,560	13,466,026

MIE HOLDINGS CORPORATION
SUMMARY OF RESOURCE VOLUMETRICS
AS OF JUNE 30, 2010

	Gross Resources				Estimated MI Energy Net Resources		
	Contingent Resources			Estimated Net Interest	Contingent Resources		
	C1	C2	C3		C1	C2	C3
Daan.	1,250,557	2,540,179	3,184,991	0.401836121	502,519	1,020,736	1,279,844
Miao 3	4,364,379	8,059,019	10,111,596	0.325310038	1,419,776	2,621,680	3,289,404
Moliqing.	802,725	1,248,684	1,605,451	0.449723128	361,004	561,562	722,008
Total.	6,417,661	11,847,882	14,902,038		2,283,299	4,203,978	5,291,256

	Prospective Resources				Prospective Resources		
	Low	Best	High		Low	Best	High
Daan.	2,631,885	5,263,770	6,579,713	0.401836121	1,057,586	2,115,173	2,643,966
Miao 3	1,204,621	2,190,219	2,737,774	0.325310038	391,875	712,500	890,625
Moliqing.	2,376,831	3,697,292	4,753,662	0.449723128	1,068,916	1,662,758	2,137,832
Total.	6,213,337	11,151,281	14,071,149		2,518,377	4,490,431	5,672,423

Note: In accordance with SPE PRMS definitions, the resource volumes shown above are cumulative (C2 includes C1, and C3 includes C2 plus C1) and (Best includes Low, and High includes Best plus Low)

25.5 Discussion

The MI Energy properties listed in this offering all lie in the Songliao Basin in northeast China. This is a NE-SW elongate basin covering over 250,000 sq km. Exploration began in this basin in 1958 and first commercial production was in 1960 from the Daqing Oil Field. Today Daqing ranks as one of the worlds largest fields with over 10 billion barrels of oil production.

The basin was formed and filled in several tectonic stages, beginning in the Middle Jurassic and extending into the Neogene. The early phase is characterized by crustal rifting and associated volcanism. Deposits during this time was mainly volcanic and pyroclastics interbedded with conglomerates, sandstones and mudstones. This is followed by post-rift subsidence and the creation of numerous grabens and half-grabens. Deposition were mainly fluvial and deltaic deposition into shallow lakes. The fine siltstone and mudstone units here were organic rich and are the source rock for much of the Songliao Basin – this sequence is represented by the Lower to Upper Cretacious Quantou (k1q4) and Qingshankou (k2qn) formations. The Upper Cretacious saw several episodes of uplift and subsidence. Many of the structures were partially denuded, then reburied by similar deltaic and lacustine sediments.

The Daan and Miao-3 oil fields lie along trend with Daqing in the central basinal area. Moliqing lies on the eastern margin of the Songliao Basin.

25.6 Fields

25.6 Daan Field

Geology

The Daan oil field is located near Daan City in Jilin Province, in the northeastern region of People's Republic of China. Exploration in this area began in the late 50's. MI Energy now operates 1,371 wells in the Daan Field which is currently in a development-production phase.

Daan field lies within the central depression of the Songliao Basin, a Mesozoic rift basin. There are two main reservoir sequences in the field, the Lower Cretaceous Fuyu-Yangdachengzi (K_1q_{3+4}) and the Upper Cretaceous Gaotaizi (K_2qn_{2+3}) *(Figure 1)*.

The structure map (top of Fuyu horizon, K_1q_4) is based on seismic with dense well control. The seismic interpretation was done by MI Energy (Beijing) and has been reviewed by Ryder Scott. The seismic data is very good quality 3-D in the southern and central portions of the field and good quality 2-D in the north. The 3-D was originally shot in '91/'92 and reprocessed in 2009. The 2-D was shot in '90/'91 and '91/'92 and also reprocessed in 2009. Ryder Scott has reviewed and discussed the mapping techniques with representatives from MI Energy and has accepted this map as an accurate and reasonable representation of the log and seismic data.

Field Structure

The Daan structure map depicts an elongate NNE-SSW trending anticline with a plunge to the north; the crestal elevation is approximately 1,600 metres subsea in the south and 1,900 metres subsea in the north *(Figure 2)*. The structure is slightly asymmetrical with dips on the SE flank of 4° to 6° and on the NW flank of 2° to 4°. The steeper dips on the SE flank are influenced by the Daan fault, a major NNE-SSW trending reverse fault. This fault has exhibited two phases of movement. During the deposition of the field reservoirs the fault exhibited normal movement due to extension in the basin. Later, during a compressional phase, the area was inverted by reverse movement, into the anticline now expressed as the Daan oil field. This reverse movement was coupled with an apparent right-lateral component resulting in a series of NW-SE trending en-echelon normal faults that cut across the anticlinal axis. Some of these larger cross-faults may act as reservoir boundaries and are used to separate the Daan oil field into nine reservoirs or blocks. These faults exhibit steep fault planes on the order of +/- 70 degrees *(Figures 3,4)*.

Field Stratigraphy

The Lower Cretaceous Fu Yang (Fuyu-Yangdachengzi) reservoirs are a series of interbedded sands and shales of both lacustrine and fluvial origins. The sequence ranges in thickness from approximately 100m to 300m, gross interval, with individual sand units ranging from 1m to 15+m. These individual sand bodies show great lateral variation based on the dense well control. The Lower Cretaceous Fu-Yang reservoirs are present north to south across the entire Daan Field area. The Upper Cretaceous Gaotaizi sands are developed only in the southern Daan area, mainly in blocks DH, DJ, and DK. The boundary between these two sequences is generally thought to be unconformable. Additionally the zone containing Gaotaizi is not logged through most of the field which obscures its true lateral continuity.

Petrophysics

The Daan Field reservoirs are calculated using detailed log analysis of the 1,350+ wells in the field area. The log data was loaded in the Geographix Prism log analysis program and the log curves were then normalized to ensure consistency in the analysis. Core data was provided for 7 wells in the Daan area which was utilized to calibrate the log porosity *(Figure 5)* as well as establish porosity and Sw Cutoffs. A porosity/perm relationship was established using regression analysis *(Figure 6)* to determine a 9.5 percent porosity cutoff at 0.1 mD. Using a standard 1 mD permeability cutoff would not generate reliable pay counts for the Daan oil field. With the support of production data Ryder Scott has made a one decade shift in the permeability cutoff to 0.1 mD to produce reasonable pay counts supported by production data. In September 2008, Ryder Scott was presented with a report by John S. Schneider of Schneider Exploration, Inc., describing the inaccuracy of the technique used to conduct measurements on the previous core samples. Shortly after, MIE resumed acquiring core data which is currently being evaluated by independent sources. Ryder Scott was also provided relative permeability data from two wells (D206-10 and DJ2-3) which it utilized to establish the 50 percent water saturation cutoff. This detailed analysis not only helped define the net oil pay thickness but also determine the oil-water contact (OWC) or lowest known occurrence of oil (LKO) within each of the nine blocks. One key finding in this analysis is that for each of the nine blocks, the OWC or LKO falls outside the concession boundaries.

As of the YE2009 study Ryder Scott has reviewed and regenerated the endpoints used to normalize the GR logs due to great influx of new well data since the project was first analyzed. All of the GR data from Daan

is now normalized to 5%-95% Cum Frequency using a standard two point normalization equation. This has been redistributed through all of the log data and may skew the comparison of HCPV and Net Pay values previous to this study to data presented from here on.

In general, the reservoir properties as indicated by logs, improve from north to south, probably a direct relationship to the depth of burial being deeper in the north and shallower in the south. These sands are considered "tight" and all wells are hydraulically fractured (frac'd) to improve the flow of oil from the reservoir. Based on log properties the effective reservoir has a porosity range of 11-22% with an average of 16%. Water Saturations in the field have a range of 27-49% with an average of 41%.

Reservoir Characteristics

Typically an oil well in this field is capable of draining about 15 acres; some will drain larger areas, some smaller, depending upon reservoir conditions and the efficiency of the frac. Nearly all drilled wells to date have had successful economic completions. The reservoir properties in the northern part of the field, specifically blocks DA, DB and DC, are slightly poorer than in the southern part. In this northern area there have been some poor completions, part of which may be related to reservoir quality.

All the wells that have been successfully tested are assigned 15 acres as the Proved reservoir area. Each of these wells are assigned eight direct offsets, also 15 acres each, for a combined Proved (1P) area of 135 acres around each successfully tested/analyzed well. A Proved plus Probable (2P) area of 750 acres is assigned to each successfully tested/analyzed well by assuming a drainage area of 30 acres and 24 direct offsets.

As noted previously, the down-dip reservoir limits for each block, as determined by either OWC or LKO, fall outside the concession boundaries, and as such, the only known reservoir limits for the proved plus probable plus possible (3P) areas are the Daan Fault and the concession boundaries. In addition to the physical reservoir limits, a Hydrocarbon Pore Volume (HCPV) factor has been used to further define the economic limits of the field. Based on a $65 per barrel field price, it was determined that well locations with an HCPV less than 0.25m are generally not economic. As a result MIE has removed these low HCPV locations from the development plan. Therefore, the possible limit is defined as that portion of the field bounded by the Daan fault and the concession boundaries outside the 2P areas with a HCPV value above 0.25m, as illustrated in the map provided in the Maps section. The volume below the 0.25m HCPV contour is now considered contingent resources. As per requirements all reserve areas are also limited to fault blocks that have been successfully penetrated by a well bore in the formation of interest. Areas that do not meet this requirement are also classified as contingent resources, which are not included in this evaluation.

Located in blocks DH, DJ, and DK are three bands designated as probable that are direct offsets to proven wells. These bands are located adjacent to the major block-boundary faults. The only well in the Daan Field abandoned without testing was the DH11-3 drilled in March 2006. The well is technically not a dry hole but MIE considered the reservoir quality such that the completion would be sub-economic. They reasoned that the loss in reservoir quality was due to its' proximity to the block-boundary fault. Consequently, in the early phase of development, proposed locations near these major faults were removed. Now with more drilling and completion experience MIE has re-introduced locations in these bands. Until wells have been successfully (economically) completed within these bands these locations will remain as probable. As for the northern section of the DH block, MIE does not currently have scheduled locations in this portion and the associated area is deemed to be contingent resource and is not included in this evaluation.

As requested by MI Energy the individual block boundaries were redefined within the PSC as of the September 2008 update. The new area redistribution skewed the results when compared with the prior Daan block reports. The total field area remains the same, but block by block the areas and volumes have been changed.

Proved, probable and possible oil-in-place volumes are determined for each block based on the areas as outlined above and the HCPV map provided in the Maps section. A summary of the mapped volumes is provided in the Tables section.

MI Energy is currently in the process of acquiring and analyzing new core data for the field. This data has been presented but is not fully analyzed so we have decided not to implement it in to the current reserves update. Once more data has been collected and fully analyzed it will be incorporated into the future geologic models.

Reserve Methodology – Oil Reserves

MI Energy has a 90 percent interest in the Daan petroleum contract and is the operator. The other 10 percent is owned by Global Oil Corporation. The contract is now in the commercial production phase and has an expiry date of December 31, 2024. Production from the contract area commenced in 1993, prior to the date of implementation of the contract, March 1, 1998. From 1998 to December 20, 2001 when MI Energy was formally novated into the agreement, only about 28 wells were on production. As of the effective date of this evaluation, there were 1,067 producers and 278 injectors in the contract area. Cumulative production was about 21,550 Mstb and oil production rate was about 16,500 barrels per day with a water cut of 22 percent. Production from the wells is gathered via pipelines or trucked to a central station where the oil, water and gas are separated.

Certain portions of the contract area are under waterflood while others are still producing under primary depletion. MI Energy plans to waterflood the whole contract area when it's fully developed. For the purpose of this evaluation, waterflood recovery factors were assigned to mostly the delineated portions of the pool. These areas, shown on the map in the Maps section, are further divided into developed and undeveloped waterflood areas. The developed waterflood areas are those continuous proved areas where water injection has started. The undeveloped waterflood areas are those continuous proved, probable and possible areas where water injection has not yet started. Isolated portions of the proved, probable and possible areas were assigned primary recovery factors. Ryder Scott is of the opinion that the reservoir properties in these areas are not sufficiently defined to warrant the assignment of waterflood reserves at this time.

Average primary recovery factor of 3 to 4 percent, based on decline curve analysis of existing well performance and type curves, was used for the proved areas, while higher primary recovery factors, average 7.5 percent and 8.3 percent respectively, were used for the probable and possible areas of the contract. Average proved, proved plus probable, and proved plus probable plus possible waterflood recovery factors of 10.6 percent, 14.3 percent, and 17.9 percent, respectively, were used after giving consideration for response to date and in-field analogs. It should be noted that only probable and possible waterflood reserves were assigned to the pilot waterflood areas in Blocks A and B in the northern part of the field where the reservoir quality is poorer. Waterflood operations in the pilot areas have started in May 2007 for Block A and March 2008 for Block B. The recovery factors used on average were also less than the other blocks to reflect the poorer reservoir quality in that part of the field. A summary of the calculated recoverable reserve volumes are provided in the Tables section.

MI Energy plans to develop the field on 15 acre spacing and to waterflood using an inverted nine spot pattern. Total number of locations required to develop the proved, probable, and possible areas were determined by taking the area calculated for each of the categories and dividing it by 15 acres. For the probable and possible areas, the number of locations so determined was classified as undeveloped. For the proved areas, the number of undeveloped locations was determined by subtracting the number of producing and shut-in wells from the calculated total number of locations required. The number of injectors required for the waterflood areas were determined using a producer/injector ratio of 3:1,

consistent with an inverted nine spot pattern. Locations with negative impact on project economics were excluded from reserves. The volumes associated with those locations were downgraded to contingent resources. Based on this methodology, the number of future undeveloped locations included in reserves is as shown in the following table.

	Producer	Injector	Total
Proved	418	151	569
Probable	620	72	692
Possible	328	12	340

The undeveloped locations were scheduled as per MI Energy's drilling plans.

Certain wells in the contract area are completed in the Putaohua, Heidimiao, and Saertu formations. Production from these formations is either commingled with the Fu Yang or produced separately and is relatively minor. For the commingled wells, we have no satisfactory method to determine the relative contributions and the production is included with the Fu Yang reserves. Decline curve analysis was used to determine the producing reserves for the non-commingled wells. Undeveloped reserves were not assigned to these formations as they appear to be not as well developed.

The production history and forecasts for the contract area and for each block are provided in the Plots section. It should be noted that the forecast volumes were based on the recoverable volumes presented in the volumetric tables in the Tables section. These volumes can be significantly different from the volumes shown on the cash flow projections due to economic and/or contract life cutoff.

UNESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation – Daan Field
As of June 30, 2010

	Proved		
	Producing	**Undeveloped**	**Total Proved**
Gross Remaining Reserves			
Oil/Condensate – Barrels	43,128,502	18,819,854	61,948,356
Net Remaining Reserves			
Oil/Condensate – Barrels	17,398,299	7,228,367	24,626,666

	Probable		
	Producing	**Undeveloped**	**Total Probable**
Gross Remaining Reserves			
Oil/Condensate – Barrels	14,787,726	19,339,189	34,126,915
Net Remaining Reserves			
Oil/Condensate – Barrels	6,442,818	7,676,074	14,118,892

	Possible		
	Producing	**Undeveloped**	**Total Possible**
Gross Remaining Reserves			
Oil/Condensate – Barrels.	10,543,255	9,353,148	19,896,403
Net Remaining Reserves			
Oil/Condensate – Barrels.	4,261,700	3,733,393	7,995,093

Reserve Methodology – Infill Drilling

The current development pattern in the Daan Field is an inverted 9 spot waterflood with the injection in the center. Current well spacing in the field is approximately 15 acres per well with a producer to injector ratio of 3:1.

MI Energy has drilled six wells, which were on production by this report's effective date; in Block J on a spacing of approximately 9 acres to evaluate the potential for infill drilling on a larger scale in the future. Recent test indicate the infill wells are producing an average of 24 barrels of oil per day (BOPD). This compares favorably with the Daan PSC average of 25 BOPD. As described earlier in the geologic discussion, the Fu Yang reservoir is a series of interbedded sands and shales and is very "tight". In addition production performance indicates that there is a directional permeability. It has been shown in other reservoirs around the world of a similar geologic nature, there exists a large number of discontinuous pay sands that are not penetrated by adjacent producers and injectors. This results in a poor waterflood response and a corresponding low recovery efficiency. Infill drilling has generally been shown to be successful in connecting discontinuous sand bodies and improving recovery factors as spacing between injectors and producers is decreased. Additional reserves may result from the re-alignment of the pattern to mitigate the directional permeability and improve volumetric sweep efficiency.

In addition to improved recovery and the addition of incremental reserves, a second benefit from an infill program could be the acceleration of reserves. The current contract period expires 12/31/2024. Based on the projected performance, not all of the technical reserves will be produced before the expiration date of the contract. If infill drilling results in a meaningful acceleration of production, then additional volumes produced prior to the contract expiration date can be booked as reserves.

MI Energy intends to continue this infill program in Block J and other parts of the field in the future. In 2011 MI Energy plans to drill an additional twelve infill wells with 6 wells planned for the K block and 6 wells in the G block.

MI Energy has informed us that there is the potential to further develop the Daan PSC with an estimated 400 infill wells. When completed, the infill drilling program will convert much of the existing inverted 9 spot patterns in the best part of the reservoir to a modified line drive pattern with a producer to injector ratio of 2:1.

MI Energy and Ryder Scott are currently undertaking a study of the impact of infill drilling through reservoir simulation. Anticipated results will be a better understanding of the incremental production rate and reserves resulting from the infill drilling. The results of this study will be qualitative in nature, are not known at this time and are not incorporated in this report.

Since this infill program was initiated in 2010, it is still too early to demonstrate and quantify the effectiveness of infill drilling in this particular reservoir, or to determine if this will be successful and to what degree the recovery efficiency will be improved. As more data is collected and production history is established, a meaningful evaluation can be made. Therefore, at this time, no additional reserves have been assigned to the infill drilling program which still is in the planning stage.

Reserve Methodology – Gas Reserves

No revenue is derived from the gas produced from this property. As a result, no gas reserves have been assigned.

Reserve Methodology – Surface Loss and Liquid Yields

The difference between the reported produced volumes and the sales volume for oil is currently about 7.4 percent. This difference was assumed to remain constant for the remaining life of the property and was taken into consideration in the calculation of the company's net production volumes.

Resource Methodology

In Daan Field the reserves and resources are limited aerially by the PSC boundary. The reserves and their associated limits have been discussed previously. The remaining resources then fall into two categories, prospective and contingent. Prospective Resources are those volumes in un-drilled fault segments within the PSC area. There are three isolated resource blocks in the main Daan field area (in blocks DA, DB, and DH) surrounded by numerous well penetrations but are un-drilled at this time. The fault block downthrown on the Daan Fault is un-drilled within the PSC and is therefore also classified as a resource volume. Contingent Resources are those volumes within the drilled areas that fall below a 0.25m HCPV thickness. Experience in this field shows that wells with a HCPV thickness less than 0.25m are generally uneconomic to produce. The "reserves" associated with these producing wells are based on performance trends and are subtracted out of the "resource" volume.

Block	Total Volumes @res. Condition			Reserves Volumes @res. Condition			Prospective Resource Volumes @res. Condition			Contingent Resource Volumes @res. condition		
Polygon	Area (Ac.)	Total Net pay	Total HCPV (Barrels)	Reserves Area (Ac.)	Reserves Net pay	Reserves HCPV (Barrels)	Prospective Area (Ac.)	Prospective Net pay	Prospective HCPV (Barrels)	Contingent Area (Ac.)	Contingent Net pay	Contingent HCPV (Barrels)
DA Block Total	10,915		211,743,445	7,342		187,204,917	976		13,422,924	2,597		11,115,604
DB Block Total	10,593		157,166,826	4,196		89,375,708	3,298		53,239,056	3,098		14,552,061
DC Block Total	6,605		168,572,323	6,308		166,876,885				297		1,695,438
DD Block Total	3,625		82,802,561	2,760		79,612,435				866		3,190,126
DE Block Total	4,468		104,997,244	2,902		101,602,863				1,566		3,394,382
DF-G Block Total	5,262		169,284,756	4,144		166,638,414				1,118		2,646,342
DH-I Block Total	6,090		215,572,272	5,650		207,132,226	248		7,634,463	180		520,800
DJ Block Total	3,845		149,193,674	3,844		149,188,726				2		4,948
DK Block Total	7,635		231,021,418	6,925		226,114,592				710		4,906,825
Block Totals	59,039		1,490,354,518	44,070		1,373,746,767	4,521		74,296,444	10,435		42,026,525
DL-DN-DP Blocks							6,667		11,472,047			
TOTAL Resource							11,188		85,768,490	10,435		42,026,525

Raw Volumes			
POLYGON ID	Area (Ac.)	Net pay	HCPV (Barrels)
DA Block Total	10,914.94		211,743,444.51
DA_3P_1	2,691.87		45,519,936.13
DA_3P_2	4,315.73		137,279,063.47
DA_3P_3	209.40		2,518,388.38
DA_3P_5	125.29		1,887,529.17
DA_Prospective_1	975.50		13,422,923.81
Da208 Block Polygon-No Reserves	3,317.42		158,126,478.93
DB Block Total	10,592.82		157,166,825.62
DB_3P_1	3,886.93		83,678,304.36
DB_3P_2	245.45		5,229,077.04
DB_3P_3	63.92		468,326.83
DB_Prospective_1	10.04		376,936.25
DB_Prospective_2	3,287.99		52,862,120.02
DC Block Total	6,604.95		168,572,323.28
DC_3P_1	3,969.79		129,752,366.97
DC_3P_2	2,337.86		37,124,518.10
DD Block Total	3,625.23		82,802,560.62
DD_3P_1	2,540.37		77,571,212.15
DD_3P_2	219.21		2,041,222.54
DE Block Total	4,468.07		104,997,244.43
DE_3P_1	2,901.67		101,602,862.92
DF-G Block Total	5,262.19		169,284,756.16
DFG_3P_1	4,143.80		166,638,414.04
DH_Prospective_1	247.54		7,634,463.47
DH-I Block Total	6,090.32		215,572,271.80
DHI_3P_1	5,663.22		207,417,008.29
DHI_3P_NO RESERVES	13.14		284,782.43
DJ Block Total	3,845.42		149,193,673.60
DJ_3P_1	3,843.82		149,188,726.08
DK Block Total	7,634.99		231,021,417.95
DK_3P_1	6,924.57		226,114,592.47
PSC Boundary	69,022.94		1,659,953,043.46

	Recovery Factor	Gross Technically Recoverable less cumulative production
1C	3.40%	1,250,557
2C	6.80%	2,540,179
3C	8.50%	3,184,991
Low	3.40%	2,631,885
Best	6.80%	5,263,770
High	8.50%	6,579,713

Field Average	
Average Porosity	Average Sw
0.146	0.436
Formation Volume Bo	
1.108	
cumulative production from area	
39,066	

Future Development

As discussed previously, a considerable amount of additional development is required to deplete the assigned reserves. The projected capital requirements for drilling and facility expansion are provided in the Economic Parameters table included in the Tables section and were estimated from data provided by MI Energy.

The tables below present MI Energy's development plan for the Daan Field by block, reserve classification and summaries for 1P, 2P and 3P, by year.

In addition, reservoir parameters are included in tabular form. These parameters were utilized to calculate original oil in place (OOIP) for each fault block. The OOIP values were used to back calculate the recovery factors for those blocks and areas with sufficient performance history.

MIE DEVELOPMENT SCHEDULE
GROSS WELLS (PROD & INJ)
DAAN FIELD

	BLOCK A						
Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010	A	0	0	0	0	0	0
2011	A	33	0	0	33	33	33
2012	A	55	106	0	55	161	161
2013	A	25	133	10	25	158	168
2014	A	0	57	23	0	57	80
2015	A	0	0	0	0	0	0
TOTAL		**113**	**296**	**33**	**113**	**409**	**442**

	BLOCK B						
Year	**BLK**	**PVD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	B	0	0	0	0	0	0
2011	B	19	0	0	19	19	19
2012	B	36	20	0	36	56	56
2013	B	15	53	0	15	68	68
2014	B	0	0	87	0	0	87
2015	B	0	0	0	0	0	0
TOTAL		**70**	**73**	**87**	**70**	**143**	**230**

	BLOCK C						
Year	**BLK**	**PVD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	C	0	0	0	0	0	0
2011	C	58	5	0	58	63	63
2012	C	18	36	0	18	54	54
2013	C	13	45	5	13	58	63
2014	C	0	7	100	0	7	107
2015	C	0	0	56	0	0	56
TOTAL		**89**	**93**	**161**	**89**	**182**	**343**

	BLOCK D						
Year	**BLK**	**PVD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	D	0	0	0	0	0	0
2011	D	9	0	0	9	9	9
2012	D	13	3	0	13	16	16
2013	D	3	24	0	3	27	27
2014	D	0	12	17	0	12	29
2015	D	0	0	15	0	0	15
TOTAL		**25**	**39**	**32**	**25**	**64**	**96**

	BLOCK E						
Year	**BLK**	**PVD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	E	0	0	0	0	0	0
2011	E	30	4	0	30	34	34
2012	E	10	0	0	10	10	10
2013	E	0	10	0	0	10	10
2014	E	0	10	10	0	10	20
2015	E	0	8	9	0	8	17
TOTAL		**40**	**32**	**19**	**40**	**72**	**91**

MIE DEVELOPMENT SCHEDULE
GROSS WELLS (PROD & INJ)
DAAN FIELD

BLOCK FG

Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010	FG	0	0	0	0	0	0
2011	FG	38	0	0	38	38	38
2012	FG	5	12	0	5	17	17
2013	FG	0	23	0	0	23	23
2014	FG	0	0	8	0	0	8
2015	FG	0	0	0	0	0	0
TOTAL		**43**	**35**	**8**	**43**	**78**	**86**

BLOCK H

Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010	H	0	0	0	0	0	0
2011	H	52	0	0	52	52	52
2012	H	19	0	0	19	19	19
2013	H	24	20	0	24	44	44
2014	H	0	29	0	0	29	29
2015	H	0	0	0	0	0	0
TOTAL		**95**	**49**	**0**	**95**	**144**	**144**

BLOCK J

Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010	J	0	0	0	0	0	0
2011	J	12	0	0	12	12	12
2012	J	19	0	0	19	19	19
2013	J	0	8	0	0	8	8
2014	J	0	12	0	0	12	12
2015	J	0	16	0	0	16	16
TOTAL		**31**	**36**	**0**	**31**	**67**	**67**

BLOCK K

Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010	K	0	0	0	0	0	0
2011	K	28	0	0	28	28	28
2012	K	21	0	0	21	21	21
2013	K	14	0	0	14	14	14
2014	K	0	20	0	0	20	20
2015	K	0	19	0	0	19	19
TOTAL		**63**	**39**	**0**	**63**	**102**	**102**

	TOTAL ALL PSC						
Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010		0	0	0	0	0	0
2011		279	9	0	279	288	288
2012		196	177	0	196	373	373
2013		94	316	15	94	410	425
2014		0	147	245	0	147	392
2015		0	43	80	0	43	123
TOTAL		**569**	**692**	**340**	**569**	**1,261**	**1,601**

	Daan – Proved			
Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	2,954,228	2,500,000	22,709,131
2011	279	5,634,224	100,747,400	49,723,412
2012	196	5,759,402	68,503,200	53,064,962
2013	94	6,067,093	36,280,800	54,602,258
2014	0	6,025,779	0	53,983,957
2015	0	5,540,079	0	53,239,014
2016	0	5,068,757	0	52,462,207
2017	0	4,539,676	0	51,413,962
2018	0	4,083,370	0	50,510,719
2019	0	3,664,876	0	49,768,111
2020	0	3,241,202	0	48,979,781
2021	0	2,832,556	0	48,277,881
2022	0	2,478,416	0	47,506,732
2023	0	2,164,619	0	46,575,954
2024	0	1,894,078	0	45,863,142
Sub Total		**61,948,355**	**208,031,400**	**728,681,223**
Remainder		**0**	**0**	**0**
Total Future	**569**	**61,948,355**	**208,031,400**	**728,681,223**

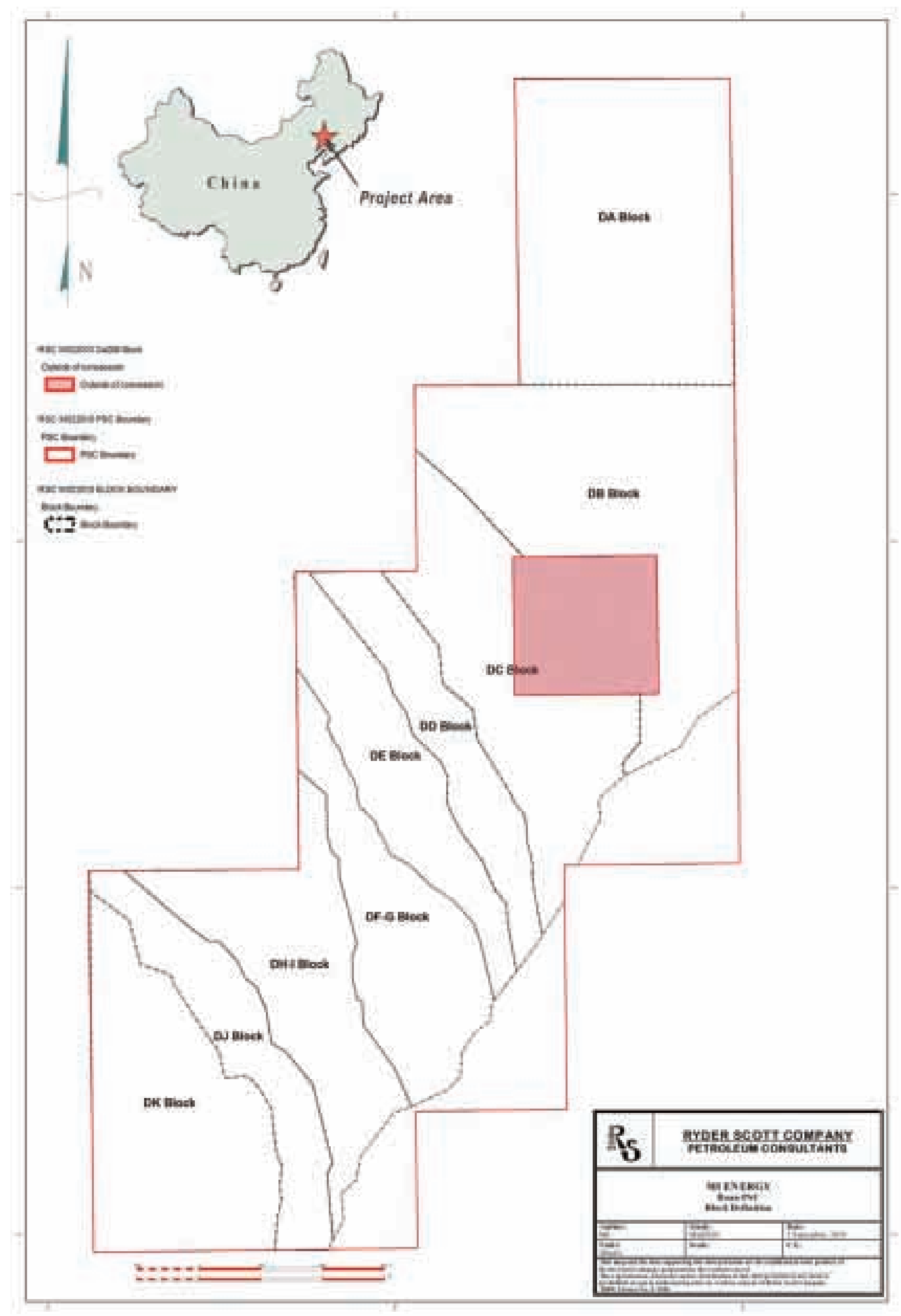
Year	Daan – Probable			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	45,870	0	80,177
2011	9	321,412	3,092,400	669,981
2012	177	802,163	61,485,356	4,663,804
2013	316	1,600,211	110,633,556	11,076,981
2014	147	2,428,865	55,985,822	13,636,805
2015	43	2,960,683	14,774,800	14,620,211
2016	0	3,146,158	0	14,614,187
2017	0	3,181,998	0	14,665,408
2018	0	3,138,258	0	14,585,526
2019	0	3,019,609	0	14,376,886
2020	0	2,925,841	0	14,212,472
2021	0	2,822,787	0	14,029,049
2022	0	2,705,711	0	14,003,320
2023	0	2,584,156	0	14,197,521
2024	0	2,443,193	0	14,234,079
Sub Total		**34,126,915**	**245,971,933**	**173,666,407**
Remainder		**0**	**0**	**0**
Total Future	**692**	**34,126,915**	**245,971,933**	**173,666,407**

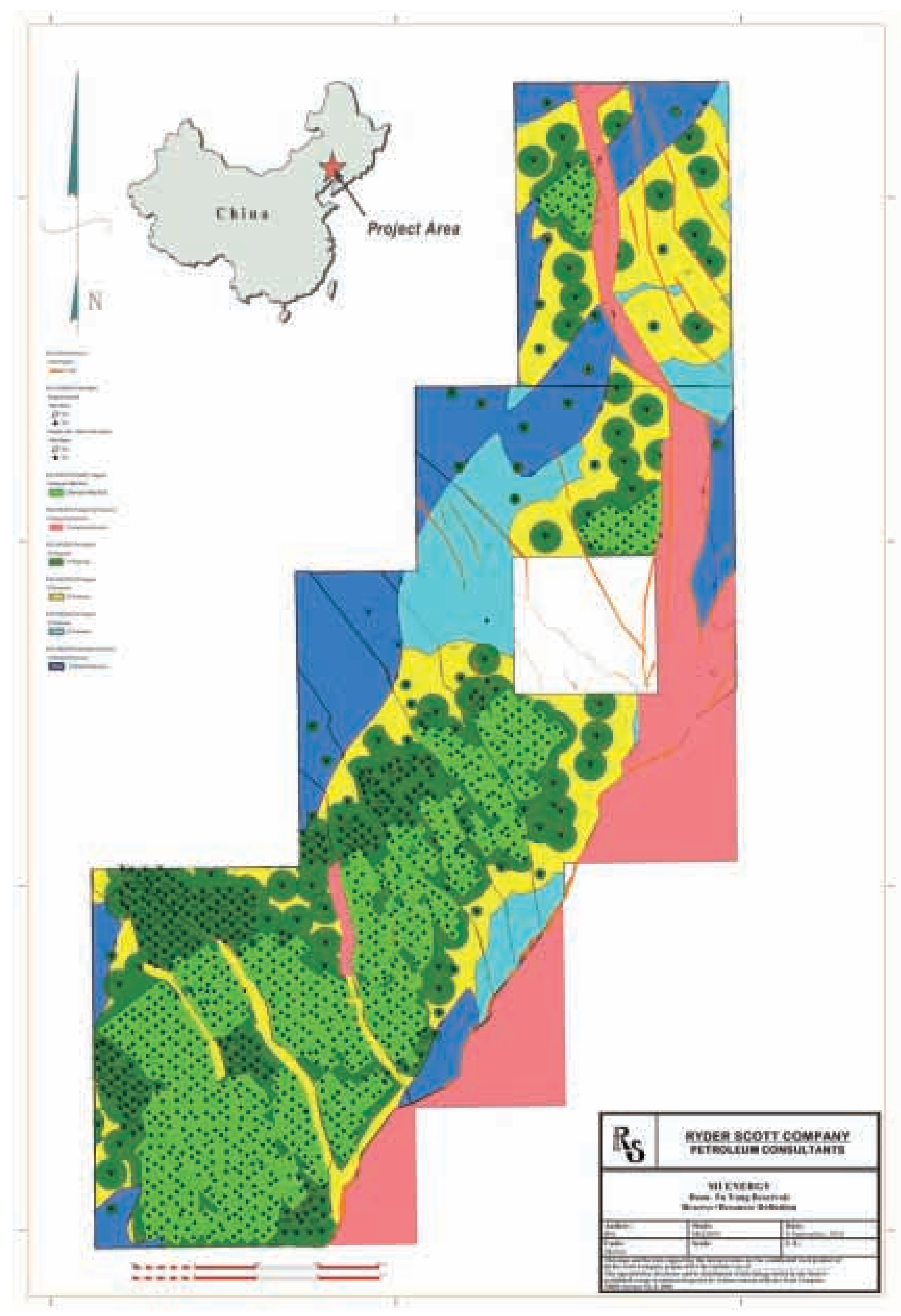
Year	Daan – Possible			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	9,180	0	21,548
2011	0	75,440	0	142,089
2012	0	190,557	1,769,400	349,237
2013	15	392,678	7,936,000	1,154,339
2014	245	950,531	80,247,422	6,077,505
2015	80	1,324,913	27,487,956	7,159,985
2016	0	1,545,867	0	7,163,924
2017	0	1,756,524	0	7,500,180
2018	0	1,880,597	0	7,694,947
2019	0	1,962,762	0	7,822,003
2020	0	2,051,190	0	7,961,218
2021	0	2,040,026	0	7,935,334
2022	0	1,973,094	0	7,817,873
2023	0	1,908,354	0	7,704,754
2024	0	1,834,689	0	7,578,148
Sub Total		**19,896,402**	**117,440,778**	**84,083,083**
Remainder		**0**	**0**	**0**
Total Future	**340**	**19,896,402**	**117,440,778**	**84,083,083**

Year	Daan – 1P			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	2,954,228	2,500,000	22,709,131
2011	279	5,634,224	100,747,400	49,723,412
2012	196	5,759,402	68,503,200	53,064,962
2013	94	6,067,093	36,280,800	54,602,258
2014	0	6,025,779	0	53,983,957
2015	0	5,540,079	0	53,239,014
2016	0	5,068,757	0	52,462,207
2017	0	4,539,676	0	51,413,962
2018	0	4,083,370	0	50,510,719
2019	0	3,664,876	0	49,768,111
2020	0	3,241,202	0	48,979,781
2021	0	2,832,556	0	48,277,881
2022	0	2,478,416	0	47,506,732
2023	0	2,164,619	0	46,575,954
2024	0	1,894,078	0	45,863,142
Sub Total		**61,948,355**	**208,031,400**	**728,681,223**
Remainder		**0**	**0**	**0**
Total Future	**569**	**61,948,355**	**208,031,400**	**728,681,223**

Year	Daan – 2P			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	3,000,098	2,500,000	22,789,308
2011	288	5,955,636	103,839,800	50,393,393
2012	373	6,561,565	129,988,556	57,728,766
2013	410	7,667,304	146,914,356	65,679,239
2014	147	8,454,644	55,985,822	67,620,762
2015	43	8,500,762	14,774,800	67,859,225
2016	0	8,214,915	0	67,076,395
2017	0	7,721,674	0	66,079,371
2018	0	7,221,628	0	65,096,245
2019	0	6,684,485	0	64,144,996
2020	0	6,167,043	0	63,192,253
2021	0	5,655,343	0	62,306,930
2022	0	5,184,127	0	61,510,052
2023	0	4,748,775	0	60,773,476
2024	0	4,337,271	0	60,097,221
Sub Total		**96,075,270**	**454,003,333**	**902,347,630**
Remainder		**0**	**0**	**0**
Total Future	**1,261**	**96,075,270**	**454,003,333**	**902,347,630**

	Daan – 3P			
Year	**Number of Wells Drilled**	**Gross Oil Production (Barrels)**	**Gross CAPEX**	**Gross OPEX**
			$	**$**
2010	0	3,009,278	2,500,000	22,810,856
2011	288	6,031,076	103,839,800	50,535,482
2012	373	6,752,122	131,757,956	58,078,003
2013	425	8,059,982	154,850,356	66,833,578
2014	392	9,405,175	136,233,244	73,698,267
2015	123	9,825,675	42,262,756	75,019,209
2016	0	9,760,782	0	74,240,318
2017	0	9,478,198	0	73,579,551
2018	0	9,102,225	0	72,791,192
2019	0	8,647,247	0	71,966,999
2020	0	8,218,233	0	71,153,471
2021	0	7,695,369	0	70,242,264
2022	0	7,157,221	0	69,327,925
2023	0	6,657,129	0	68,478,230
2024	0	6,171,960	0	67,675,369
Sub Total		**115,971,672**	**571,444,111**	**986,430,713**
Remainder		**0**	**0**	**0**
Total Future	**1,601**	**115,971,672**	**571,444,111**	**986,430,713**


China
Project Area
N
DA Block
DB Block
DC Block
DD Block
DE Block
DF-G Block
DH-I Block
DJ Block
DK Block
RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS


China
Project Area
N
RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

Economic Summary

A summary of the economic parameters used in this evaluation is provided in the Economic Parameters table. It should be noted that all dollar amounts presented in this table are expressed in U.S. currency and the evaluation was conducted in U.S. currency.

Operating costs were determined from information provided by the operator. This information included joint account statements, budget documents, agreements and in some instances, operator's estimates.

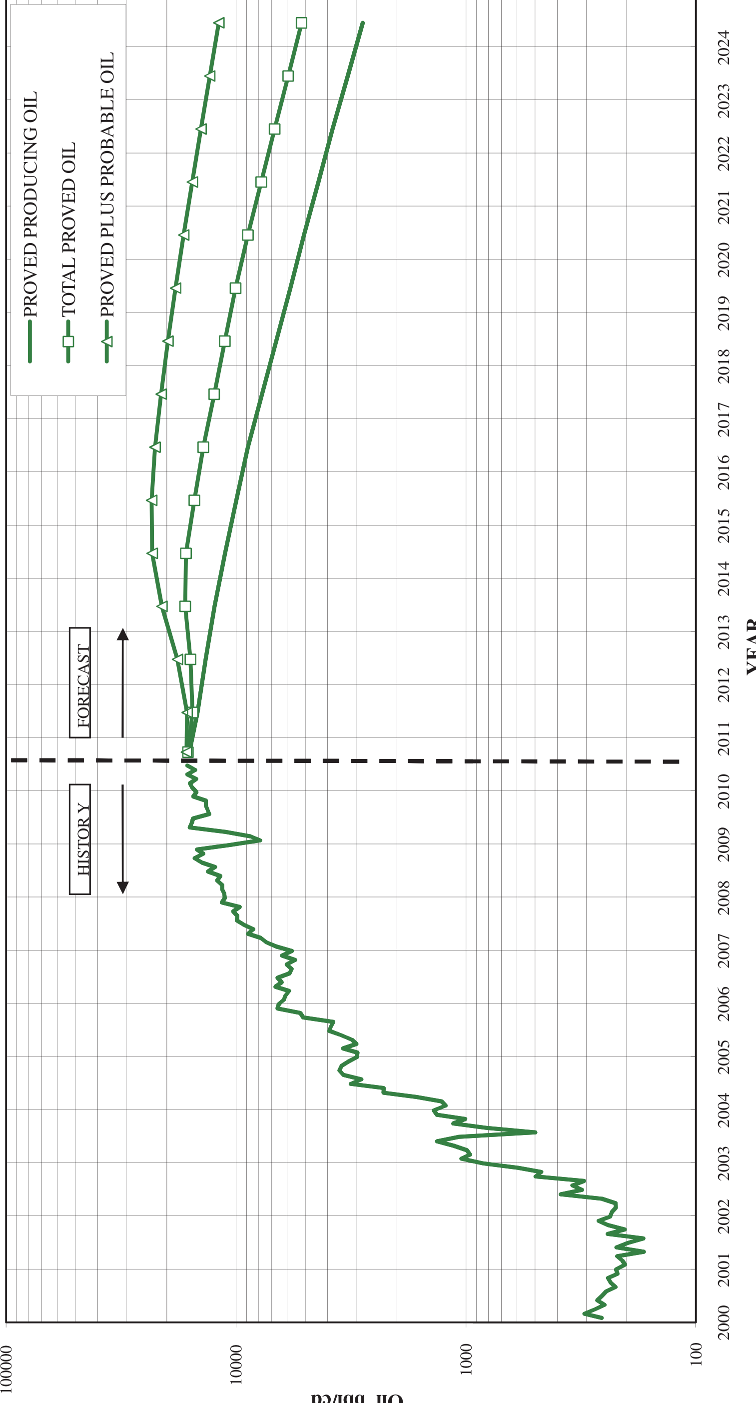
No abandonment costs were included as, based on our projection, the field life exceeds the contract expiry date and all wells and facilities will be returned to PetroChina.

This report does not address any environmental liabilities that may exist. Furthermore, no field inspection was carried out by Ryder Scott personnel for this purpose.

MI ENERGY CORPORATION
Summary of Gross Lease Oil Reserve Volumes
Daan PSC, Jilin Province, China
Effective June 30, 2010
FIELD TOTAL

Pool	Well Name	Class	Status	Resv Method	Area	Net Pay	hcpv	RockVol	HCPV	OOIP	RF	EUR	Cum	FINAL	
					ac	m	m	ac-ft	MBbl	MSTB	%	MSTB	MSTB	Prod	Inj
DevWFArea1	Producing wells	Proved	PD	perf	4,935	18.8	1.9	303,981	243,568	219,826	10.3%	22,551	9,754	257	69
DevWFArea1	Producing wells	T2P	PD	perf	4,935	18.8	1.9	303,981	243,568	219,826	13.8%	30,444	9,754	244	82
DevWFArea1	Producing wells	T3P	PD	perf	4,935	18.8	1.9	303,981	243,568	219,826	17.3%	38,056	9,754	244	82
DevWFArea2	Producing wells	Proved	PD	perf	8,142	15.0	1.5	400,973	321,105	289,806	11.5%	33,343	9,134	402	127
DevWFArea2	Producing wells	T2P	PD	perf	8,142	15.0	1.5	400,973	321,105	289,806	15.5%	45,013	9,134	397	132
DevWFArea2	Producing wells	T3P	PD	perf	8,142	15.0	1.5	400,973	321,105	289,806	19.4%	56,266	9,134	397	132
DevWFArea3	Producing wells	Proved	PD	vol/perf	2,665	14.3	1.4	125,039	97,137	87,669	8.5%	7,436	1,110	138	41
DevWFArea3	Producing wells	T2P	PD	vol/perf	2,665	14.3	1.4	125,039	97,137	87,669	11.5%	10,039	1,110	134	45
DevWFArea3	Producing wells	T3P	PD	vol/perf	2,665	14.3	1.4	125,039	97,137	87,669	14.3%	12,549	1,110	134	45
DevWFArea	Producing wells	Proved	PD	vol/perf	15,741	16.1	1.7	829,993	661,810	597,301	10.6%	63,331	19,998	797	237
DevWFArea	Producing wells	T2P	PD	vol/perf	15,741	16.1	1.7	829,993	661,810	597,301	14.3%	85,496	19,998	775	259
DevWFArea	Producing wells	T3P	PD	vol/perf	15,741	16.1	1.7	829,993	661,810	597,301	17.9%	106,870	19,998	775	259
UndWFArea	Producing wells	Proved	PD	perf	2,295	12.2	1.2	91,930	70,665	63,777	6.2%	3,933	685	143	10
UndWFArea	NewDrill IP 6/2010	Proved	PD	vol/perf	–				–	–		–	–	–	–
UndWFArea	NewDrill PNP	Proved	NP	vol/perf	420	12.5	1.2	17,248	13,222	11,933	5.0%	591	–	11	17
UndWFArea	Primary Locations	Proved	UD	vol/perf	5,782	11.9	1.2	225,435	176,151	158,981	4.7%	7,504	–	385	–
UndWFArea	Total Primary	Proved	PD+UD	vol/perf	8,497	12.0	1.2	334,612	260,038	234,692	5.1%	12,029	685	539	27
UndWFArea	Total Waterflood	Proved	PD+UD	vol/perf	8,497	12.0	1.2	334,612	260,038	234,692	10.3%	24,057	685	425	142
UndWFArea	Total Waterflood	T2P	PD+UD	vol/perf	8,497	12.0	1.2	334,612	260,038	234,692	13.8%	32,477	685	425	142
UndWFArea	Total Waterflood	T3P	PD+UD	vol/perf	8,497	12.0	1.2	334,612	260,038	234,692	17.3%	40,596	685	425	142
PilotWFArea	Producing wells	Proved	PD	vol/perf	1,014	13.5	1.2	45,045	30,527	27,551	4.8%	1,326	492	58	14
PilotWFArea	Producing wells	T2P	PD	vol/perf	1,014	13.5	1.2	45,045	30,527	27,551	9.6%	2,653	492	54	18
PilotWFArea	Producing wells	T3P	PD	vol/perf	1,014	13.5	1.2	45,045	30,527	27,551	12.5%	3,449	492	54	18
ProbWFArea	Producing wells	Proved	PD	vol/perf	345	11.3	1.0	12,814	8,471	7,646	6.0%	462	211	23	–
ProbWFArea	Primary Locations	Proved	UD	Vol	2,742	11.3	1.0	101,940	67,366	60,800	5.7%	3,442	–	183	–
ProbWFArea	Total Primary	Proved	PD+UD	Vol	3,087	11.3	1.0	114,754	75,838	68,446	5.7%	3,904	211	206	–
ProbWFArea	Total Waterflood	T2P	PD+UD	Vol	3,087	11.3	1.0	114,754	75,838	68,446	11.4%	7,808	211	154	51
ProbWFArea	Total Waterflood	T3P	PD+UD	Vol	3,087	11.3	1.0	114,754	75,838	68,446	14.8%	10,151	211	154	51
PvPrimaryArea	Producing wells	Proved	PD	perf	520	4.8	0.5	8,171	5,974	5,392	3.4%	181	95	36	–
Mapped Pv Area	**Block Total**	Proved	PD+UD	vol/perf	28,859	14.1	1.4	1,332,575	1,034,187	933,381	9.9%	92,800	21,481	1,522	393
Mapped Pv Area	**Block Total**	T2P	PD+UD	vol/perf	28,859	14.1	1.4	1,332,575	1,034,187	933,381	13.8%	128,616	21,481	1,444	470
Mapped Pv Area	**Block Total**	T3P	PD+UD	vol/perf	28,859	14.1	1.4	1,332,575	1,034,187	933,381	17.3%	161,248	21,481	1,444	470
PbWFArea	Total Waterflood	Probable	UD	Vol	4,832	9.9	1.0	157,419	120,524	108,776	11.9%	12,932	–	242	81
PbWFArea	Total Waterflood	PB+PS	UD	Vol	4,832	9.9	1.0	157,419	120,524	108,776	14.9%	16,161	–	242	81
PbPrimaryArea	Primary Locations	Probable	UD	Vol	5,530	11.1	1.0	202,099	138,210	124,738	7.5%	9,355	–	369	–
Mapped Pb Area	**Block Total**	Probable	UD	Vol	10,362	10.6	1.0	359,518	258,734	233,515	9.5%	22,287	–	610	81
Mapped Pb Area	**Block Total**	PB+PS	UD	Vol	10,362	10.6	1.0	359,518	258,734	233,515	10.9%	25,516	–	610	81
PsWFArea	Total Waterflood	Possible	UD	Vol	759	3.8	0.7	9,425	13,012	11,744	12.2%	1,429	–	38	13
PsPrimaryArea	Total Primary	Possible	UD	Vol	4,357	7.0	0.6	100,312	69,629	62,842	8.3%	5,233	–	290	–
Mapped Ps Area	**Block Total**	Possible	UD	Vol	5,116	6.5	0.6	109,737	82,641	74,586	8.9%	6,662	–	328	13
Total Mapped Area	Field Total	Proved	PD	perf	19,915	15.1	1.5	987,953	777,447	701,667	9.9%	69,233	21,481	1,057	261
Total Mapped Area	Field Total	Proved	PD+NP	vol/perf	20,335	15.1	1.5	1,005,201	790,669	713,600	9.8%	69,825	21,481	1,068	278
Total Mapped Area	Field Total	Proved	PD+UD	vol/perf	28,859	14.1	1.4	1,332,575	1,034,187	933,381	9.9%	92,800	21,481	1,522	393
Total Mapped Area	Field Total	T2P	PD+UD	vol/perf	39,221	13.2	1.3	1,692,093	1,292,921	1,166,896	12.9%	150,903	21,481	2,054	551
Total Mapped Area	Field Total	T3P	PD+UD	vol/perf	44,337	12.4	1.2	1,801,831	1,375,562	1,241,482	15.6%	193,425	21,481	2,383	563

Data in this table is from summation of individual block parameters and calculations.


RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580
MI ENERGY HOLDING CORPORATION
PROPERTY GROSS OIL PRODUCTION HISTORY AND FORECAST
DAAN
Effective June 30, 2010
PROVED PRODUCING OIL
TOTAL PROVED OIL
PROVED PLUS PROBABLE OIL
HISTOR Y
FORECAST
Oil bbl/cd
100000
10000
1000
100
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
YEAR
* Plotted forecast values reflect the yearly average calendar daily rate.

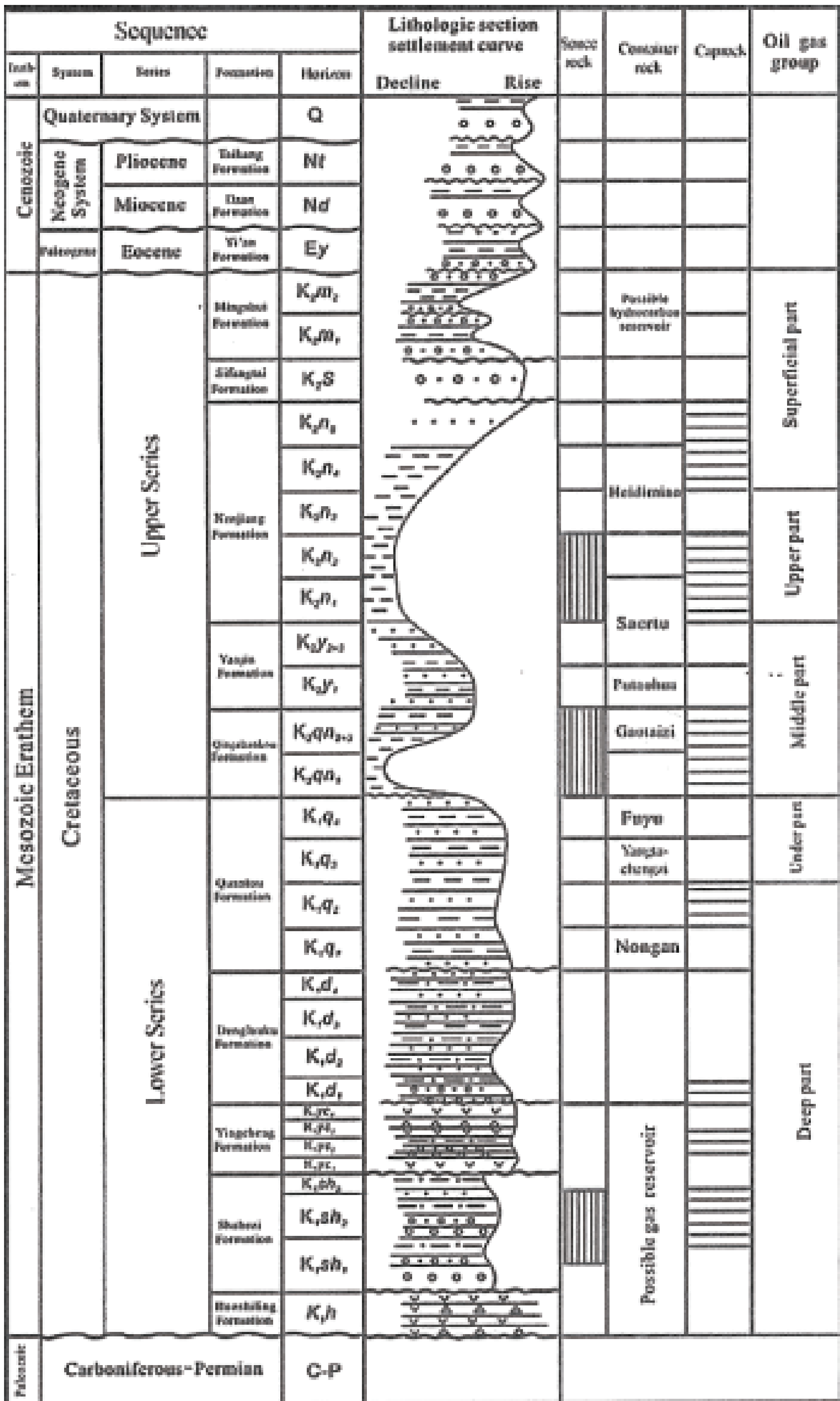


Figure 1. Daan Stratigraphic Column

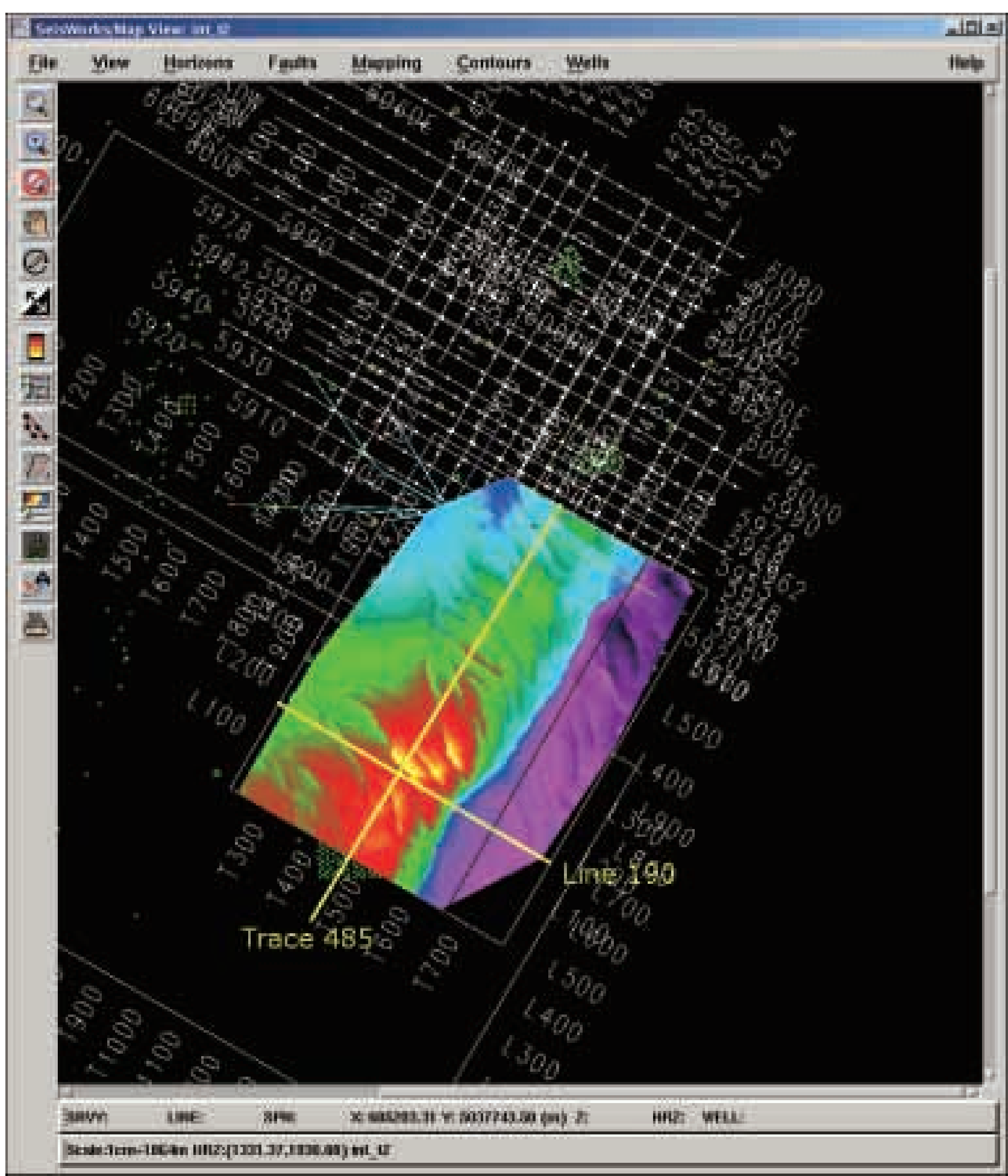


Figure 2. Daan structure map with seismic line references to Figures 2 and 3

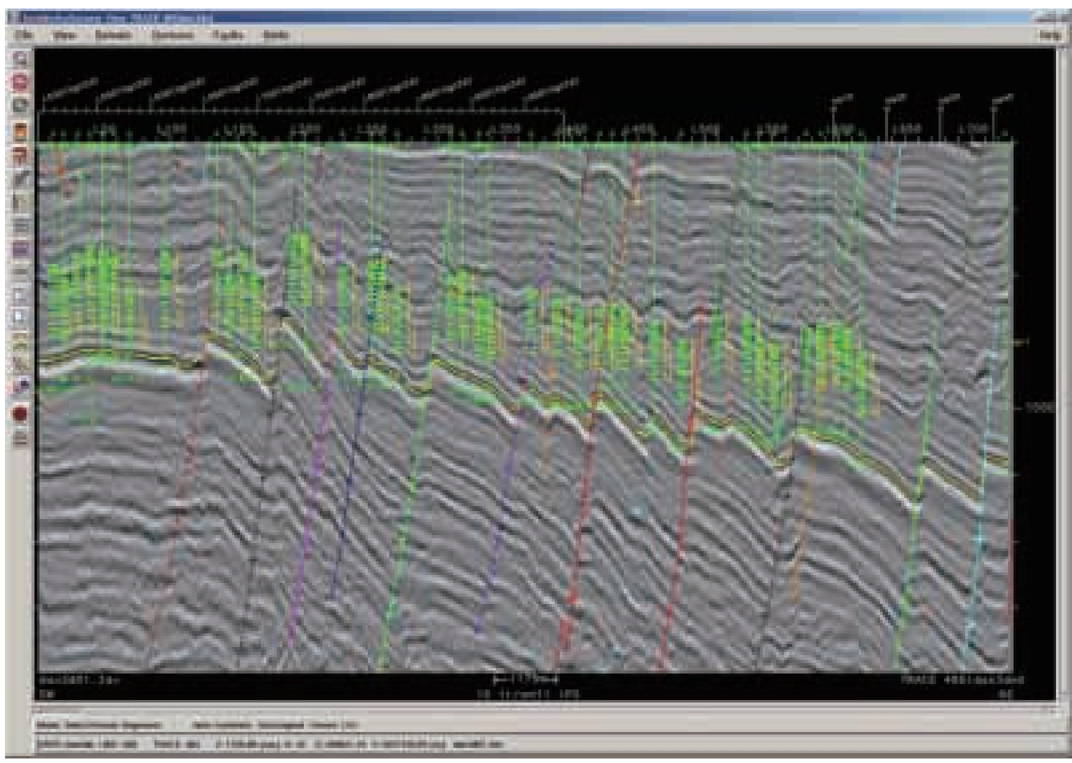


Figure 3. Seismic Trace 485

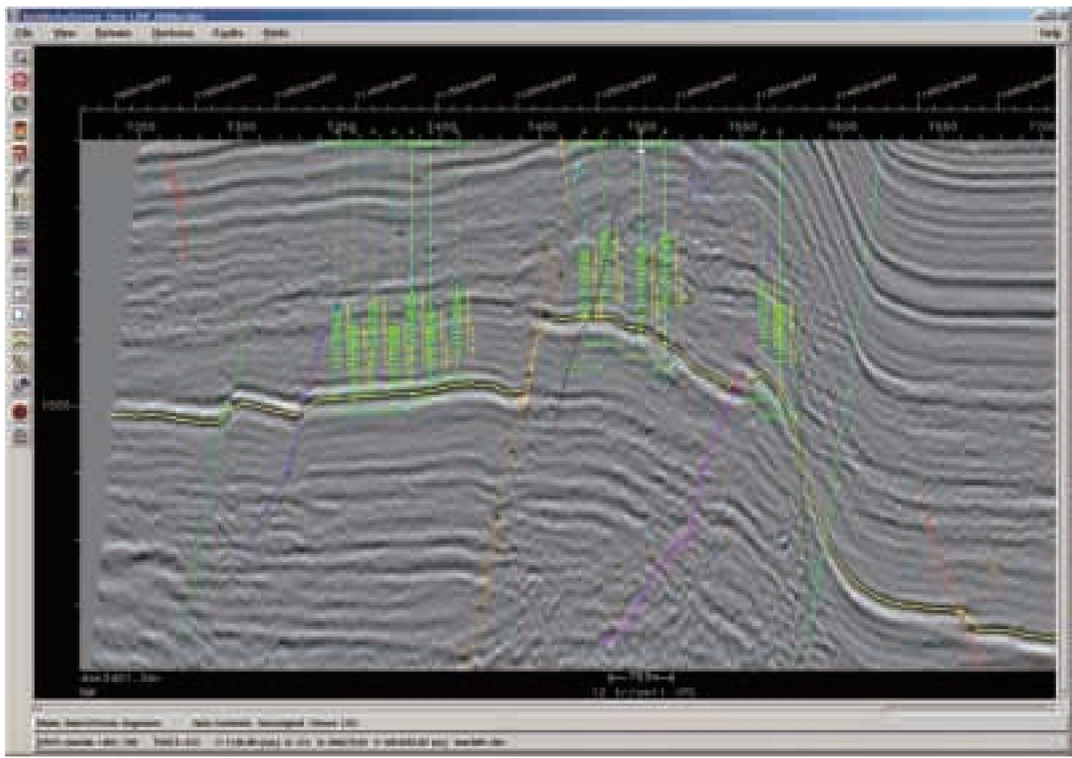


Figure 4. Seismic Line 190

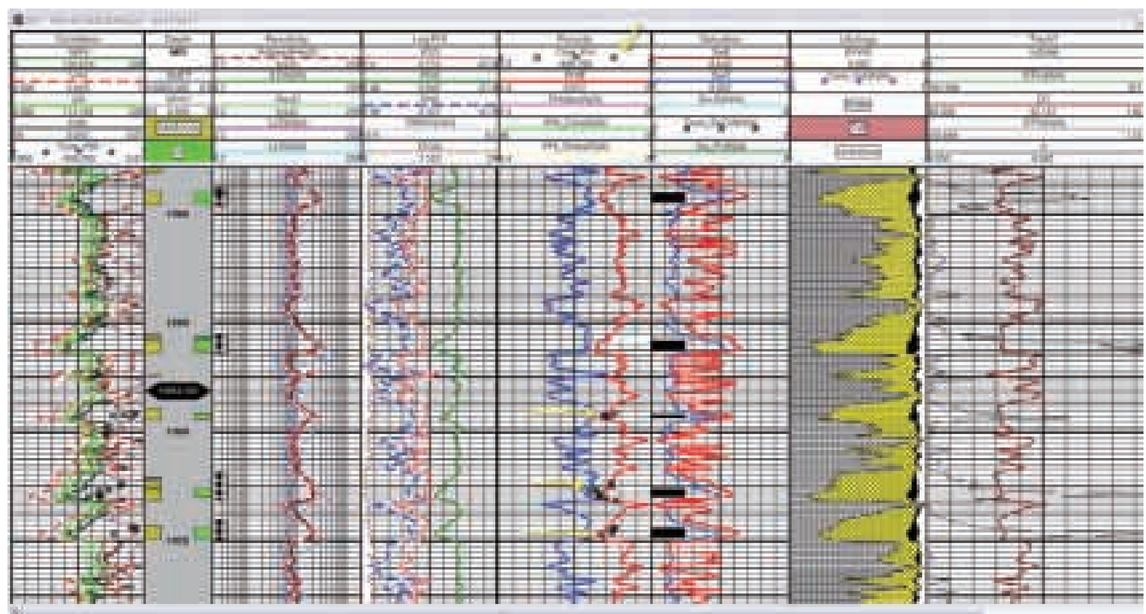


Figure 5. Well Da17 core/log porosity tie

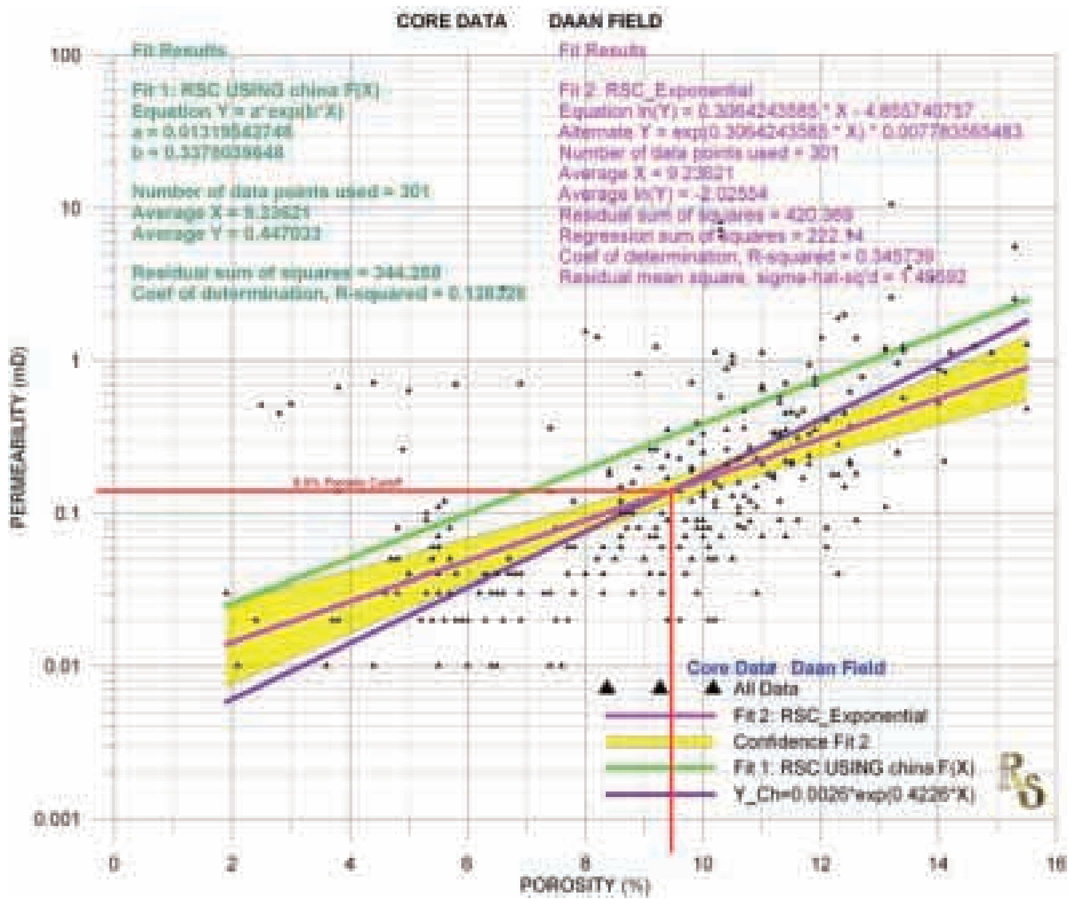


Figure 6. Permeability/porosity core regression analysis

25.6 Miao-3 Field

Geology

Miao-3 Oil Field is located near Songyuan City, in Jilin Province, northeastern People's Republic of China. Exploration began in the area in the 1950's and now MI Energy operates 127 wells in the Miao-3 oil field. The field is currently in a development-production phase.

Miao-3 is found on the northwestern part of the Fuyu Uplift in the center of the Songliao Basin, a Mesozoic rift basin. The reservoir is the Lower Cretaceous age Fu Yang sequence (Fuyu, Member 4, and Yangdachengzi, Member 3; K_1q_{3+4}) of the Quantou formation *(Figure 1)*.

The structure map *(Figure 2)*, on the Fuyu horizon (K_1q_4), is based on seismic with well control. The seismic interpretation was made by MI Energy (Beijing) and has been reviewed by Ryder Scott. The seismic is very good quality 2-D, shot in three phases in '89/'90, '90/'91, and '91/'92; there has been no reprocessing to date. Ryder Scott has reviewed and discussed the techniques and interpretation with representatives of MI Energy and accepts this map as an accurate and reasonable representation of the log and seismic information.

Field Structure

The structure map shows numerous N-S trending faults extending across a structure with a gentle 2-3 degree NNW dip component. The faults are generally discontinuous and not laterally extensive individually but more continuous as fault swarms.

Field Stratigraphy

The target reservoir is the Fu Yang sequence, a series of interbedded sands and shales. The sand bodies are mainly composed of lacustrine sands exhibiting distributary channels, bay mouth bars and delta front sheet sands. These sand units range from laminated overbank deposits to thicker channel sand in terms of thickness. Generally these deposits are laterally continuous only over short distances, as exhibited by well control.

Petrophysics

Due to their close proximity and common reservoirs the main petrophysical techniques of Daan were applied to Miao3. A detail description of the petrophysics has been described in the Daan field discussion. In summary the parameters in Miao3 are poorer with an average porosity range around 10-19% with a 14% average and a water saturation of 41-63% with a 55% average saturation.

Reservoir Characteristics

Due to the marginal economic conditions in Miao-3, the field is primarily evaluated on an individual well assignment basis. Hydrocarbon Pore Volume calculations are produced for the pilot water flood areas in Miao3 to aid in the economic assessment of the field.

Reserve Methodology – Oil Reserves

MI Energy has a 90 percent interest in the Miao-3 contract area and is the operator. The other 10 percent is owned by Global Oil Corporation. The contract is now in the commercial production phase and has an expiration date of February 29, 2028.

Production from the contract area commenced in 2001 from the Cretaceous age Fu Yang sequence of the Quantou formation. As of the effective date of this report, there were 98 active producers and 21 active injectors in the contract area. Cumulative production for the field is 574 Mstb and the June 2010 production rate was 855 barrels of oil per day with a water cut of 38 percent. Recently drilled wells are on pump and produced continuously. The majority of the older wells are produced intermittently by swabbing.

A pilot waterflood program was approved for the contract area and injection started in November 2007 in the areas around the M3 well in M114 Block. The second pilot waterflood program started in June 2009 in the northern part of the M118 Block and is referred to as M118 Pilot Waterflood Area 1. Two additional waterflood areas have been added this year. M118 Pilot Waterflood Areas 2 and 3 started injection in April 2010. These areas are to the south where the reservoir is thicker. MI Energy plans to develop the field on 15 to 20 acre spacing and to ultimately waterflood the developed areas using an inverted nine spot pattern.

Decline curve analysis resulted in proved producing technical recovery factors (prior to economics) ranging from 2.5 to 4.9 percent for the pilot waterflood areas. The actual recovery factor for the entire field for proved producing (pilot areas plus isolated wells) was 3.3 percent after economics. Performance of the M114 Pilot Area is fairly well defined by historical decline. In Block 118, type curves were developed using initial decline response from peak rate and a terminal decline derived from older wells and the M114 pilot waterflood. Performance in the M118 Pilot Waterflood Area 1 is currently depletion drive to a major extent due to limited injection time and volumes. M118 Pilot Waterflood Areas 2 and 3 have insufficient injection time to note response.

At this time, waterflood reserves were assigned only to the pilot waterflood areas and only probable and possible waterflood reserves were assigned since the pilot waterflood operation is still in an early stage. Average technical proved plus probable, and technical proved plus probable plus possible waterflood recovery factors of 6.6 percent and 8.9 percent, respectively, were used after giving consideration to performance to date and reservoir properties of this formation relative to those of the Fu Yang reservoir in the Daan field. Technical recoverable volumes are presented in the Tables section. Operating costs and economic components, economic factors related to the PSC and termination of production at contract expiration result in recovery factors which are less than the technical recovery factors.

Twenty-two new wells were drilled in the M118 Block in 2010 through May 2010. Four of these were injectors. Production and injection volumes through June 2010 were used for analysis.

No undeveloped reserves were included in this report as they did not generate positive economics using the price and cost parameters provided in the Economic Parameters table.

The production history and forecasts for the contract area and for the producing wells are provided in the Plots section. It should be noted that the forecast volumes were based on the technical recoverable volumes. These volumes can be significantly different from the volumes shown on the cash flow projections due to economic limit cutoff.

UNESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation – Miao3 Field
As of June 30, 2010

	Proved		
	Producing	**Undeveloped**	**Total Proved**
Gross Remaining Reserves			
Oil/Condensate – Barrels.	441,160	–	441,160
Net Remaining Reserves			
Oil/Condensate – Barrels.	277,613	–	277,613

	Probable		
	Producing	**Undeveloped**	**Total Probable**
Gross Remaining Reserves			
Oil/Condensate – Barrels.	600,046	48,037	648,083
Net Remaining Reserves			
Oil/Condensate – Barrels.	317,758	28,320	346,078

	Possible		
	Producing	**Undeveloped**	**Total Possible**
Gross Remaining Reserves			
Oil/Condensate – Barrels.	606,449	4,605	611,054
Net Remaining Reserves			
Oil/Condensate – Barrels.	199,554	-772	198,782

Note: Negative volumes due to PSC terms

Reserve Methodology – Gas Reserves

No revenue is derived from the gas produced from this property. As a result, no gas reserves have been assigned.

Reserve Methodology – Surface Loss and Liquid Yields

The difference between the reported produced volumes and the sales volume for oil is currently about 8.0 percent. This difference was assumed to remain constant for the remaining life of the property and was taken into consideration in the calculation of the company's net production volumes.

Resource Methodology

Reserves in Miao-3 are evaluated on a well-by-well basis due to typically poor reservoir quality and economic performance. There are three areas that are currently being water-flooded and have established reserves, as discussed previously. The volumes outside these water flood areas out to the PSC boundary are then classified as prospective and contingent resources. Prospective Resources are those volumes in the un-penetrated fault blocks which generally lie at the edges of the PSC. Contingent Resources are those volumes in the drilled fault blocks where the wells have demonstrated generally poor performance trends. The "reserves" associated with these producing wells are based on performance trends and are subtracted out of the "resource" volume.

Block	Total Volumes			Reserves Volumes			Prospective Resource Volumes @ reservoir			Contingent Resource Volumes @ reservoir		
Polygon	Area	Total Net pay	Total HCPV	Reserves Area	Reserves Net pay	Reserves HCPV	Prospective Area	Prospective Net pay	Prospective HCPV	Contingent Area	Contingent Net pay	Contingent HCPV
M114	6,792.57	141,515.26	61,252,822.17	824.36	21,445.63	9,176,519.13	233.01	8,323.28	3,352,085.33	5,735.20	111,746.35	48,724,217.71
M119	3,363.80	84,142.29	36,379,223.10							3,363.80	84,142.29	36,379,223.10
M118	8,662.19	266,692.14	118,097,913.43	820.67	44,784.42	20,037,267.49	2,171.74	81,260.39	35,925,848.82	5,669.78	140,647.33	62,134,797.12
Total	18,818.56	492,349.69	215,729,958.70	1,645.03	66,230.05	29,213,786.62	2,404.75	89,583.67	39,277,934.15	14,768.78	336,535.97	147,238,237.93

Polygon ID	Raw Volumes Area	Net pay ac-ft	HCPV (BBLS)
M114	6,792.57	141,515.26	61,252,822.17
M119	3,363.80	84,142.29	36,379,223.10
M118	8,662.19	266,692.14	118,097,913.43
M118 PilotWF3	136.64	10,197.37	4,643,398.72
M118 PilotWF2	484.34	27,601.05	12,582,651.72
M118 PilotWF1	199.69	6,986.00	2,811,217.05
M114 PilotWF	824.36	21,445.63	9,176,519.13
M118_Prospective_2	404.09	11,765.05	5,189,477.49
M118_Prospective_1	1,475.36	66,627.35	29,484,399.08
M114_Prospective_1	233.01	8,323.28	3,352,085.33
M118_Prospective_4	247.20	2,469.97	1,075,240.25
M118_Prospective_3	45.09	398.02	176,732.00

	Recovery Factor	Gross Technically Recoverable
1C	3.30%	4,364,379
2C	6.00%	8,059,019
3C	7.50%	10,111,596
Low	3.30%	1,204,621
Best	6.00%	2,190,219
High	7.50%	2,737,774

Field Average

Average Porosity	Average Sw
0.139	0.56

Formation Volume Bo
1.076

cumulative production from area
151,292

Future Development

The capital used in this evaluation were estimated from data provided by MI Energy and are provided in the Economic Parameters table included in the Tables section.

The operator plans to drill additional wells and to implement an expanded waterflood program. Reserves for these activities have not been included in this evaluation at this time due to a lack of data.

MI Energy's development plan is presented in the table below.

MIE DEVELOPMENT SCHEDULE
GROSS WELLS (PROD & INJ)
MIAO 3 FIELD

	BLOCK 118						
Year	**BLK**	**PUD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010	118	0	2	0	0	2	2
2011	118	0	0	0	0	0	0
2012	118	0	0	0	0	0	0
2013	118	0	0	0	0	0	0
2014	118	0	0	0	0	0	0
2015	118	0	0	0	0	0	0
TOTAL		**0**	**2**	**0**	**0**	**2**	**2**

	TOTAL ALL PSC						
Year	**BLK**	**PUD**	**Prob**	**Poss**	**1P**	**2P**	**3P**
2010		0	2	0	0	2	2
2011		0	0	0	0	0	0
2012		0	0	0	0	0	0
2013		0	0	0	0	0	0
2014		0	0	0	0	0	0
2015		0	0	0	0	0	0
TOTAL		**0**	**2**	**0**	**0**	**2**	**2**

Year	Miao3 – Proved			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	104,549	44,600	2,535,764
2011	0	141,343	0	4,695,500
2012	0	108,852	0	4,502,288
2013	0	86,416	0	4,377,213
2014	0	0	0	0
2015	0	0	0	0
2016	0	0	0	0
2017	0	0	0	0
2018	0	0	0	0
2019	0	0	0	0
2020	0	0	0	0
2021	0	0	0	0
2022	0	0	0	0
2023	0	0	0	0
2024	0	0	0	0
Sub Total		**441,160**	**44,600**	**16,110,765**
Remainder	**0**	**0**	**100,000**	**0**
Total Future		**441,160**	**144,600**	**16,110,765**

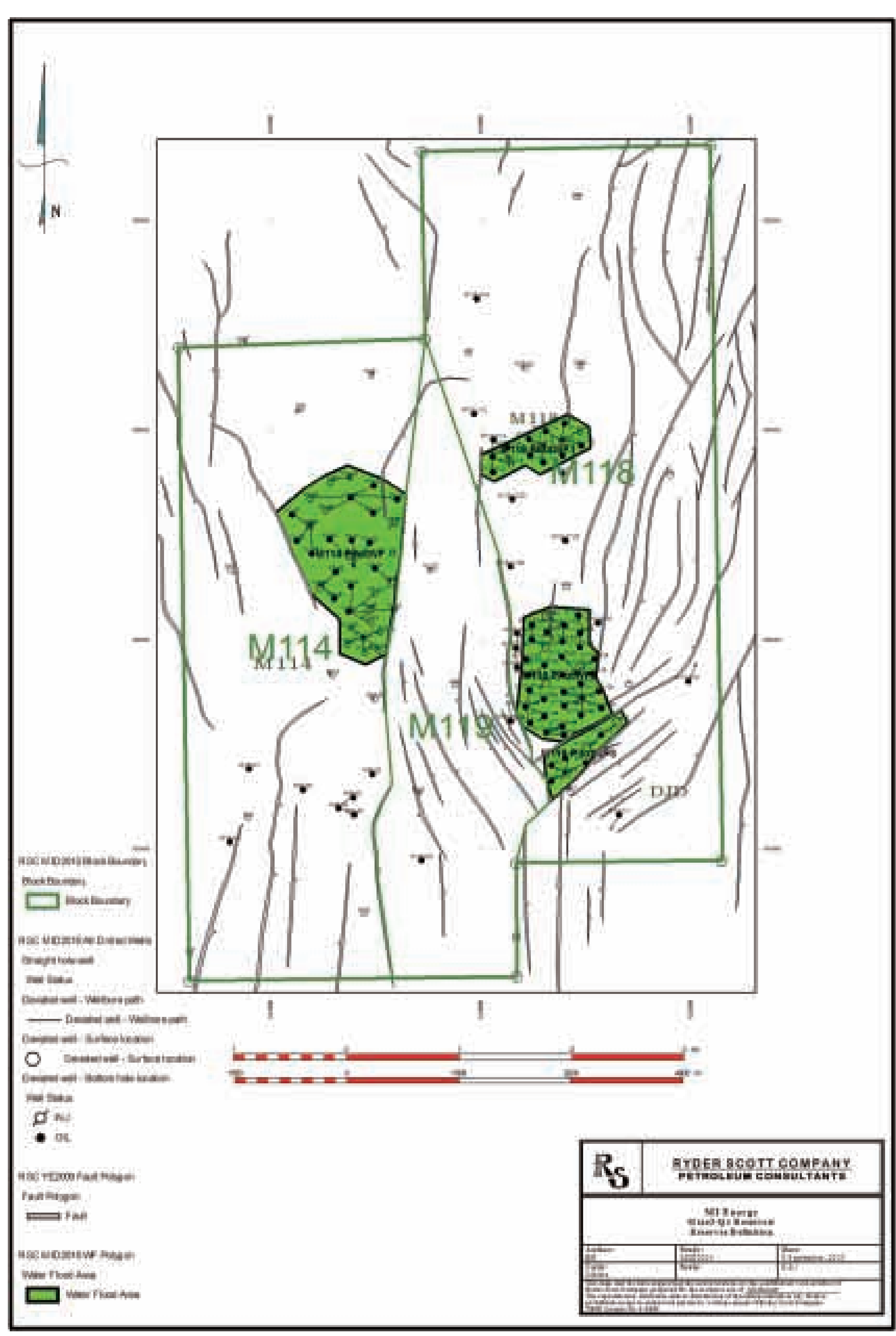
Year	Miao3 – Probable			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	2	9,481	649,200	66,446
2011	0	45,447	0	252,847
2012	0	63,530	0	344,934
2013	0	73,375	0	395,035
2014	0	139,347	0	4,644,272
2015	0	119,809	0	4,564,487
2016	0	102,959	0	4,495,333
2017	0	87,330	0	4,363,341
2018	0	6,806	0	357,905
2019	0	0	0	0
2020	0	0	0	0
2021	0	0	0	0
2022	0	0	0	0
2023	0	0	0	0
2024	0	0	0	0
Sub Total		**648,084**	**649,200**	**19,484,601**
Remainder	**0**	**0**	**0**	**0**
Total Future		**648,084**	**649,200**	**19,484,601**

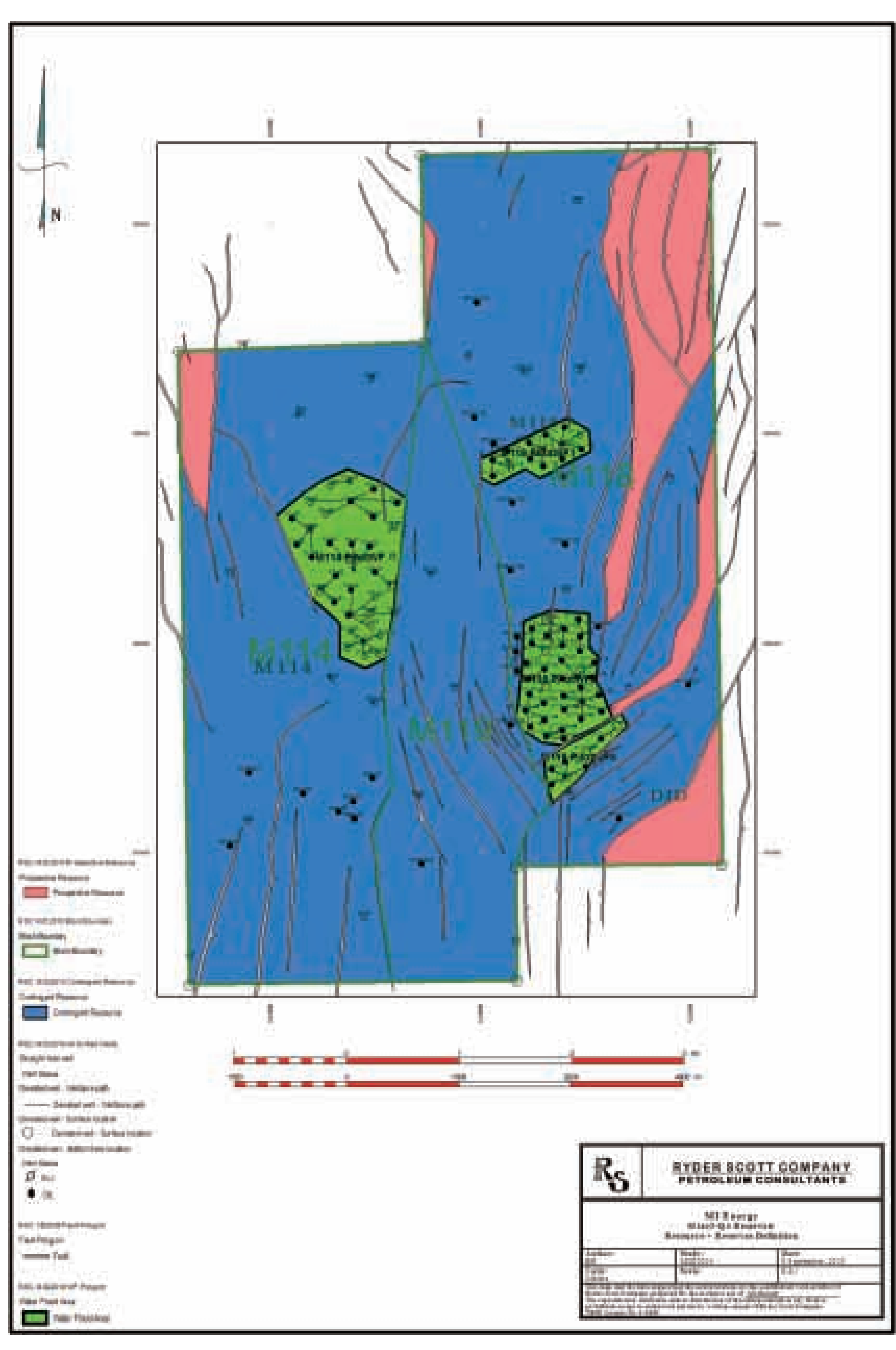
Year	Miao3 – Possible			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	11,412	0	50,321
2011	0	39,255	0	177,857
2012	0	54,232	0	248,530
2013	0	59,345	0	297,792
2014	0	54,476	0	312,441
2015	0	48,033	0	256,423
2016	0	42,295	0	200,522
2017	0	37,331	0	178,713
2018	0	101,551	0	4,089,043
2019	0	94,228	0	4,382,576
2020	0	68,897	0	3,581,828
2021	0	0	0	0
2022	0	0	0	0
2023	0	0	0	0
2024	0	0	0	0
Sub Total		**611,055**	**0**	**13,776,047**
Remainder	**0**	**0**	**0**	**0**
Total Future		**611,055**	**0**	**13,776,047**

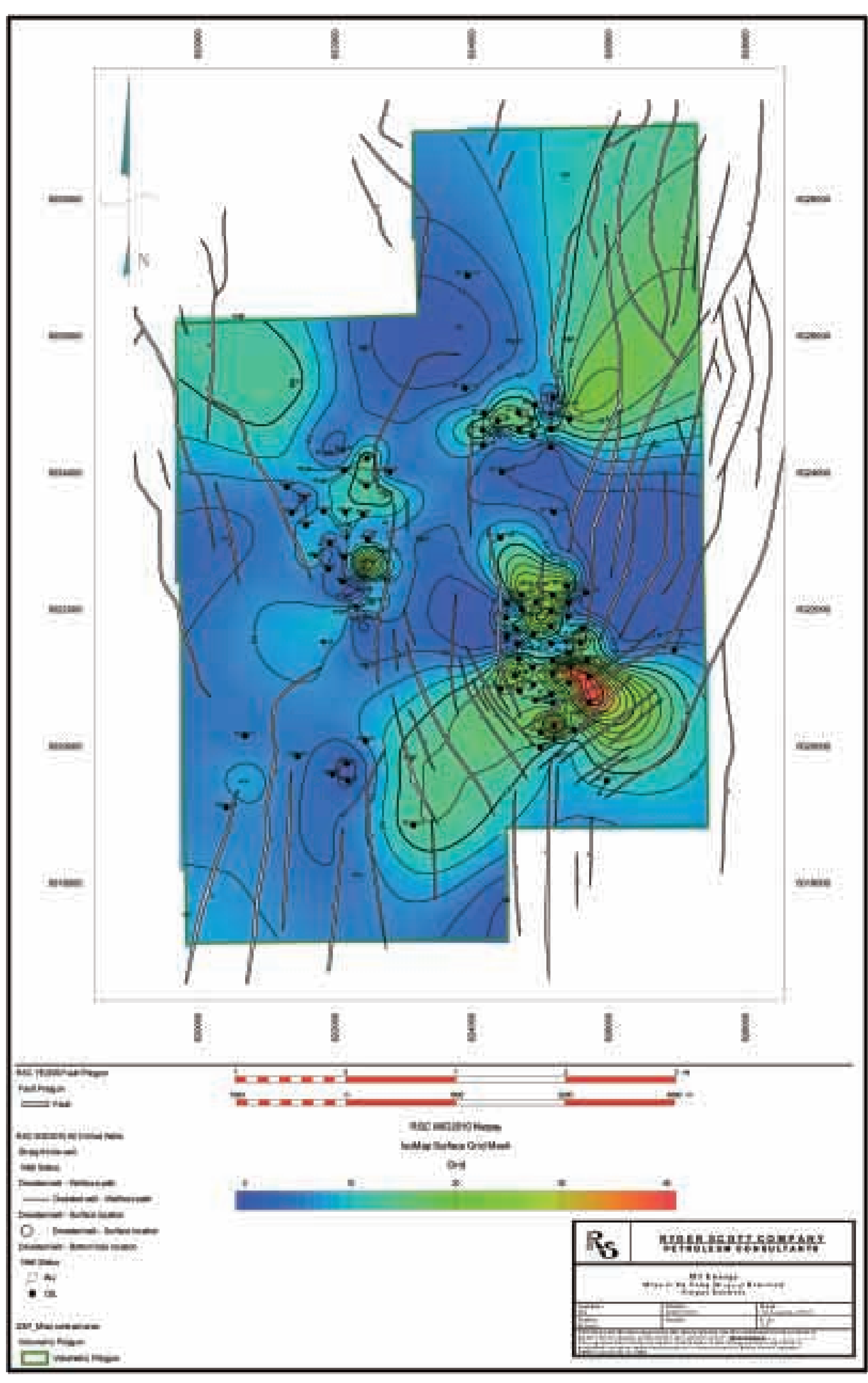
Year	Miao3 – 1P			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	0	104,549	44,600	2,535,764
2011	0	141,343	0	4,695,500
2012	0	108,852	0	4,502,288
2013	0	86,416	0	4,377,213
2014	0	0	0	0
2015	0	0	0	0
2016	0	0	0	0
2017	0	0	0	0
2018	0	0	0	0
2019	0	0	0	0
2020	0	0	0	0
2021	0	0	0	0
2022	0	0	0	0
2023	0	0	0	0
2024	0	0	0	0
Sub Total		**441,160**	**44,600**	**16,110,765**
Remainder		**0**	**100,000**	**0**
Total Future		**441,160**	**144,600**	**16,110,765**

Year	Miao3 – 2P			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	2	114,030	693,800	2,602,210
2011	0	186,790	0	4,948,346
2012	0	172,382	0	4,847,222
2013	0	159,791	0	4,772,248
2014	0	139,347	0	4,644,272
2015	0	119,809	0	4,564,487
2016	0	102,959	0	4,495,333
2017	0	87,330	0	4,363,341
2018	0	6,806	0	357,905
2019	0	0	0	0
2020	0	0	0	0
2021	0	0	0	0
2022	0	0	0	0
2023	0	0	0	0
2024	0	0	0	0
Sub Total		**1,089,244**	**693,800**	**35,595,365**
Remainder		**0**	**100,000**	**0**
Total Future		**1,089,244**	**793,800**	**35,595,365**

Year	Miao3 – 3P			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	2	125,442	693,800	2,652,531
2011	0	226,045	0	5,126,203
2012	0	226,614	0	5,095,752
2013	0	219,136	0	5,070,040
2014	0	193,823	0	4,956,713
2015	0	167,842	0	4,820,910
2016	0	145,254	0	4,695,855
2017	0	124,661	0	4,542,055
2018	0	108,357	0	4,446,948
2019	0	94,228	0	4,382,576
2020	0	68,897	0	3,581,828
2021	0	0	0	0
2022	0	0	0	0
2023	0	0	0	0
2024	0	0	0	0
Sub Total		**1,700,299**	**693,800**	**49,371,412**
Remainder		**0**	**100,000**	**0**
Total Future		**1,700,299**	**793,800**	**49,371,412**


N
M114
M118
M119
RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS


N
M114
M114
RS
RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS



Economic Summary

A summary of the economic parameters used in this evaluation is provided in the Economic Parameters table. It should be noted that all dollar amounts presented in this table are expressed in U.S. currency and the evaluation was conducted in U.S. currency.

Operating costs were determined from information provided by the operator. This information included lease operating statements, budget documents, agreements and in some instances, operator's estimates.

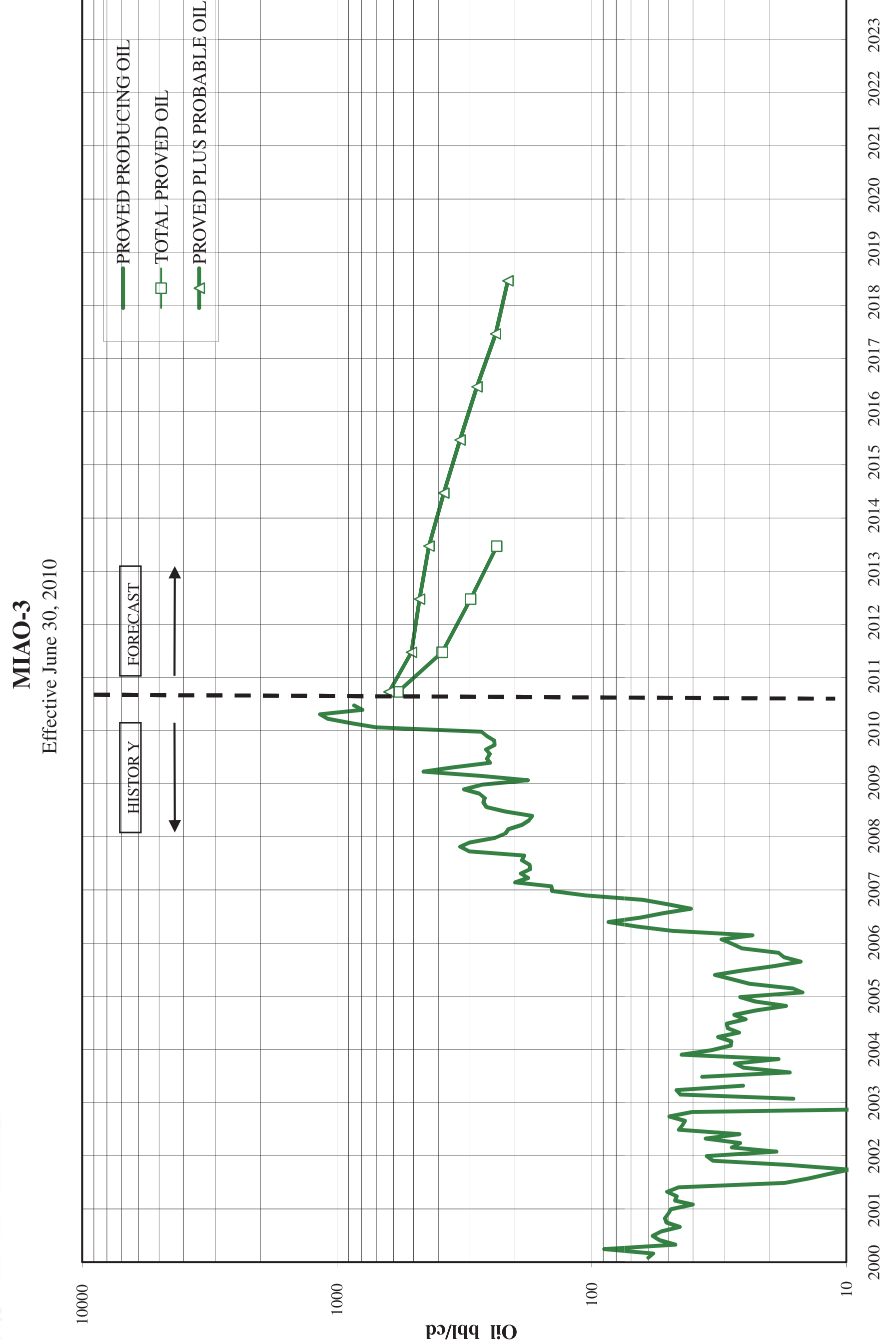
The net abandonment cost after salvage was included in the evaluation and was based on estimates provided by MI Energy.

This report does not address any environmental liabilities which may exist. Furthermore, no field inspection was carried out by Ryder Scott personnel for this purpose.

MI ENERGY CORPORATION
SUMMARY OF GROSS LEASE OIL RESERVE VOLUMES
MIAO-3 PSC, JILIN PROVINCE, CHINA
EFFECTIVE JUNE 30, 2010
FIELD TOTAL

Pool	Well Name	Category	Status	Area	NetPay	hcpv	RockVol	Phi	Sw	HCPV	OOIP	RF	EUR	Cum	Rem	Well Counts	
				ac	m	m	ac-ft	(%)	(%)	MBbl	MSTB	%	MSTB	MSTB	MSTB	prod	inj
M114 PilotWF	Total Primary	Proved	PD	824	7.9	0.4	21,446	0.125	0.558	9,177	8,528	4.9%	414	251	163	27	8
M114 PilotWF	Total Waterflood	T2P	PD	824	7.9	0.4	21,446	0.125	0.558	9,177	8,528	7.3%	621	251	370	27	8
M114 PilotWF	Total Waterflood	T3P	PD	824	7.9	0.4	21,446	0.125	0.558	9,177	8,528	9.5%	807	251	556	27	8
M118 PilotWF	Total Primary	Proved	PD	821	16.6	1.0	44,784	0.123	0.532	20,037	18,622	3.7%	684	197	487	44	13
M118 PilotWF	Total Waterflood	T2P	PD	821	16.6	1.0	44,784	0.123	0.532	20,037	18,622	6.2%	1,161	197	964	44	13
M118 PilotWF	Total Waterflood	T3P	PD	821	16.6	1.0	44,784	0.123	0.532	20,037	18,622	8.6%	1,597	197	1,400	44	13
Total Pilot WF	Total Primary	Proved	PD	1,645	12.3	0.7	66,230	0.124	0.541	29,214	27,150	4.0%	1,098	448	650	71	21
Total Pilot WF	Total Waterflood	T2P	PD	1,645	12.3	0.7	66,230	0.124	0.541	29,214	27,150	6.6%	1,781	448	1,333	71	21
Total Pilot WF	Total Waterflood	T3P	PD	1,645	12.3	0.7	66,230	0.124	0.541	29,214	27,150	8.9%	2,404	448	1,956	71	21
M114 PrimArea	Subtotal	Proved	PD										51	41	9	9	
M114 PrimArea	Subtotal	Proved	NP										4	4	-	2	
M114 PrimArea	Subtotal	Proved	PD&NP										55	46	9	11	
M118 PrimArea	Block Total	Proved	PD										124	62	62	20	
M118 PrimArea	Block Total	Proved	NP										4	4	-	1	
M118 PrimArea	Block Total	Proved	PD&NP										128	66	62	21	
M118 PrimArea	Block Total	T2P	UD										55	-	55	-	
M119 PrimArea	Block Total	Proved	PD										4	4	-	2	
M119 PrimArea	Block Total	Proved	NP										10	10	-	3	
M119 PrimArea	Block Total	Proved	PD&NP										14	14	-	5	
Total PrimArea	Field Total	Proved	PD										176	107	71	31	
Total PrimArea	Field Total	Proved	NP										18	18	-	6	
Total PrimArea	Field Total	Proved	PD&NP										197	126	71	37	
Total PrimArea	Field Total	T2P	PD&NP&UD										252	126	126	37	
Prim & WF Area	Field Total	Proved	PD										1,277	555	721	102	21
Prim & WF Area	Field Total	Proved	PD&NP										1,295	574	721	108	21
Prim & WF Area	Field Total	Pv+Pb	PD&NP&UD										2,033	574	1,459	108	21
Prim & WF Area	Field Total	Pv+Pb+Ps	PD&NP&UD										2,655	574	2,082	108	21

Data in this table is from summation of individual block parameters and calculations.


RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
MI ENERGY HOLDING CORPORATION
PROPERTY GROSS OIL PRODUCTION HISTORY AND FORECAST
MIAO-3
Effective June 30, 2010
HISTOR Y
FORECAST
PROVED PRODUCING OIL
TOTAL PROVED OIL
PROVED PLUS PROBABLE OIL
Oil bbl/cd
10000
1000
100
10
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
YEAR
* Plotted forecast values reflect the yearly average calendar daily rate.

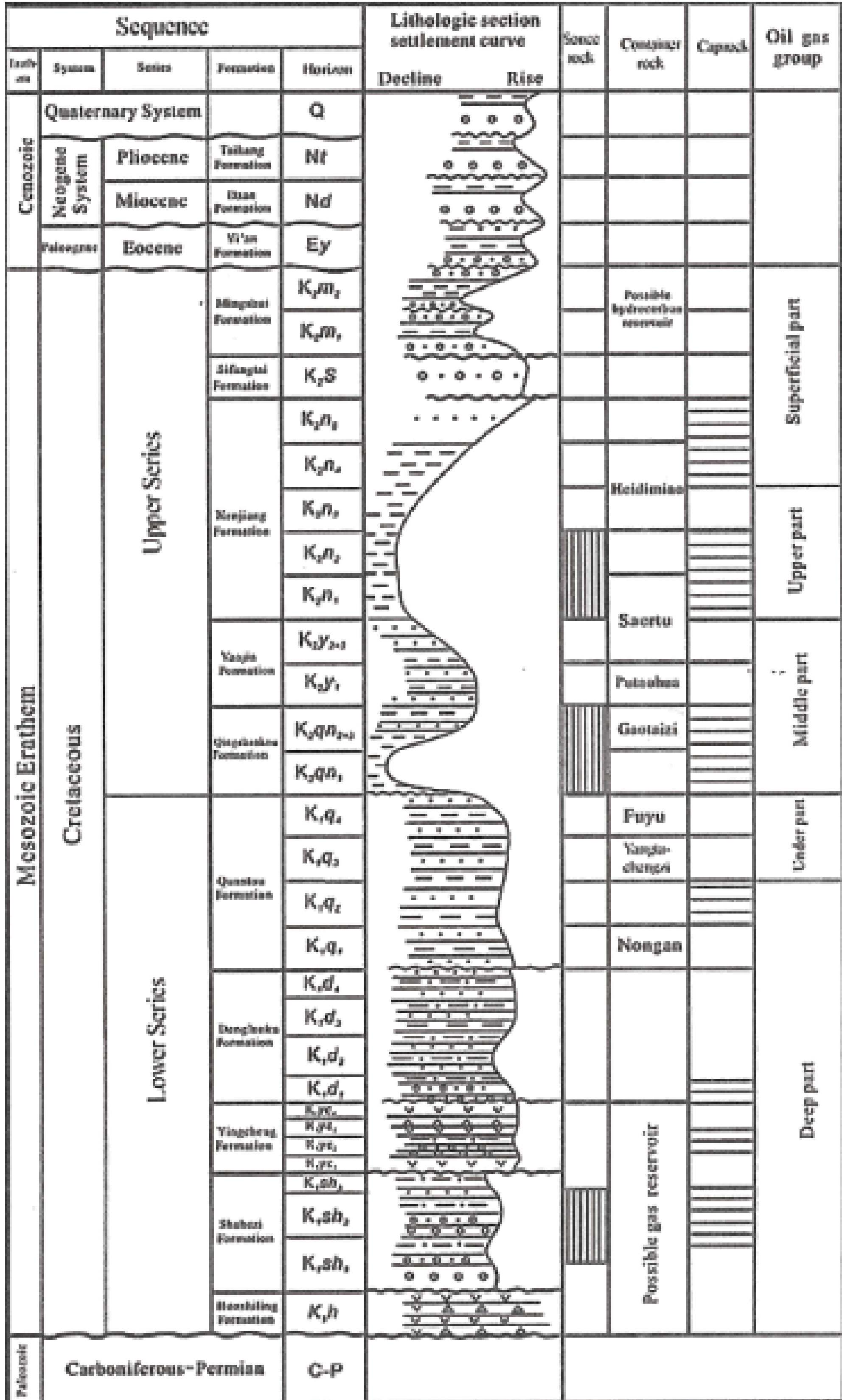


Figure 1. Miao3 Stratigraphic Column

25.6 Moliqing Field

Geology

The Moliqing Oil Field is located in Yitong County, Jilin Province, northeastern People's Republic of China. Exploration began in the area in the late 1950's and the field now has 136 wells drilled and operated by MI Energy. The field is currently in a development-production phase.

Moliqing Field (MLQ) lies in the Yitong graben, part of the Moliqing depression, on the southeastern margin of the Songliao basin, a Mesozoic rift basin. The primary oil reservoir for the field is the Eocene age Shuangyang Formation, Member 2. *(Figure 1)*

The Moliqing structure map *(Figure 2)* is based on seismic data and is further refined with well control. The seismic interpretation was provided by MI Energy (Beijing) and has been reviewed by Ryder Scott. The seismic is 3-D, shot in 1990/1991 and reprocessed in 2007. The seismic is a difficult data set to work *(see Figures 3, 4, and 5)* but combined with the well control; Ryder Scott accepts MI Energy's interpretation as a reasonable representation of the log and seismic information.

Field Structure

The structure map depicts a steeply dipping, northeast plunging field cut by multiple east-west trending extensional (normal) faults as well as major north-west bounding faults. The highest structural elevation (~ 1,500 mss) is found on the southeast edge of the contract area, and the maximum depth (~ 2,800 mss) is found on the northeast edge. Two ages of faulting are recognized within the Moliqing Field. The early faulting, which occurred prior to deposition of the reservoir sequence, controlled the deposition to a degree. The second, later stage of faulting helped create reservoir traps, and may have undergone reactivation at different times up to the recent.

Field Stratigraphy

The Moliqing field reservoir is the Eocene-age Shuangyang Formation, Member 2, which is a series of interbedded dark mudstones, grey muddy siltstones grading to siltstones and fine grained sandstones. Individual oil reservoir units (siltstones and sandstones) vary in thickness and are often discontinuous. Typically, individual units cannot be correlated from well to well with a high degree of certainty, but gross sand packages do appear to have some continuity. This indicates that communication between wells is likely to be poor and drainage areas limited. Most reservoir units are commingled during completion; therefore, this sequence is mapped as one reservoir.

Petrophysics

A net pay map (See Maps in Appendix) was generated for the Shuangyang formation, Member 2. The net oil pay thickness was from a detailed log analysis of more than 115 wells in the contract area. The gamma ray (GR) logs in this analysis are normalized to 5%-95% Cum Frequency using a standard two point normalization. For the YE2009 report RSC has updated the GR endpoints used in the normalization due to the addition of new well data. A comparison of Hydrocarbon Pore Volume (HCPV) and Net Pay values from this report with those in prior years may be skewed because of this new value update.

Core data, where available, is used to calibrate the log porosity and establish cutoffs. The core regression analysis (see Figure 6) establishes the 6% porosity at a cutoff of 0.1md permeability. Based on a standard 1md permeability cutoff the Moliqing oil field would not be able to produce oil. With the support of production data RSC has made a one decade shift in the permeability cutoff to 0.1md to produce reasonable pay counts supported by production data. In September 2008, RSC was presented with a report by John Schneider describing the inaccuracy of the technique used to conduct measurements on the previous core samples. Shortly after MIE resumed acquiring core data which is currently being evaluated by independent sources. Additionally a 60% water saturation cutoff was used to define effective pay.

The overall unit average porosity ranges from 13 to 18 percent with associated permeabilities in the range of .1-10md. The average water saturation is in the range of 39 to 50 percent. (Portions of the mapped area classified as Proved, Probable, and Possible are shown on the net pay map.)

Completion practices in MLQ are somewhat different than in Daan. In MLQ perforated intervals are more selective than in Daan where virtually all pay intervals are perf'd and frac'd. Therefore, in MLQ there are wells with un-perf'd/frac'd pay intervals that are considered "Behind Pipe." For mapping purposes the total pay interval is included. The Behind Pipe zones are then evaluated on a well-by-well basis. All of the perforated intervals in MLQ are stimulated or frac'd to improve recovery; these induced fractures are engineered to propagate though the sand bodies, but lack the ability to penetrate more than approximately 3m of shale. Any calculated pay zones that are isolated from a perforated interval or lie outside of the reach of the frac'd interval are counted as Proven pay Behind Pipe.

Reservoir Characteristics

All the wells that have been successfully tested/analyzed are assigned 20 acres as the Proved reservoir area. Each of these wells is assigned eight direct offsets, also 20 acres each, for a combined Proved area of 180 acres around each well. A Proved plus Probable area of 500 acres is assigned to each successful well by assuming a drainage area of 20 acres and 24 direct offsets. As in Daan an economic limit of .25 HCPV is used in conjunction with a stratigraphic limit to determine reserves. The Possible limit includes the area that is above a .25 HCPV value and contained within a polygon that extends from the tangent of the Probable wells that establish the PB boundary. As per SEC requirements all reserve areas are also limited to fault blocks that have been successfully penetrated by a well bore in the formation of interest. Areas that do not meet this requirement are classified as Prospective Resources.

Reserve Methodology – Oil Reserves

MI Energy has a 90 percent interest in the MLQ petroleum contract and is the operator. The other 10 percent is owned by Global Oil Corporation. The contract is now in the commercial production phase and has an expiration date of December 31, 2028.

Production in the MLQ contract area commenced in 1993 from the Eocene age Shuangyang formation of which the S2 is the main producing formation but also includes the S1 and S3 units. Three wells (Y6-4, Y8-2, Y8-4) within the contract have the S2 commingled with the shallower Sheling formation which appears to be localized and not as well developed. Additionally, seven wells have the S2 commingled with the S1 or S3 reservoir and one well produces strictly from the S1 reservoir. As of the effective date of this report, there were 121 total producers (115 active) and 16 active injectors in the contract area. Nine wells have been drilled during the first half of 2010, all of which are producers and currently eight are on production. The June 2010 oil production rate was 2,872 barrels of oil per day with a water cut of 9 percent. Total cumulative production for the field is 3,627 Mstb.

Certain portions of the contract area are under waterflood while others are still producing under primary depletion. MI Energy plans to waterflood the whole contract area when it's fully developed. For the purpose of this evaluation, waterflood recovery factors were assigned only to delineated portions of the pool. These areas, shown on the map in the Maps section, are further divided into developed and undeveloped waterflood areas. The developed waterflood areas are those continuous proved areas where water injection has started. The undeveloped waterflood areas are those continuous proved areas where water injection has not yet started. Isolated portions of the proved and all of the probable and possible areas were assigned primary recovery factors. Ryder Scott is of the opinion that the reservoir properties in these areas are not sufficiently defined to warrant the assignment of waterflood reserves at this time.

Average proved, proved plus probable, and proved plus probable plus possible waterflood technical recovery factors (prior to economics) of 9.8 percent, 12.7 percent, and 15.9 percent, respectively, were used after giving consideration for response to date and in-field analogs. An average primary technical recovery factor of 4.5 percent, based on decline curve analysis of existing well performance and type curves, was used for the proved areas, while higher technical primary recovery factors, averaging 7.4 percent and 10.0 percent, respectively, were used for the mapped probable and possible areas of the contract area. These forecast volumes were based on the recoverable volumes presented in the volumetric tables in the Tables section. It should be noted that actual observed recovery factors after economics will be less that those quoted above. This is because operating costs and economic components, economic factors related to the PSC and termination of production at contract expiration cause lower recovery factors.

As discussed in the geology section above, not all sand units included as pay were perforated in the wells. Behind pipe reserves were assigned to a portion of the un-perforated pay zone for those wells.

MI Energy plans to develop the field on 20 acre spacing and to waterflood using an inverted nine spot pattern. The total number of locations required to develop the proved, probable, and possible areas were determined by taking the area calculated for each category and dividing it by 20 acres. For the probable and possible areas, the number of locations so determined was classified as undeveloped. For the proved areas, the number of undeveloped locations was determined by subtracting the number of producing and non-producing wells from the calculated total number of locations required. The number of injectors required for the waterflood area was determined using approximately a producer/injector ratio of 3:1, consistent with an inverted nine spot pattern and also the current development schedule. Locations with negative impact on project economics were excluded from this report except in those instances where MI Energy indicated that they would drill the wells. Based on this methodology, the number of future undeveloped locations included in reserves is as shown in the following table.

	Producer	**Injector**	**Total**
Proved	36	9	45
Probable	89	0	89
Possible	117	26	143

These undeveloped locations were scheduled according to MI Energy's latest development schedule.

The production history and forecasts for the contract area and for each block are provided in the Plots section. It should be noted that the forecast volumes were based on the technically recoverable volumes (prior to economics). These volumes can be significantly different from the volumes shown on the cash flow projections due to economic factors and/or contract life cutoff.

UNESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation – Moliqing Field
As of June 30, 2010

	Proved			
	Developed			
	Producing	Non-Producing	Undeveloped	Total Proved
Gross Remaining Reserves				
Oil/Condensate – Barrels	5,304,948	2,025,379	3,175,276	10,505,603
Net Remaining Reserves				
Oil/Condensate – Barrels	2,390,526	786,831	1,327,127	4,504,484

	Probable			
	Developed			
	Producing	Non-Producing	Undeveloped	Total Probable
Gross Remaining Reserves				
Oil/Condensate – Barrels	–	2,712,853	6,031,941	8,744,794
Net Remaining Reserves				
Oil/Condensate – Barrels	–	1,259,512	2,546,306	3,805,818

	Possible			
	Developed			
	Producing	Non-Producing	Undeveloped	Total Possible
Gross Remaining Reserves				
Oil/Condensate – Barrels	–	1,804,922	9,918,182	11,723,104
Net Remaining Reserves				
Oil/Condensate – Barrels	–	953,527	4,318,623	5,272,150

Reserve Methodology – Gas Reserves

No revenue is derived from the gas produced from this property. As a result, no gas reserves have been assigned.

Reserve Methodology – Surface Loss and Liquid Yields

The difference between the reported produced volumes and the sales volume for oil is currently about 10.8 percent. This difference was assumed to remain constant for the remaining life of the property and was taken into consideration in the calculation of the company's net production volumes.

Resource Methodology

In the Moliqing Field the reserve and resource volumes are limited in part by the PSC boundary and within the PSC by a geologically defined non-reservoir limit. The reserves and their associated limits have been discussed previously. The remaining resources then fall into two categories, prospective and contingent. Prospective Resources are those volumes in un-drilled fault blocks, generally on the outer portions of the current drilling scheme. The Contingent Resources are those volumes within the drilled areas that fall below 0.5m HCPV thickness. Experience in this field shows that wells with a HCPV thickness less than 0.5m are generally uneconomic to produce. The "reserves" associated with these producing wells are based on performance trends and are subtracted out of the "resource" volume. There are several complex areas in the field where engineering and geological judgment coupled with sparse well control and/or poor well performance have dictated subjectively placed boundaries between reserves and resources.

Block	Total Volumes			Prospective Resource Volumes @ reservoir			Contingent Resource Volumes @ reservoir		
Polygon	Area	Total Net pay	Total HCPV	Prospective Area	Prospective Net pay	Prospective HCPV	Contingent Area	Contingent Net pay	Contingent HCPV
Y38	3,008	135,123	97,100,020				439	12,807	7,736,232
Y39	5,188	381,132	246,176,463	572	50,289	29,485,026	254	17,249	10,454,829
Y40	2,871	46,657	28,353,036	799	27,468	16,141,000	89	1,020	667,259
Y41	3,399	208,609	132,508,666	774	28,201	15,442,533	179	3,019	1,816,319
Y46				230	233	148,038			
Total				2,375	106,191	61,216,598	961	34,094	20,674,639

Polygon ID	Area	Net pay (ac-ft)	HCPV(BBLS)
Y38	3,007.71	135,122.82	97,100,019.53
Y38_C3_1	117.75	8,642.73	4,960,441.69
Y38_C3_2	321.07	4,164.22	2,775,790.21
Y39	5,188.41	381,132.36	246,176,462.63
Y39_C3_1	79.20	1,208.75	789,980.26
Y39_C3_2	13.23	267.14	145,546.29
Y39_C3_3	161.58	15,772.83	9,519,302.58
Y39_Prospective_1	443.71	49,247.33	28,871,742.03
Y39_Prospective_2	128.76	1,042.02	613,284.24
Y40	2,870.81	46,657.35	28,353,035.87
Y40_C3_1	30.83	591.75	261,761.55
Y40_C3_2	58.57	427.87	405,497.06
Y40_Prospective_1	798.50	27,468.25	16,141,000.36
Y41	3,399.10	208,609.01	132,508,666.02
Y41_C3_1	62.00	869.49	381,200.27
Y41_C3_2	90.63	1,722.18	1,240,224.00
Y41_C3_3	8.95	112.79	58,707.63
Y41_C3_4	17.08	314.52	136,187.09
Y41_Prospective_1	159.28	7,754.59	4,419,763.74
Y41_Prospective_2	322.40	18,827.35	9,882,994.35
Y41_Prospective_3	62.74	1,385.26	991,737.35
Y46_Prospective_1	229.89	233.30	148,037.93

Field Average	
Average Porosity	Average Sw
0.158	0.458
Formation Volume Bo	
1.159	

	Recovery Factor	Gross Technically Recoverable
1C	4.50%	802,725
2C	7.00%	1,248,684
3C	9.00%	1,605,451
Low	4.50%	2,376,831
Best	7.00%	3,697,292
High	9.00%	4,753,662

Future Development

As discussed previously, a considerable amount of additional development is required to deplete the estimated reserves. The projected capital requirements for drilling, recompletion and facility expansion are provided in the Economic Parameters table included in the Tables section and were estimated from data provided by MI Energy.

MI Energy's development plan is presented in the table below.

MIE DEVELOPMENT SCHEDULE
GROSS WELLS (PROD & INJ)
MOLIQING FIELD

	BLOCK Y38						
Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010	Y38	4	0	0	4	4	4
2011	Y38	18	0	6	18	18	24
2012	Y38	0	0	14	0	0	14
2013	Y38	0	0	21	0	0	21
2014	Y38	0	0	18	0	0	18
2015	Y38	0	0	16	0	0	16
TOTAL		**22**	**0**	**75**	**22**	**22**	**97**

	BLOCK Y39						
Year	BLK	PVD	Prob	Poss	1P	2P	3P
2010	Y39	12	0	0	12	12	12
2011	Y39	3	8	0	3	11	11
2012	Y39	4	19	0	4	23	23
2013	Y39	0	24	0	0	24	24
2014	Y39	0	22	6	0	22	28
2015	Y39	0	0	34	0	0	34
TOTAL		**19**	**73**	**40**	**19**	**92**	**132**

Year	BLOCK Y40 BLK	PVD	Prob	Poss	1P	2P	3P
2010	Y40	0	0	0	0	0	0
2011	Y40	0	4	2	0	4	6
2012	Y40	0	0	0	0	0	0
2013	Y40	0	0	0	0	0	0
2014	Y40	0	0	0	0	0	0
2015	Y40	0	0	0	0	0	0
TOTAL		**0**	**4**	**2**	**0**	**4**	**6**

Year	BLOCK Y41 BLK	PVD	Prob	Poss	1P	2P	3P
2010	Y41	2	0	0	2	2	2
2011	Y41	0	0	0	0	0	0
2012	Y41	2	0	0	2	2	2
2013	Y41	0	12	0	0	12	12
2014	Y41	0	0	0	0	0	0
2015	Y41	0	0	0	0	0	0
2016	Y41	0	0	26	0	0	26
TOTAL		**4**	**12**	**26**	**4**	**16**	**42**

Year	TOTAL ALL PSC BLK	PVD	Prob	Poss	1P	2P	3P
2010		18	0	0	18	18	18
2011		21	12	8	21	33	41
2012		6	19	14	6	25	39
2013		0	36	21	0	36	57
2014		0	22	24	0	22	46
2015		0	0	50	0	0	50
2016		0	0	26	0	0	26
TOTAL		**45**	**89**	**143**	**45**	**134**	**277**

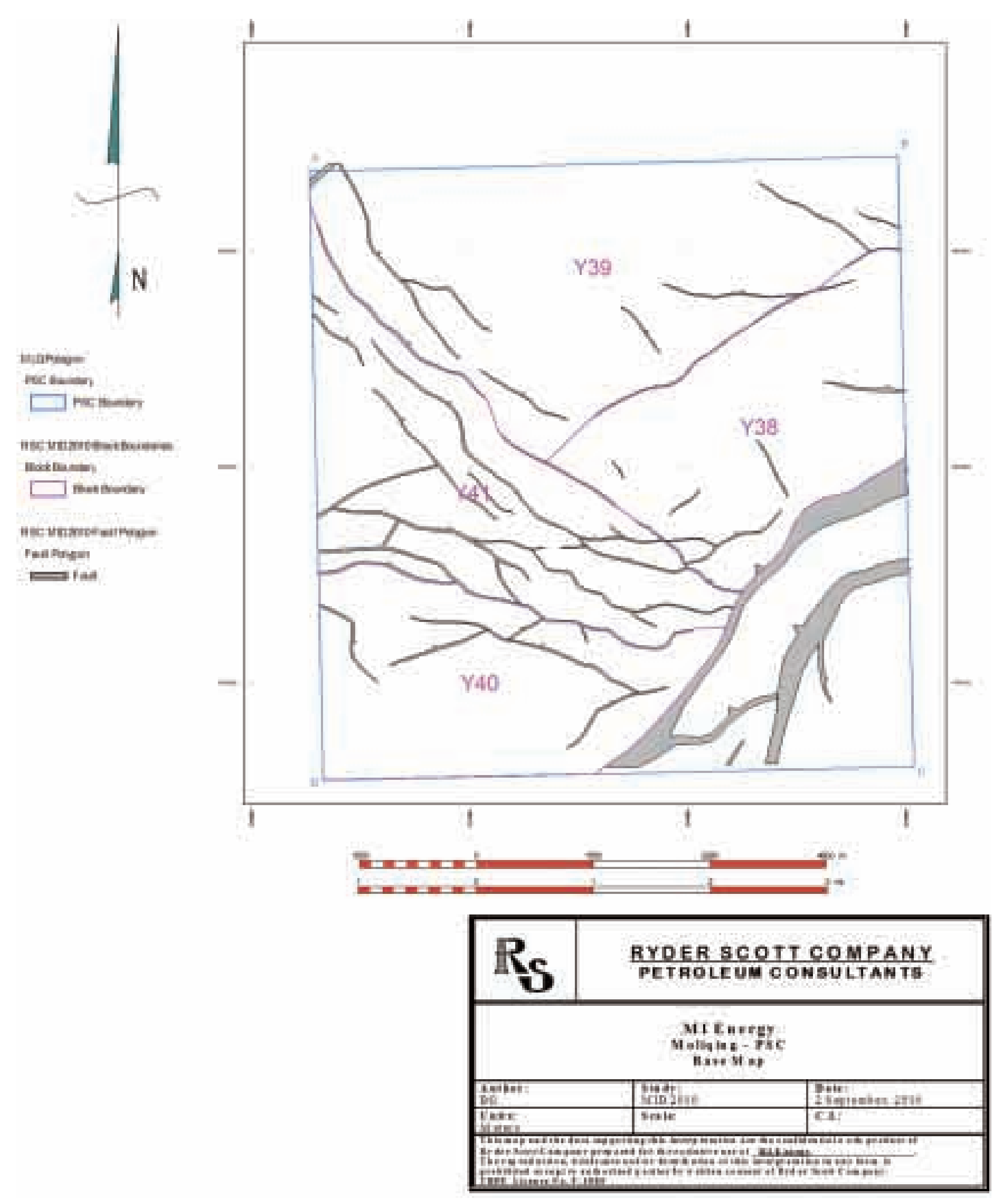
Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
	Moliqing – Probable			
			$	$
2010	0	8,388	0	34,134
2011	12	107,972	13,723,200	849,304
2012	19	332,354	21,728,400	2,541,762
2013	36	580,775	41,169,600	4,919,171
2014	22	764,697	25,159,200	6,872,047
2015	0	770,128	0	6,590,957
2016	0	723,928	0	6,388,908
2017	0	672,898	0	6,174,636
2018	0	604,223	0	5,894,747
2019	0	541,563	0	5,639,880
2020	0	486,622	0	5,416,562
2021	0	434,835	0	5,206,052
2022	0	389,665	0	5,022,547
2023	0	349,178	0	4,858,111
2024	0	352,574		6,913,076
Sub Total		**7,119,800**	**101,780,400**	**73,321,893**
Remainder		**1,624,992**	**0**	**64,150,163**
Total Future	**89**	**8,744,792**	**101,780,400**	**137,472,056**

Year	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
	Moliqing – Possible			
			$	$
2010	0	6,840	0	27,801
2011	8	66,202	9,148,800	583,891
2012	14	182,199	16,010,400	1,655,499
2013	21	339,521	24,015,600	3,042,438
2014	24	527,783	27,446,400	4,453,430
2015	50	838,875	57,180,000	7,970,207
2016	26	1,138,640	32,333,600	10,683,578
2017	0	1,180,669	0	10,398,049
2018	0	1,092,377	0	10,023,578
2019	0	990,511	0	9,601,358
2020	0	889,996	0	9,188,048
2021	0	795,207	0	8,798,500
2022	0	712,484	0	8,458,974
2023	0	638,300	0	8,154,799
2024	0	573,274		7,888,548
Sub Total		**9,972,878**	**166,134,800**	**100,928,697**
Remainder		**1,750,227**	**0**	**29,336,408**
Total Future	**143**	**11,723,105**	**166,134,800**	**130,265,105**

Year	Moliqing – 1P			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	20	548,699	23,217,600	7,851,456
2011	21	1,158,713	26,140,600	16,518,337
2012	3	1,212,962	9,246,600	17,237,295
2013	0	1,153,720	255,000	17,010,991
2014	0	1,061,701	935,000	16,579,361
2015	0	968,228	935,000	16,202,559
2016	0	848,105	0	15,643,337
2017	0	723,326	0	14,998,912
2018	0	619,488	0	14,517,323
2019	0	530,902	0	14,164,104
2020	0	456,544	0	13,870,322
2021	0	390,363	0	13,412,279
2022	0	334,999	0	13,150,998
2023	0	288,200	0	12,963,891
2024	0	209,654	0	10,577,384
Sub Total		**10,505,604**	**60,729,800**	**214,698,550**
Remainder		**0**	**100,000**	**0**
Total Future	**44**	**10,505,604**	**60,829,800**	**214,698,550**

Year	Moliqing – 2P			
	Number of Wells Drilled	Gross Oil Production (Barrels)	Gross CAPEX	Gross OPEX
			$	$
2010	20	557,087	23,217,600	7,885,590
2011	33	1,266,685	39,863,800	17,367,641
2012	22	1,545,316	30,975,000	19,779,056
2013	36	1,734,495	41,424,600	21,930,162
2014	22	1,826,398	26,094,200	23,451,408
2015	0	1,738,356	935,000	22,793,516
2016	0	1,572,033	0	22,032,245
2017	0	1,396,224	0	21,173,548
2018	0	1,223,711	0	20,412,070
2019	0	1,072,465	0	19,803,985
2020	0	943,166	0	19,286,884
2021	0	825,198	0	18,618,331
2022	0	724,664	0	18,173,545
2023	0	637,378	0	17,822,002
2024	0	562,228	0	17,490,460
Sub Total		**17,625,404**	**162,510,200**	**288,020,442**
Remainder		**1,624,992**	**100,000**	**64,150,163**
Total Future	**133**	**19,250,396**	**162,610,200**	**352,170,605**

	Moliqing – 3P			
Year	**Number of Wells Drilled**	**Gross Oil Production (Barrels)**	**Gross CAPEX**	**Gross OPEX**
			$	**$**
2010	20	563,927	23,217,600	7,913,391
2011	41	1,332,887	49,012,600	17,951,532
2012	36	1,727,515	46,985,400	21,434,555
2013	57	2,074,016	65,440,200	24,972,600
2014	46	2,354,181	53,540,600	27,904,838
2015	50	2,577,231	58,115,000	30,763,723
2016	26	2,710,673	32,333,600	32,715,823
2017	0	2,576,893	0	31,571,597
2018	0	2,316,088	0	30,435,648
2019	0	2,062,976	0	29,405,342
2020	0	1,833,162	0	28,474,932
2021	0	1,620,405	0	27,416,831
2022	0	1,437,148	0	26,632,518
2023	0	1,275,678	0	25,976,801
2024	0	1,135,502	0	25,379,008
Sub Total		**27,598,282**	**328,645,000**	**388,949,139**
Remainder		**3,375,219**	**100,000**	**93,486,571**
Total Future	**276**	**30,973,501**	**328,745,000**	**482,435,710**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Y39
Y38
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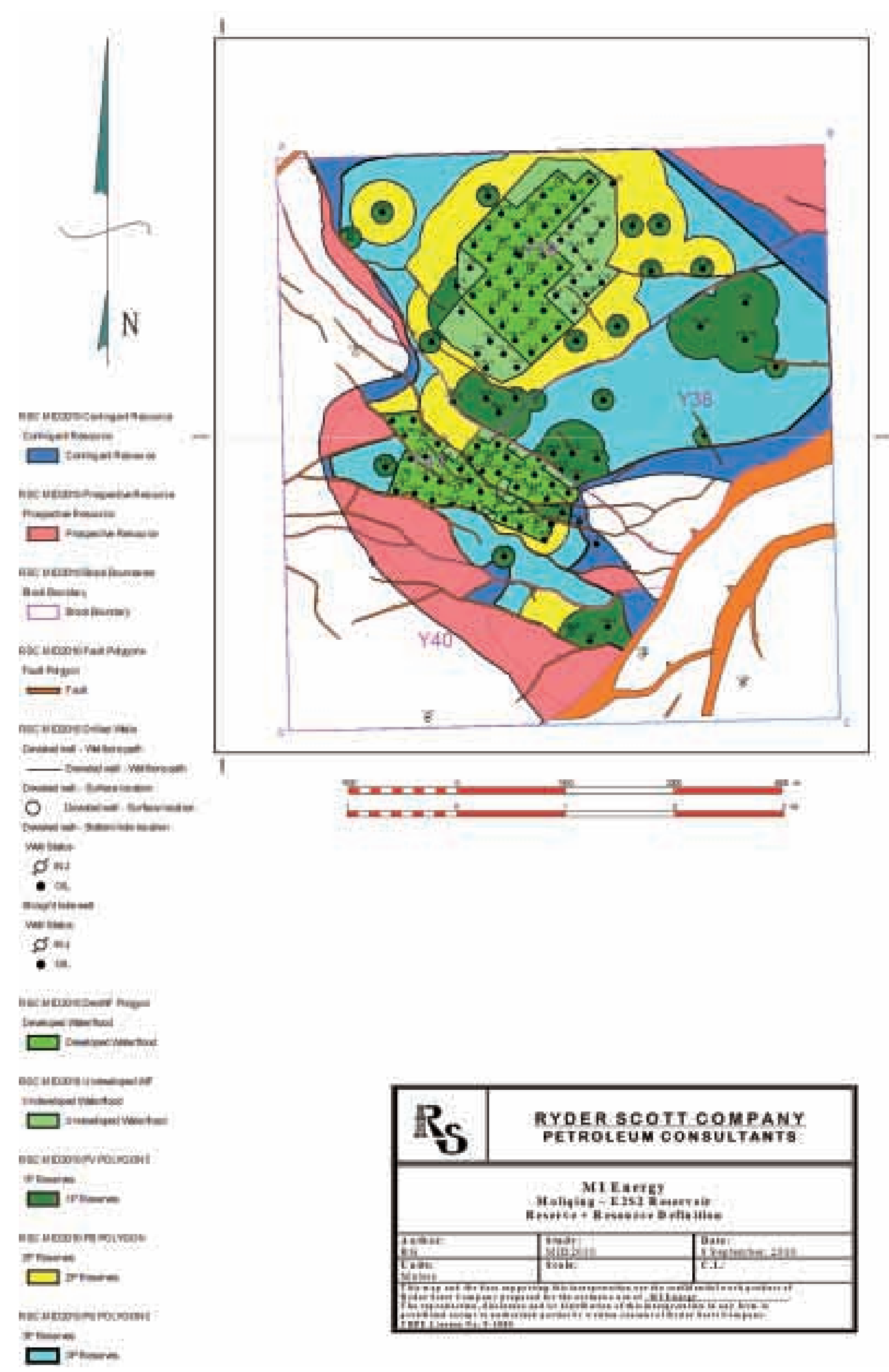
RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
MI Energy
Base Map
Author:
Scale
Date:
C.I.: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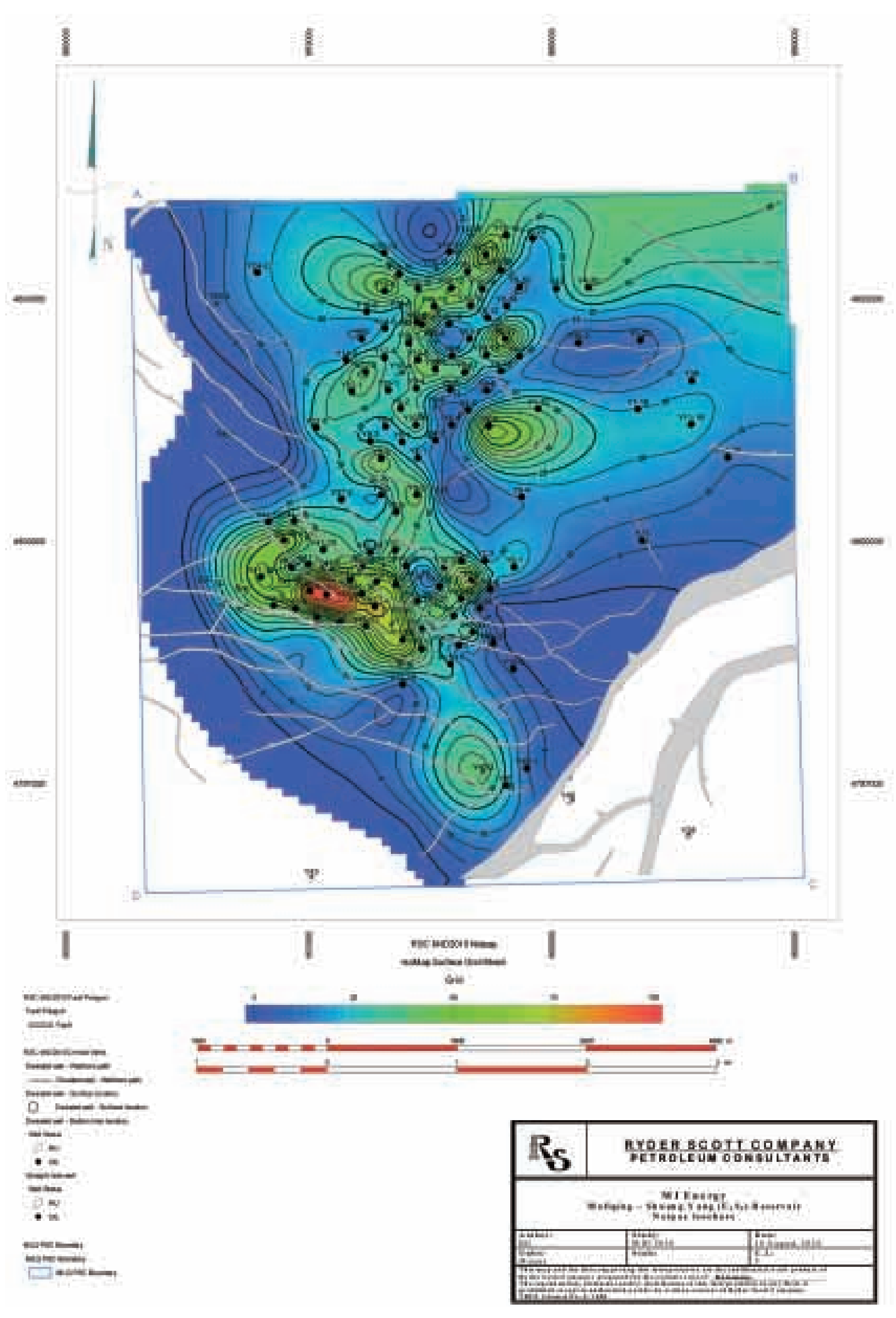
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MI Energy

Economic Summary

A summary of the economic parameters used in this evaluation is provided in the Economic Parameters table. It should be noted that all dollar amounts presented in this table are expressed in U.S. currency and the evaluation was conducted in U.S. currency.

Operating costs were determined from information provided by the operator. This information included lease operating statements, budget documents, agreements and in some instances, operator's estimates.

Based on our projection, the proved cases become uneconomic prior to contract expiration. However, it was assumed that the net abandonment cost after salvage would not be significant and was therefore not included in the evaluation.

This report does not address any environmental liabilities which may exist. Furthermore, no field inspection was carried out by Ryder Scott personnel for this purpose.

MI ENERGY CORPORATION
Summary of Gross Lease Oil Reserve Volumes
Moliqing PSC, Jilin Province, China
Effective June 30, 2010
TOTAL FIELD

Pool	Well Name	Class	Status	Resv Method	Area	Net Pay	hcpv	RockVol	HCPV	OOIP	RF	EUR	Cum	Rem	FINAL	
					ac	m	m	ac-ft	MBbl	MSTB	%	MSTB	MSTB	MSTB	Prod	Inj
DevWFArea1	Producing wells	Proved	PD	vol/perf	1,126	31.7	2.6	117,005	75,306	64,975	9.8%	6,360	2,281	4,080	50	12
DevWFArea1	Producing wells	T1P	PD&NP	vol/perf	1,126	37.9	3.1	139,954	90,081	77,723	9.8%	7,597	2,281	5,316	47	16
DevWFArea1	Producing wells	T2P	PD&NP	vol/perf	1,126	37.9	3.1	139,954	90,081	77,723	12.7%	9,876	2,281	7,595	47	16
DevWFArea1	Producing wells	T3P	PD&NP	vol/perf	1,126	37.9	3.1	139,954	90,081	77,723	15.9%	12,345	2,281	10,064	47	16
DevWFArea2	Producing wells	Proved	PD	vol/perf	215	28.5	2.6	20,120	14,105	12,170	9.7%	1,184	271	914	12	3
DevWFArea2	Producing wells	T1P	PD&NP	vol/perf	215	34.5	3.1	24,381	17,092	14,747	9.7%	1,435	271	1,164	11	4
DevWFArea2	Producing wells	T2P	PD&NP	vol/perf	215	34.5	3.1	24,381	17,092	14,747	12.2%	1,799	271	1,529	11	4
DevWFArea2	Producing wells	T3P	PD&NP	vol/perf	215	34.5	3.1	24,381	17,092	14,747	15.3%	2,249	271	1,978	11	4
DevWFArea	Producing wells	Proved	PD	vol/perf	1,341	31.2	2.6	137,126	89,411	77,145	9.8%	7,545	2,551	4,994	62	15
DevWFArea	Producing wells	T1P	PD&NP	vol/perf	1,341	37.4	3.1	164,335	107,173	92,470	9.8%	9,032	2,551	6,481	58	19
DevWFArea	Producing wells	T2P	PD&NP	vol/perf	1,341	37.4	3.1	164,335	107,173	92,470	12.6%	11,675	2,551	9,124	58	19
DevWFArea	Producing wells	T3P	PD&NP	vol/perf	1,341	37.4	3.1	164,335	107,173	92,470	15.8%	14,594	2,551	12,043	58	19
UndWFArea	Producing wells	Proved	PD	vol/perf	420	20.5	1.7	28,288	17,735	15,302	8.4%	1,282	450	833	21	–
UndWFArea	Producing wells	T1P	PD&BP	vol/perf	420	24.9	2.0	34,278	21,490	18,542	8.4%	1,554	450	1,104	21	–
UndWFArea	NewDrill PNP	T1P	NP	Vol	–			–	–	–		–	–	–	–	–
UndWFArea	Primary Locations	Proved	UD	Vol	323	28.9	2.4	30,601	19,850	17,127	7.1%	1,224	–	1,224	16	–
UndWFArea	Total Primary	Proved	PD&NP&UD	Vol	743	26.6	2.2	64,879	41,340	35,669	7.8%	2,778	450	2,328	37	–
UndWFArea	Total Waterflood	T1P	PD&NP&UD	Vol	743	26.6	2.2	64,879	41,340	35,669	10.2%	3,644	450	3,194	28	9
UndWFArea	Total Waterflood	T2P	PD&NP&UD	Vol	743	26.6	2.2	64,879	41,340	35,669	13.3%	4,746	450	4,296	28	9
UndWFArea	Total Waterflood	T3P	PD&NP&UD	Vol	743	26.6	2.2	64,879	41,340	35,669	16.6%	5,933	450	5,483	28	9
PvPrimArea	Producing wells	Proved	PD	vol/perf	675	14.6	1.3	32,410	22,667	19,557	4.3%	846	458	388	29	1
PvPrimArea	Producing wells	T1P	PD&BP	vol/perf	675	22.6	2.0	50,002	34,938	30,145	4.1%	1,240	458	783	29	1
PvPrimArea	NewDrill PNP	T1P	NP	Vol	–			–	–	–		–	–	–	–	–
PvPrimArea	Primary Locations	Proved	UD	Vol	588	20.7	1.9	39,860	28,736	24,794	5.0%	1,240	–	1,240	29	–
PvPrimArea	Total Primary	T1P	PD&NP&UD	Vol	1,263	21.7	2.0	89,862	63,674	54,939	4.5%	2,480	458	2,023	58	1
Mapped PV Area	**Block Total**	T1P	PD&NP&UD	Vol	3,347	29.1	2.5	319,075	212,187	183,078	8.3%	15,156	3,458	11,698	144	30
Mapped PV Area	**Block Total**	T2P	PD&NP&UD	Vol	3,347	29.1	2.5	319,075	212,187	183,078	10.3%	18,901	3,458	15,443	144	30
Mapped PV Area	**Block Total**	T3P	PD&NP&UD	Vol	3,347	29.1	2.5	319,075	212,187	183,078	12.6%	23,007	3,458	19,548	144	30
Mapped PB Area	Primary Locations	Probable	UD	Vol	1,774	23.6	2.0	137,064	90,222	77,845	7.4%	5,786	–	5,786	89	–
Mapped PS Area	Primary Locations	Possible	UD	Vol	2,863	18.6	1.6	174,927	119,781	103,348	10.0%	10,335	–	10,335	143	–
Total Mapped Area	Block Total	Proved	PD	vol/perf	2,436	24.8	2.1	197,824	129,813	112,005	8.6%	9,673	3,458	6,214	112	16
Total Mapped Area	Block Total	T1P	PD&NP	vol/perf	2,436	31.1	2.6	248,614	163,601	141,157	8.4%	11,826	3,458	8,368	108	20
Total Mapped Area	Block Total	T1P	PD&NP&UD	vol/perf	3,347	29.1	2.5	319,075	212,187	183,078	8.3%	15,156	3,458	11,698	144	30
Total Mapped Area	Block Total	T2P	PD&NP&UD	vol/perf	5,121	27.2	2.3	456,139	302,410	260,923	9.5%	24,687	3,458	21,228	233	30
Total Mapped Area	Block Total	T3P	PD&NP&UD	vol/perf	7,984	24.1	2.1	631,067	422,191	364,271	10.7%	39,127	3,458	35,669	376	30

Data in this table is from summation of individual block parameters and calculations.

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

MI ENERGY CORPORATION
PROPERTY GROSS OIL PRODUCTION HISTORY AND FORECAST

MOLIQING
Effective June 30, 2010

HISTORY
FORECAST

PROVED PRODUCING OIL
TOTAL PROVED OIL
PROVED PLUS PROBABLE OIL

Oil bbl/cd

100000
10000
1000
100
10

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

YEAR

25.7 Business

MIE operates the Daan, Moliqing and Miao 3 production sharing contracts in northeast China, with right to 90% of the Foreign Contractors' interest. Its current business is essentially the development of these contract areas by drilling and completing new production and water injection wells and installing associated facilities and the operation of the existing wells and new wells ongoing since 2001.

MIE plans to drill 1,880 more wells over the next five years to develop the existing proved, probable and possible reserves, as detailed in field section. Combined with the existing Proved Developing Producing reserves, based on current oil prices, these three PSC's will continue to generate significant positive cash flow for many years, as indicated by the cash flow projections in executive summary section.

The Company has an experienced and capable technical staff of Chinese and American professionals, many of whom we have worked with over the past four years during the preparation of this and previous reserves reports and found to be competent and knowledgeable in petroleum engineering and geological principles.

The Company has been executing on its plan to develop these assets for the past several years successfully, and future development and operations activities are basically a continuation of essentially the same type of activity under the same contracts.

25.8 Economic Evaluation: Constant Base Case

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: CONSTANT
AS OF JUNE 30, 2010

TABLE 1

GRAND SUMMARY

TOTAL PROVED
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST			PRODUCT PRICES			DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
		Oil/ Condensate	Plant Products	Gas	Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)		
INITIAL								5.00 %	718,504,263
FINAL								8.00 %	618,344,379
REMARKS								10.00 %	562,384,646
								15.00 %	451,286,824
								20.00 %	370,315,437

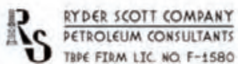
Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICES		
		Oil/Cond (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond ($/bbl)	Plt Prod ($/bbl)	Gas ($/Mcf)
2010	1,604	3,607,477	0	0	1,536,880	0	0	73.35	0.00	0.00
2011	1,899	6,934,280	0	0	3,485,108	0	0	73.35	0.00	0.00
2012	2,087	7,081,216	0	0	3,298,054	0	0	73.35	0.00	0.00
2013	2,184	7,307,229	0	0	2,972,480	0	0	73.35	0.00	0.00
2014	2,076	7,087,480	0	0	2,669,994	0	0	73.35	0.00	0.00
2015	2,076	6,508,307	0	0	2,454,997	0	0	73.35	0.00	0.00
2016	2,073	5,916,862	0	0	2,229,475	0	0	73.35	0.00	0.00
2017	2,062	5,263,001	0	0	1,986,750	0	0	73.35	0.00	0.00
2018	2,048	4,702,858	0	0	1,778,585	0	0	73.35	0.00	0.00
2019	2,044	4,195,778	0	0	1,587,115	0	0	73.35	0.00	0.00
2020	2,032	3,697,746	0	0	1,398,885	0	0	73.35	0.00	0.00
2021	2,027	3,222,919	0	0	1,219,360	0	0	73.35	0.00	0.00
2022	2,026	2,813,415	0	0	1,064,509	0	0	73.35	0.00	0.00
2023	1,986	2,452,819	0	0	928,124	0	0	73.35	0.00	0.00
2024	1,984	2,103,732	0	0	798,446	0	0	73.35	0.00	0.00
Sub-Total		72,895,119	0	0	29,408,762	0	0	73.35	0.00	0.00
Remainder		0	0	0	0	0	0	0.00	0.00	0.00
Total Future		72,895,119	0	0	29,408,762	0	0	73.35	0.00	0.00
Cumulative		25,748,489	0	358						
Ultimate		98,643,608	0	358						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $					PRODUCTION TAXES - $			FGR AFTER PRODUCTION TAXES - $
	From Oil/Condensate	From Plant Products	From Gas	Other	Total	Oil/ Condensate	EPT	Gas	
2010	112,730,123	0	0	0	112,730,123	0	16,481,180	0	96,248,944
2011	255,632,707	0	0	0	255,632,707	0	37,355,886	0	218,276,821
2012	241,912,229	0	0	0	241,912,229	0	35,592,126	0	206,320,104
2013	218,031,434	0	0	0	218,031,434	0	32,047,358	0	185,984,076
2014	195,844,038	0	0	0	195,844,038	0	28,785,984	0	167,058,054
2015	180,074,031	0	0	0	180,074,031	0	26,495,041	0	153,578,989
2016	163,531,958	0	0	0	163,531,958	0	24,088,901	0	139,443,057
2017	145,728,128	0	0	0	145,728,128	0	21,501,129	0	124,226,999
2018	130,459,198	0	0	0	130,459,198	0	19,279,860	0	111,179,338
2019	116,414,913	0	0	0	116,414,913	0	17,204,331	0	99,210,582
2020	102,608,241	0	0	0	102,608,241	0	15,163,917	0	87,444,324
2021	89,440,077	0	0	0	89,440,077	0	13,217,865	0	76,222,211
2022	78,081,719	0	0	0	78,081,719	0	11,539,275	0	66,542,444
2023	68,077,909	0	0	0	68,077,909	0	10,060,866	0	58,017,043
2024	58,565,990	0	0	0	58,565,990	0	8,655,151	0	49,910,839
Sub-Total	2,157,132,696	0	0	0	2,157,132,696	0	317,468,871	0	1,839,663,825
Remainder	0	0	0	0	0	0	0	0	0
Total Future	2,157,132,696	0	0	0	2,157,132,696	0	317,468,871	0	1,839,663,825

Year	DEDUCTIONS - $					FUTURE NET INCOME AFTER INCOME TAXES - $		
	Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	15,002,104	2,320,283	23,185,980	12,814,130	53,322,498	42,926,446	42,926,446	42,156,985
2011	35,699,987	6,181,767	114,199,200	28,504,550	184,585,504	33,691,316	76,617,762	32,074,442
2012	35,540,513	5,377,818	69,974,820	22,782,865	133,676,017	72,644,087	149,261,849	61,036,722
2013	31,381,742	4,488,830	32,972,220	16,339,657	85,182,449	100,801,626	250,063,476	75,605,326
2014	26,680,349	3,615,421	841,500	12,899,552	44,036,822	123,021,232	373,084,708	83,044,676
2015	26,472,394	3,388,205	841,500	11,148,757	41,850,856	111,728,134	484,812,842	68,283,409
2016	26,081,775	3,134,495	0	11,841,578	41,057,848	98,385,209	583,198,051	54,485,803
2017	25,669,663	2,872,106	0	12,878,657	41,420,426	82,806,573	666,004,623	41,575,120
2018	25,348,639	2,647,993	0	14,302,817	42,299,449	68,879,889	734,884,513	31,381,693
2019	25,089,349	2,444,165	0	15,868,684	43,402,198	55,808,385	790,692,897	23,103,174
2020	24,832,427	2,243,719	0	15,219,353	42,295,500	45,148,824	835,841,721	16,963,630
2021	24,533,905	2,050,784	0	13,439,557	40,024,246	36,197,965	872,039,686	12,330,186
2022	24,263,066	1,883,926	0	10,952,530	37,099,522	29,442,922	901,482,609	9,080,763
2023	23,937,290	1,734,098	0	8,790,174	34,461,562	23,555,482	925,038,090	6,578,156
2024	22,880,073	1,565,146	90,000	6,854,137	31,389,355	18,521,484	943,559,574	4,684,562
Sub-Total	393,413,276	45,948,758	242,105,220	214,636,997	896,104,251	943,559,574		562,384,646
Remainder	0	0	0	0	0	0	943,559,574	0
Total Future	393,413,276	45,948,758	242,105,220	214,636,997	896,104,251	943,559,574		562,384,646

Life of summary is: 14.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.



MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN
INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: CONSTANT
AS OF JUNE 30, 2010

TABLE 2

GRAND SUMMARY

TOTAL PROBABLE
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)
INITIAL							
FINAL							
REMARKS							

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00 %	198,991,203
8.00 %	130,162,168
10.00 %	95,152,432
15.00 %	34,468,686
20.00 %	-724,613

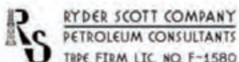
Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond. ($/bbl)	Plt Prod ($/bbl)	Gas ($/Mcf)
2010	3	63,739	0	0	28,512	0	0	73.35	0.00	0.00
2011	24	474,830	0	0	228,834	0	0	73.35	0.00	0.00
2012	220	1,198,048	0	0	947,622	0	0	73.35	0.00	0.00
2013	572	2,254,360	0	0	1,738,356	0	0	73.35	0.00	0.00
2014	843	3,332,909	0	0	1,729,424	0	0	73.35	0.00	0.00
2015	884	3,850,620	0	0	1,524,654	0	0	73.35	0.00	0.00
2016	881	3,973,045	0	0	1,475,610	0	0	73.35	0.00	0.00
2017	878	3,942,227	0	0	1,464,376	0	0	73.35	0.00	0.00
2018	878	3,749,287	0	0	1,394,466	0	0	73.35	0.00	0.00
2019	781	3,561,172	0	0	1,326,238	0	0	73.35	0.00	0.00
2020	781	3,412,463	0	0	1,274,423	0	0	73.35	0.00	0.00
2021	781	3,257,622	0	0	1,220,191	0	0	73.35	0.00	0.00
2022	781	3,095,376	0	0	1,162,744	0	0	73.35	0.00	0.00
2023	821	2,933,335	0	0	1,105,037	0	0	73.35	0.00	0.00
2024	821	2,795,768	0	0	1,053,949	0	0	73.35	0.00	0.00
Sub-Total		41,894,800	0	0	17,674,437	0	0	73.35	0.00	0.00
Remainder		1,624,992	0	0	596,350	0	0	73.35	0.00	0.00
Total Future		43,519,792	0	0	18,270,787	0	0	73.35	0.00	0.00
Cumulative		0	0	262						
Ultimate		43,519,792	0	262						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - $ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - $
2010	2,091,343	0	0	0	2,091,343	0	309,068	0	1,782,274
2011	16,785,008	0	0	0	16,785,008	0	2,448,586	0	14,336,422
2012	69,508,065	0	0	0	69,508,065	0	10,172,364	0	59,335,701
2013	127,508,401	0	0	0	127,508,401	0	18,646,205	0	108,862,197
2014	126,853,237	0	0	0	126,853,237	0	18,494,644	0	108,358,593
2015	111,833,357	0	0	0	111,833,357	0	16,254,333	0	95,579,024
2016	108,236,011	0	0	0	108,236,011	0	15,739,481	0	92,496,530
2017	107,412,011	0	0	0	107,412,011	0	15,614,389	0	91,797,622
2018	102,284,108	0	0	0	102,284,108	0	14,861,946	0	87,422,162
2019	97,279,558	0	0	0	97,279,558	0	14,166,034	0	83,113,524
2020	93,478,940	0	0	0	93,478,940	0	13,646,487	0	79,832,452
2021	89,500,991	0	0	0	89,500,991	0	13,100,332	0	76,400,658
2022	85,287,294	0	0	0	85,287,294	0	12,516,108	0	72,771,186
2023	81,054,493	0	0	0	81,054,493	0	11,926,209	0	69,128,284
2024	77,307,166	0	0	0	77,307,166	0	11,406,194	0	65,900,972
Sub-Total	1,296,419,982	0	0	0	1,296,419,982	0	189,302,380	0	1,107,117,602
Remainder	43,742,280	0	0	0	43,742,280	0	6,464,435	0	37,277,845
Total Future	1,340,162,262	0	0	0	1,340,162,262	0	195,766,815	0	1,144,395,447

Year	DEDUCTIONS - $ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	65,394	39,807	584,280	8,984,006	9,673,487	-7,891,213	-7,891,213	-7,520,964
2011	545,131	476,111	15,134,040	20,527,959	36,683,241	-22,346,819	-30,238,031	-19,227,933
2012	5,840,184	2,206,290	74,892,380	29,151,718	112,090,573	-52,754,872	-82,992,904	-42,207,180
2013	12,521,337	4,068,965	136,532,840	37,690,242	190,813,385	-81,951,188	-164,944,092	-59,085,491
2014	13,688,268	3,186,908	73,030,520	31,992,993	121,898,688	-13,540,095	-178,484,186	-7,585,995
2015	10,155,177	2,064,028	13,297,320	26,143,089	51,659,614	43,919,410	-134,564,776	27,514,069
2016	8,927,758	1,804,472	0	21,002,785	31,735,014	60,761,516	-73,803,260	33,942,410
2017	8,794,919	1,789,308	0	15,867,727	26,451,954	65,345,668	-8,457,592	32,900,093
2018	7,126,208	1,661,849	90,000	11,172,888	20,050,945	67,371,217	58,913,625	30,606,884
2019	6,780,751	1,581,938	0	9,923,850	18,286,539	64,826,984	123,740,609	26,650,059
2020	6,703,624	1,525,687	0	11,680,871	19,910,181	59,922,271	183,662,880	22,337,284
2021	6,630,094	1,466,969	0	15,540,875	23,637,939	52,762,720	236,425,600	17,883,606
2022	6,639,138	1,407,616	0	17,116,727	25,163,481	47,607,705	284,033,305	14,651,466
2023	6,750,915	1,351,287	0	16,586,276	24,688,478	44,439,806	328,473,111	12,389,461
2024	7,617,819	1,328,320	-90,000	15,556,325	24,412,465	41,488,507	369,961,618	10,471,061
Sub-Total	108,786,716	25,959,555	313,471,381	288,938,332	737,155,984	369,961,618		93,718,832
Remainder	26,283,903	1,471,953	90,000	2,559,556	30,405,412	6,872,433	376,834,051	1,433,600
Total Future	135,070,619	27,431,508	313,561,381	291,497,888	767,561,396	376,834,051		95,152,432

Life of summary is: 18.51 years

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report



MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: CONSTANT
AS OF JUNE 30, 2010

TABLE 3

GRAND SUMMARY

TOTAL POSSIBLE
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)
INITIAL							
FINAL							
REMARKS							

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00%	191,550,530
8.00%	134,148,791
10.00%	105,307,373
15.00%	55,952,472
20.00%	27,650,231

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond. ($/bbl)	Plt Prod. ($/bbl)	Gas ($/Mcf)
2010	2	27,431	0	0	14,842	0	0	73.35	0.00	0.00
2011	10	180,897	0	0	92,725	0	0	73.35	0.00	0.00
2012	24	426,988	0	0	214,452	0	0	73.35	0.00	0.00
2013	59	791,545	0	0	557,145	0	0	73.35	0.00	0.00
2014	328	1,532,789	0	0	1,125,149	0	0	73.35	0.00	0.00
2015	458	2,211,821	0	0	1,284,119	0	0	73.35	0.00	0.00
2016	484	2,726,803	0	0	1,188,610	0	0	73.35	0.00	0.00
2017	484	2,974,523	0	0	1,090,946	0	0	73.35	0.00	0.00
2018	484	3,074,525	0	0	1,130,225	0	0	73.35	0.00	0.00
2019	581	3,047,501	0	0	1,125,942	0	0	73.35	0.00	0.00
2020	581	3,010,083	0	0	1,117,638	0	0	73.35	0.00	0.00
2021	484	2,835,232	0	0	1,050,873	0	0	73.35	0.00	0.00
2022	484	2,685,577	0	0	995,663	0	0	73.35	0.00	0.00
2023	484	2,546,655	0	0	944,395	0	0	73.35	0.00	0.00
2024	484	2,407,962	0	0	893,155	0	0	73.35	0.00	0.00
Sub-Total		30,480,334	0	0	12,825,878	0	0	73.35	0.00	0.00
Remainder		1,750,227	0	0	640,148	0	0	73.35	0.00	0.00
Total Future		32,230,561	0	0	13,466,026	0	0	73.35	0.00	0.00
Cumulative		0	0	-262						
Ultimate		32,230,561	0	-262						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - $ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - $
2010	1,088,689	0	0	0	1,088,689	0	160,891	0	927,797
2011	6,801,356	0	0	0	6,801,356	0	997,943	0	5,803,413
2012	15,730,028	0	0	0	15,730,028	0	2,306,546	0	13,423,482
2013	40,866,557	0	0	0	40,866,557	0	5,997,700	0	34,868,857
2014	82,529,656	0	0	0	82,529,656	0	11,968,223	0	70,561,434
2015	94,190,154	0	0	0	94,190,154	0	13,678,708	0	80,511,446
2016	87,184,566	0	0	0	87,184,566	0	12,635,753	0	74,548,813
2017	80,020,889	0	0	0	80,020,889	0	11,582,497	0	68,438,392
2018	82,902,017	0	0	0	82,902,017	0	12,028,226	0	70,873,791
2019	82,587,809	0	0	0	82,587,809	0	12,011,537	0	70,576,272
2020	81,978,761	0	0	0	81,978,761	0	11,948,452	0	70,030,309
2021	77,081,538	0	0	0	77,081,538	0	11,225,441	0	65,856,097
2022	73,031,855	0	0	0	73,031,855	0	10,632,189	0	62,399,666
2023	69,271,370	0	0	0	69,271,370	0	10,081,474	0	59,189,896
2024	65,512,915	0	0	0	65,512,915	0	9,531,753	0	55,981,162
Sub-Total	940,778,161	0	0	0	940,778,161	0	136,787,333	0	803,990,828
Remainder	46,954,846	0	0	0	46,954,846	0	6,939,203	0	40,015,643
Total Future	987,733,007	0	0	0	987,733,007	0	143,726,536	0	844,006,471

Year	DEDUCTIONS - $ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	48,554	16,169	0	237,632	302,354	625,443	625,443	609,846
2011	332,862	232,283	8,233,920	1,326,858	10,125,924	-4,322,511	-3,697,067	-3,838,645
2012	895,560	467,590	14,409,360	2,787,386	18,559,896	-5,136,413	-8,833,481	-4,158,677
2013	3,344,216	1,089,504	30,348,900	6,789,355	41,571,975	-6,703,119	-15,536,599	-4,890,742
2014	6,270,946	2,769,927	96,924,440	14,263,755	120,229,068	-49,667,634	-65,204,234	-32,643,186
2015	9,252,985	2,670,834	76,201,160	12,387,716	100,512,696	-20,001,249	-85,205,483	-11,494,139
2016	8,323,558	1,872,030	29,100,240	9,241,640	48,537,468	26,011,346	-59,194,137	14,664,557
2017	6,250,182	1,323,222	0	7,628,440	15,201,845	53,236,547	-5,957,590	26,669,139
2018	7,681,873	1,411,833	-90,000	7,885,456	16,889,162	53,984,629	48,027,039	24,499,053
2019	7,807,125	1,409,217	0	8,063,372	17,279,714	53,296,558	101,323,597	21,897,611
2020	7,488,201	1,387,853	90,000	8,491,921	17,457,974	52,572,334	153,895,931	19,563,758
2021	5,771,397	1,265,528	0	8,932,724	15,969,649	49,886,449	203,782,380	16,822,723
2022	5,628,393	1,204,822	0	11,410,845	18,244,060	44,155,606	247,937,986	13,527,177
2023	5,496,313	1,148,546	0	13,231,940	19,876,798	39,313,098	287,251,084	10,941,261
2024	5,372,865	1,092,635	0	13,415,092	19,880,591	36,100,571	323,351,655	9,110,290
Sub-Total	79,965,030	19,361,992	255,218,020	126,094,131	480,639,173	323,351,655		101,280,024
Remainder	11,561,467	1,034,616	0	7,457,658	20,053,742	19,961,901	343,313,556	4,027,349
Total Future	91,526,497	20,396,609	255,218,020	133,551,789	500,692,915	343,313,556		105,307,373

Life of summary is: 18.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: CONSTANT
AS OF JUNE 30, 2010

TABLE 4

PV+PB SUMMARY

PV+PB

ALL CLASSES
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)
INITIAL							
FINAL							
REMARKS	THIS SUMMARY REPRESENTS NON-RISKED PROVED + PROBABLE						

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00 %	917,495,466
8.00 %	748,506,547
10.00 %	657,537,078
15.00 %	485,755,510
20.00 %	369,590,824

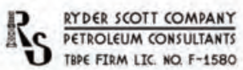
Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond. ($/bbl)	Plt Prod. ($/bbl)	Gas ($/Mcf)
2010	1,607	3,671,216	0	0	1,565,391	0	0	73.35	0.00	0.00
2011	1,923	7,409,110	0	0	3,713,943	0	0	73.35	0.00	0.00
2012	2,307	8,279,264	0	0	4,245,675	0	0	73.35	0.00	0.00
2013	2,756	9,561,589	0	0	4,710,836	0	0	73.35	0.00	0.00
2014	2,919	10,420,389	0	0	4,399,418	0	0	73.35	0.00	0.00
2015	2,960	10,358,926	0	0	3,979,651	0	0	73.35	0.00	0.00
2016	2,954	9,889,907	0	0	3,705,085	0	0	73.35	0.00	0.00
2017	2,940	9,205,228	0	0	3,451,127	0	0	73.35	0.00	0.00
2018	2,926	8,452,144	0	0	3,173,051	0	0	73.35	0.00	0.00
2019	2,825	7,756,951	0	0	2,913,353	0	0	73.35	0.00	0.00
2020	2,813	7,110,209	0	0	2,673,309	0	0	73.35	0.00	0.00
2021	2,808	6,480,541	0	0	2,439,551	0	0	73.35	0.00	0.00
2022	2,807	5,908,791	0	0	2,227,253	0	0	73.35	0.00	0.00
2023	2,807	5,386,153	0	0	2,033,162	0	0	73.35	0.00	0.00
2024	2,805	4,899,500	0	0	1,852,395	0	0	73.35	0.00	0.00
Sub-Total		114,789,919	0	0	47,083,199	0	0	73.35	0.00	0.00
Remainder		1,624,992	0	0	596,350	0	0	73.35	0.00	0.00
Total Future		116,414,911	0	0	47,679,550	0	0	73.35	0.00	0.00
Cumulative		25,748,489	0	620						
Ultimate		142,163,400	0	620						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - $ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - $
2010	114,821,466	0	0	0	114,821,466	0	16,790,248	0	98,031,218
2011	272,417,715	0	0	0	272,417,715	0	39,804,472	0	232,613,243
2012	311,420,294	0	0	0	311,420,294	0	45,764,490	0	265,655,804
2013	345,539,836	0	0	0	345,539,836	0	50,693,563	0	294,846,273
2014	322,697,275	0	0	0	322,697,275	0	47,280,627	0	275,416,648
2015	291,907,388	0	0	0	291,907,388	0	42,749,375	0	249,158,013
2016	271,767,969	0	0	0	271,767,969	0	39,828,382	0	231,939,587
2017	253,140,139	0	0	0	253,140,139	0	37,115,518	0	216,024,621
2018	232,743,305	0	0	0	232,743,305	0	34,141,805	0	198,601,500
2019	213,694,471	0	0	0	213,694,471	0	31,370,365	0	182,324,106
2020	196,087,181	0	0	0	196,087,181	0	28,810,404	0	167,276,776
2021	178,941,067	0	0	0	178,941,067	0	26,318,198	0	152,622,870
2022	163,369,013	0	0	0	163,369,013	0	24,055,383	0	139,313,630
2023	149,132,402	0	0	0	149,132,402	0	21,987,075	0	127,145,327
2024	135,873,156	0	0	0	135,873,156	0	20,061,345	0	115,811,811
Sub-Total	3,453,552,678	0	0	0	3,453,552,678	0	506,771,252	0	2,946,781,427
Remainder	43,742,280	0	0	0	43,742,280	0	6,464,435	0	37,277,845
Total Future	3,497,294,958	0	0	0	3,497,294,958	0	513,235,687	0	2,984,059,272

Year	DEDUCTIONS - $ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	15,067,499	2,360,090	23,770,260	21,798,136	62,995,985	35,035,233	35,035,233	34,636,020
2011	36,245,118	6,657,878	129,333,240	49,032,508	221,268,745	11,344,498	46,379,731	12,846,509
2012	41,380,697	7,584,108	144,867,200	51,934,584	245,766,590	19,889,214	66,268,946	18,829,542
2013	43,903,079	8,557,795	169,505,060	54,029,900	275,995,834	18,850,438	85,119,384	16,519,836
2014	40,368,616	6,802,329	73,872,020	44,892,545	165,935,510	109,481,138	194,600,522	75,458,681
2015	36,627,571	5,452,233	14,138,820	37,291,845	93,510,470	155,647,544	350,248,066	95,797,478
2016	35,009,533	4,938,967	0	32,844,362	72,792,862	159,146,725	509,394,791	88,428,213
2017	34,464,581	4,661,414	0	28,746,385	67,872,380	148,152,241	657,547,032	74,475,213
2018	32,474,847	4,309,842	90,000	25,475,705	62,350,394	136,251,106	793,798,137	61,988,577
2019	31,870,100	4,026,103	0	25,792,534	61,688,737	120,635,369	914,433,507	49,753,233
2020	31,536,051	3,769,406	0	26,900,224	62,205,681	105,071,095	1,019,504,602	39,300,913
2021	31,163,999	3,517,753	0	28,980,433	63,662,185	88,960,685	1,108,465,286	30,213,792
2022	30,902,204	3,291,542	0	28,069,257	62,263,002	77,050,627	1,185,515,914	23,732,230
2023	30,688,205	3,085,385	0	25,376,450	59,150,039	67,995,288	1,253,511,201	18,967,617
2024	30,497,892	2,893,466	0	22,410,462	55,801,821	60,009,991	1,313,521,192	15,155,623
Sub-Total	502,199,992	71,908,313	555,576,601	503,575,329	1,633,260,235	1,313,521,192		656,103,477
Remainder	26,283,903	1,471,953	90,000	2,559,556	30,405,412	6,872,433	1,320,393,625	1,433,600
Total Future	528,483,895	73,380,266	555,666,601	506,134,885	1,663,665,646	1,320,393,625		657,537,078

Life of summary is: 18.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.



RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: CONSTANT
AS OF JUNE 30, 2010

TABLE 5

GRAND SUMMARY

ALL CLASSES
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	REVENUE INTEREST Plant Products	REVENUE INTEREST Gas	PRODUCT PRICES Oil/Cond ($/bbl)	PRODUCT PRICES Plt. Prod. ($/bbl)	PRODUCT PRICES Gas ($/Mcf)
INITIAL							
FINAL							
REMARKS	THIS SUMMARY REPRESENTS NON-RISKED PROVED + PROBABLE + POSSIBLE						

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00%	1,109,045,996
8.00%	882,655,339
10.00%	762,844,451
15.00%	541,707,982
20.00%	397,241,055

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	ESTIMATED 8/8THS PRODUCTION Plant Products (Barrels)	ESTIMATED 8/8THS PRODUCTION Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond. (Barrels)	COMPANY NET PRODUCTION Plant Products (Barrels)	COMPANY NET PRODUCTION Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond. ($/bbl)	AVERAGE PRICES Plt Prod ($/bbl)	AVERAGE PRICES Gas ($/Mcf)
2010	1,609	3,698,647	0	0	1,580,234	0	0	73.35	0.00	0.00
2011	1,933	7,590,008	0	0	3,806,668	0	0	73.35	0.00	0.00
2012	2,331	8,706,252	0	0	4,460,127	0	0	73.35	0.00	0.00
2013	2,815	10,353,134	0	0	5,267,981	0	0	73.35	0.00	0.00
2014	3,247	11,953,179	0	0	5,524,566	0	0	73.35	0.00	0.00
2015	3,418	12,570,747	0	0	5,263,770	0	0	73.35	0.00	0.00
2016	3,438	12,616,710	0	0	4,893,695	0	0	73.35	0.00	0.00
2017	3,424	12,179,752	0	0	4,542,073	0	0	73.35	0.00	0.00
2018	3,410	11,526,670	0	0	4,303,276	0	0	73.35	0.00	0.00
2019	3,406	10,804,451	0	0	4,039,295	0	0	73.35	0.00	0.00
2020	3,394	10,120,292	0	0	3,790,947	0	0	73.35	0.00	0.00
2021	3,292	9,315,773	0	0	3,490,424	0	0	73.35	0.00	0.00
2022	3,291	8,594,369	0	0	3,222,916	0	0	73.35	0.00	0.00
2023	3,291	7,932,808	0	0	2,977,557	0	0	73.35	0.00	0.00
2024	3,289	7,307,462	0	0	2,745,550	0	0	73.35	0.00	0.00
Sub-Total		145,270,253	0	0	59,909,078	0	0	73.35	0.00	0.00
Remainder		3,375,219	0	0	1,236,498	0	0	73.35	0.00	0.00
Total Future		148,645,472	0	0	61,145,576	0	0	73.35	0.00	0.00
Cumulative		25,748,489	0	358						
Ultimate		174,393,961	0	358						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - $ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - $
2010	115,910,155	0	0	0	115,910,155	0	16,951,139	0	98,959,016
2011	279,219,071	0	0	0	279,219,071	0	40,802,415	0	238,416,656
2012	327,150,322	0	0	0	327,150,322	0	48,071,036	0	279,079,287
2013	386,406,393	0	0	0	386,406,393	0	56,691,264	0	329,715,129
2014	405,226,931	0	0	0	405,226,931	0	59,248,850	0	345,978,082
2015	386,097,542	0	0	0	386,097,542	0	56,428,083	0	329,669,460
2016	358,952,536	0	0	0	358,952,536	0	52,464,135	0	306,488,400
2017	333,161,028	0	0	0	333,161,028	0	48,698,015	0	284,463,013
2018	315,645,322	0	0	0	315,645,322	0	46,170,031	0	269,475,291
2019	296,282,280	0	0	0	296,282,280	0	43,381,902	0	252,900,378
2020	278,065,941	0	0	0	278,065,941	0	40,758,856	0	237,307,085
2021	256,022,606	0	0	0	256,022,606	0	37,543,639	0	218,478,967
2022	236,400,868	0	0	0	236,400,868	0	34,687,572	0	201,713,296
2023	218,403,772	0	0	0	218,403,772	0	32,068,549	0	186,335,223
2024	201,386,072	0	0	0	201,386,072	0	29,593,098	0	171,792,973
Sub-Total	4,394,330,840	0	0	0	4,394,330,840	0	643,558,585	0	3,750,772,255
Remainder	90,697,126	0	0	0	90,697,126	0	13,403,638	0	77,293,488
Total Future	4,485,027,966	0	0	0	4,485,027,966	0	656,962,223	0	3,828,065,743

Year	DEDUCTIONS - $ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	15,116,052	2,376,260	23,770,260	22,035,767	63,298,339	35,660,677	35,660,677	35,245,867
2011	36,577,980	6,890,162	137,567,160	50,359,367	231,394,669	7,021,987	42,682,664	9,007,864
2012	42,276,258	8,051,698	159,276,560	54,721,970	264,326,485	14,752,801	57,435,465	14,670,865
2013	47,247,295	9,647,299	199,853,960	60,819,255	317,567,810	12,147,320	69,582,785	11,629,094
2014	46,639,562	9,572,257	170,796,460	59,156,300	286,164,578	59,813,503	129,396,288	42,815,496
2015	45,880,556	8,123,067	90,339,980	49,679,562	194,023,165	135,646,295	265,042,583	84,303,339
2016	43,333,091	6,810,997	29,100,240	42,086,002	121,330,330	185,158,071	450,200,653	103,092,769
2017	40,714,764	5,984,636	0	36,374,825	83,074,224	201,388,788	651,589,442	101,144,352
2018	40,156,720	5,721,675	0	33,361,161	79,239,556	190,235,735	841,825,176	86,487,630
2019	39,677,224	5,435,321	0	33,855,906	78,968,451	173,931,927	1,015,757,103	71,650,843
2020	39,024,252	5,157,259	90,000	35,392,145	79,663,655	157,643,429	1,173,400,533	58,864,671
2021	36,935,396	4,783,281	0	37,913,156	79,631,833	138,847,134	1,312,247,666	47,036,515
2022	36,530,597	4,496,364	0	39,480,102	80,507,062	121,206,234	1,433,453,900	37,259,407
2023	36,184,518	4,233,931	0	38,608,389	79,026,838	107,308,385	1,540,762,285	29,908,878
2024	35,870,758	3,986,101	0	35,825,554	75,682,412	96,110,561	1,636,872,847	24,265,913
Sub-Total	582,165,022	91,270,305	810,794,621	629,669,460	2,113,899,408	1,636,872,847		757,383,501
Remainder	37,845,370	2,506,569	90,000	10,017,214	50,459,153	26,834,334	1,663,707,181	5,460,949
Total Future	620,010,392	93,776,875	810,884,621	639,686,674	2,164,358,561	1,663,707,181		762,844,451

Life of summary is: 18.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

25.8 Economic Evaluation: Daan Field

Company Interests and Burdens

- MI Energy has a 90% working interest of the Contractor Group in Daan oilfield, which is subject to a petroleum contract (a.k.a. Production Sharing Contract, or PSC) with state owned CNPC and its successor PetroChina. The terms of this agreement are provided in summary form below.

Price Forecasts

- Twelve month average Daqing price using first day of the month prices.
- Over the same period, the actual differential between WTI and Daqing was $2.38/bbl.
- This differential was used for the escalated price sensitivity case.

Operating Costs*

Description	Cost	Unit	Comment
Fixed costs	7,400,000	$/yr	Lease gross
G&A	5,400,000	$/yr	Lease gross
PetroChina Three Fees	581,240	$/yr	Lease gross
Well costs	1,000	$/w-m	Both producers and injectors
Variable costs			
– oil production	0.70	$/bbl	Including sales costs
– total fluid production	0.20	$/bbl	
– water injection	0.30	$/bbl	

Other Costs*

Contractor Overhead which is based on Contractor's share of direct costs including capital, operating costs and G&A is eligible for cost recovery.

For the Test Period:

Direct Costs, M$/year	OH Rate %
0 to 5,000	5%
5,000 to 15,000	3%
15,000 to 25,000	2%
Over 25,000	1%

For Development and Production Periods:

Direct Costs, M$/year	OH Rate %
0 to 5,000	2.5%
5,000 to 15,000	2%
Over 15,000	1%

Capital Costs*

Description	Year	Cost	Location/Comment
Drill & Complete & Equip producer		$ 343,600	Per well
Drill & Complete & Equip injector		$ 395,000	Per well
Injector conversion		$ 51,400	Per well
Gathering system	2010	$2,250,000	T1P, T2P & T3P
Injection system	2010	$ 250,000	T1P, T2P & T3P
Additional Treater.	2013	$1,500,000	T2P & T3P
Block A & B transfer Station/Office	2013	$3,000,000	T2P & T3P

* Operating costs and capital costs are held constant through the remaining life of the field for the constant price cases.

Shrinkage/NGL Yields

Description	Amount	Unit	Comment
Shrinkage loss – oil	7.4	%	
Shrinkage loss – gas	100	%	Gas not conserved

Petroleum Contract Summary

Contract Term

The pilot test period is defined as two consecutive Contract Years beginning on the Date of Commencement of Implementation of the Contract. The development period begins on the date of approval of the Overall Development Program ("ODP") and ends on the Date of the Commencement of Commercial Production ("DCC"). The production period is defined as 20 consecutive Production Years beginning on the DCC.

The Date of Commencement of Implementation of the Contract is defined as the first date of the month following the month in which the Contractor has received approval of the Contract by the Ministry of Foreign Trade and Economic Cooperation. The DCC is defined as the date when aggregate amount of Crude Oil produced from the Oil Field from the date of submission of the ODP to CNPC for approval has reached 40,000 tonnes and after approval by CNPC. The term of the contract shall not go beyond 30 consecutive Contract Years from the Date of Commencement of the Implementation of the Contract.

For Daan PSC, the Date of Commencement of Implementation of the Contract is March 1, 1998 and the DCC is January 1, 2005, the contract expiry date is therefore December 31, 2024. Ryder Scott's production forecasts extended beyond this expiry date. All cases in the cashflow projections were manually terminated on the expiry date.

Financing and Cost Recovery

All the Pilot Test Costs and Development Costs are provided solely by the contractor. The Operating Costs incurred before DCC are considered as Development Costs. The Operating Costs incurred after DCC are paid respectively by CNPC and the Contractor in accordance with the Parties' proportion of the "investment recovery oil", or 20% by CNPC and 80% by contractor. After the "investment recovery oil" changes into the "allocable remainder oil", the Operating Costs are paid respectively by CNPC and the Contractor in accordance with the Parties' proportion of the "allocable remainder oil", or 52% by CNPC and 48% by the Contractor.

Crude Oil Production and Allocation

Cost Recovery Oil

"Cost Recovery Oil" are determined as monthly gross oil production after deducting Value Added Tax ("VAT") and Royalty payable to the Chinese Government. The royalty volume is based on the following schedule. The 5% VAT and production rate based royalty volumes are shown as the difference between the "Working Interest" and "Company Net" volumes in the cashflow projections.

Lease Gross Production			Government Royalty Rate	Incremental Volume	Incremental Royalty Volume	Cum Royalty Volume
Min	Max	Max				
mbbl/yr	mbbl/yr	bopd	%	mbbl/yr	mbbl/yr	mbbl/yr
0	3,700	10,137	0.0%			
3,700	7,400	20,274	2.0%	3,700	74	74
7,400	11,000	30,137	4.0%	3,700	148	222
11,000	15,000	41,096	6.0%	3,600	216	438
15,000	22,000	60,274	8.0%	4,000	320	758
22,000	30,000	82,192	10.5%	7,000	735	1,493
30,000			12.5%	8,000	1,000	2,493

Investment Recovery Oil

The "investment recovery oil" is the remainder of the "cost recovery oil" after payment for operating costs. It is used for the simultaneous recovery of the Pilot Test Costs and the Development Costs incurred by the Contractor and the Pre-development Costs spent by CNPC in proportion of 20% by the CNPC and 80% by the Contractor. The unrecovered costs are to be carried forward and recovered in succeeding Calendar Years until fully recovered.

Allocable Remainder Oil

The "allocable remainder oil" is the remainder of the "investment recovery oil" after all Pilot Test Costs and Development Costs incurred by the Contractor to that time have been recovered. This "allocable remainder oil" is determined on annual basis and it is allocated in proportion of 52% by the CNPC and 48% by the Contractor.

Ryder Scott interpreted this petroleum contract as a modified farm out agreement that the Contractor's working interest changes from 80% before payout to 48% after payout on a monthly basis.

Other Deductions

Tariff at 52 RMB per tonne and price based Excess Profit Tax ("EPT") are payable by the Contractor in proportion to its share of the Remainder Oil. These deductions are not eligible for Cost Recovery but are deductible for income tax purpose. The "Other Costs" shown in the cashflow projections include the deductions for Contractor Overhead; which is eligible for cost recovery. The EPT is shown in the cashflow as production taxes and the tariff is shown in the deductions.

25.8 Economic Evaluation: Miao-3 Field

Company Interests and Burdens

- MI Energy has a 90% working interest of the Contractor Group in Miao-3 oilfield, which is subject to a petroleum contract (a.k.a. Production Sharing Contract, or PSC) with state owned CNPC and its successor PetroChina. The terms of this agreement are provided in summary form below.

Price Forecasts

- Twelve month average Daqing price using first day of the month prices
- Over the same period, the actual differential between WTI and Daqing was $2.38/bbl.
- This differential was used for the escalated price sensitivity case.

Operating Costs*

Description	Cost	Unit	Comment
Fixed costs	1,000,000	$/yr	Lease gross
G&A	400,000	$/yr	Lease gross
PetroChina Three Fees	581,240	$/yr	Lease gross
Well costs	1,200	$/w-m	
Variable costs			
– oil production	3.50	$/bbl	Including sales costs
– total fluid production	0.20	$/bbl	
– water injection	0.60	$/bbl	

Other Costs*

Contractor Overhead is based on Contractor's share of direct costs including capital, operating costs and G&A. It is eligible for cost recovery.

For the Test Period:

Direct Costs, M$/year	OH Rate %
0 to 5,000	5%
5,000 to 15,000	3%
15,000 to 25,000	2%
Over 25,000	1%

For Development and Production Periods:

Direct Costs, M$/year	OH Rate %
0 to 5,000	2.5%
5,000 to 15,000	2%
Over 15,000	1%

Capital Costs*

Description	Year	Cost	Location/ Comment
Drilling		$190,000	Per well
Complete & Equip producer		$134,000	Per well
Complete & Equip injector		$185,800	Per well
Injector conversion		$ 51,300	Per well
Equipments	2010	$ 44,600	T1P T2P & T3P
Abandonment, net of salvage		$ 0	Per well, with pumping unit
Lease reclamation		$100,000	

* Operating costs and capital costs are held constant through the remaining life of the field for the constant price cases.

Shrinkage/NGL Yields

Description	Amount	Unit	Comment
Shrinkage loss – oil	8.0	%	
Shrinkage loss – gas	100	%	Gas not conserved

Petroleum Contract Summary

Contract Term

The pilot test period is defined as two consecutive Contract Years beginning on the Date of Commencement of Implementation of the Contract. The development period begins on the date of approval of the Overall Development Program ("ODP") and end on the Date of the Commencement of Commercial Production ("DCC"). The production period is defined as 20 consecutive Production Years beginning on the DCC.

The Date of Commencement of Implementation of the Contract is defined as the first date of the month following the month in which the Contractor has received approval of the Contract by the Ministry of Foreign Trade and Economic Cooperation. The DCC is defined the date when aggregate amount of Crude Oil produced from the Oil Field from the date of submission of the ODP to CNPC for approval has reached 20,000 tonnes and after approval by CNPC. The term of the contract shall not go beyond 30 consecutive Contract Years from the Date of Commencement of the Implementation of the Contract.

For Miao-3 PSC, the Date of Commencement of Implementation of the Contract was March 1, 1998. The ODP was submitted by the end of December 2006; it was approved by the National State Development and Reform Committee on April 29, 2007. The DCC was October 1, 2008. The contract expiration date is February 29, 2028. Proved producing, proved non-producing, probable and possible cases were terminated at the economic life of December 2013, December 2013, February 2018 and November 2020, respectively.

Financing and Cost Recovery

All the Pilot Test Costs and Development Costs are provided solely by the contractor. The Operating Costs incurred before DCC are considered as Development Costs. The Operating Costs incurred after DCC are paid respectively by CNPC and the Contractor in accordance with the Parties' proportion of the "investment recovery oil", or 20% by CNPC and 80% by contractor. After the "investment recovery oil" changes into the "allocable remainder oil", the Operating Costs are paid respectively by CNPC and the Contractor in accordance with the Parties' proportion of the "allocable remainder oil", or 52% by CNPC and 48% by the Contractor.

Crude Oil Production and Allocation

Cost Recovery Oil

"Cost Recovery Oil" are determined as annual gross oil production after deducting Value Added Tax ("VAT") and Royalty payable to the Chinese Government. The royalty volume is based on the following schedule. The 5% VAT and production rate based royalty volumes are shown as the difference between the "Working Interest" and "Company Net" volumes in the cashflow projections.

Lease Gross Production			Government Royalty Rate	Incremental Volume	Incremental Royalty Volume	Cum Royalty Volume
Min	Max	Max				
mbbl/yr	mbbl/yr	bopd	%	mbbl/yr	mbbl/yr	mbbl/yr
0	3,700	10,137	0.0%			
3,700	7,400	20,274	2.0%	3,700	74	74
7,400	11,000	30,137	4.0%	3,700	148	222
11,000	15,000	41,096	6.0%	3,600	216	438
15,000	22,000	60,274	8.0%	4,000	320	758
22,000	30,000	82,192	10.5%	7,000	735	1,493
30,000			12.5%	8,000	1,000	2,493

Investment Recovery Oil

The "investment recovery oil" is the remainder of the "cost recovery oil" after payment for operating costs. It is used for the simultaneous recovery of the Pilot Test Costs and the Development Costs incurred by the Contractor and the Pre-development Costs spent by CNPC in proportion of 20% by the CNPC and 80% by the Contractor. The unrecovered costs are to be carried forward and recovered in succeeding Calendar Years until fully recovered.

Allocable Remainder Oil

The "allocable remainder oil" is the remainder of the "investment recovery oil" after all Pilot Test Costs and Development Costs incurred by the Contractor to that time have been recovered. This "allocable remainder oil" is determined on annual basis and it is allocated in proportion of 52% by the CNPC and 48% by the Contractor.

Ryder Scott interpreted this petroleum contract as a modified farmout agreement that the Contractor's working interest changes from 80% before payout to 48% after payout on annual basis.

Other Deductions

Tariff at RMB52 per tonne and price based Excess Profit Tax ("EPT") are payable by the Contractor in proportion to its share of the Remainder Oil. These deductions are not eligible for Cost Recovery but are deductible for income tax purpose. The "Other Costs" shown in the cashflow projections include the deductions for Tariff, EPT, as well as Contractor Overhead; the later is eligible for cost recovery.

25.8 Economic Evaluation: Moliqing Field

Company Interests and Burdens

- MI Energy has a 90% working interest of the Contractor Group in Moliqing oilfield, which is subject to a petroleum contract (a.k.a. Production Sharing Contract, or PSC) with state owned CNPC and its successor PetroChina. The terms of this agreement are provided in summary form below.

Price Forecasts

- Twelve month average Daqing price using first day of the month prices.
- Over the same period, the actual differential between WTI and Daqing was $2.38/bbl.
- This differential was used for the escalated price sensitivity case.

Operating Costs*

Description	Cost	Unit	Comment
Fixed costs.	3,100,000	$/yr	Lease gross
G&A	1,100,000	$/yr	Lease gross
PetroChina Three Fees	581,240	$/yr	Lease gross
Well costs	3,100	$/w-m	Both producers and injectors
Variable costs			
– oil production	2.90	$/bbl	Including sales costs
– total fluid production	0.20	$/bbl	
– water injection	0.70	$/bbl	

Other Costs*

Contractor Overhead is based on Contractor's share of direct costs including capital, operating costs and G&A; it is eligible for cost recovery.

Test Period:

Direct Costs, M$/year	O.H. Rate %
0 to 5,000	5%
5,000 to 15,000	3%
15,000 to 25,000	2%
Over 25,000	1%

Development and Production Periods:

Direct Costs, M$/year	O.H. Rate %
0 to 5,000	2.5%
5,000 to 15,000	2%
Over 15,000	1%

Capital Costs*

Description	Year	Cost	Location/Comment
Drilling		$ 820,000	Per well
Complete & equip producer		$ 323,600	Per well
Complete & equip injector		$ 423,600	Per well
Injector conversion		$ 100,000	Per well
Workover, recompletion		$ 85,000	Per well
Recompletion for BP pay			
Y38 Block		$ 510,000	6 wells – Y38 PvPrim
Y39 Block		$2,295,000	27 wells – Y39 DevWF
Y39 Block		$1,190,000	14 wells – Y39 UndWF
Y39 Block		$ 300,000	convert 3 producers – Y39DevWF
Y39 Block		$ 765,000	9 wells – Y39 PvPrim
Y40 Block		$ 170,000	2 wells – Y40 PvPrim
Y41 Block		$2,635,000	31 wells – Y41 DevWF
Y41 Block		$ 200,000	convert 2 producers – Y41DevWF
Y41 Block		$ 255,000	3 wells – Y41 4PvPrim
Equipment	2010	$ 47,800	T1P, T2P & T3P
Lease reclamation	Life	$ 100,000	T1P, T2P & T3P

* Operating costs and capital costs are held constant through the remaining life of the field for the constant price cases.

Shrinkage/NGL Yields

Description	Amount	Unit	Comment
Shrinkage loss – oil	10.8	%	
Shrinkage loss – gas	100	%	Gas not conserved

Production Sharing Agreement Summary

Contract Term

The pilot test period is defined as two consecutive Contract Years beginning on the Date of Commencement of Implementation of the Contract. The development period begins on the date of approval of the Overall Development Program ("ODP") and end on the Date of the Commencement of Commercial Production ("DCC"). The production period is defined as 20 consecutive Production Years beginning on the DCC.

The Date of Commencement of Implementation of the Contract is defined as the first date of the month following the month in which the Contractor has received approval of the Contract by the Ministry of Foreign Trade and Economic Cooperation. DCC is defined the date when aggregate amount of Crude Oil produced from the Oil Field from the date of submission of the ODP to CNPC for approval has reached 30,000 tonnes and after approval by CNPC. The term of the contract shall not go beyond 30 consecutive Contract Years from the Date of Commencement of the Implementation of the Contract.

For Moliqing PSC, the Date of Commencement of Implementation of the Contract was February 1, 1999. The Moliqing ODP was approved by the National Power Source Bureau on November 3, 2008. Consequently, the Date of Commencement of Commercial Production is December 1, 2008. Accordingly,

the contract expiration date is November 30, 2028. Proved producing, proved non-producing and proved undeveloped cases were terminated at the economic life of February 2021, February 2024 and November 2024, respectively. All probable and possible cases in the cashflow projections were terminated on the contract expiration date.

Financing and Cost Recovery

All the Pilot Test Costs and Development Costs are provided solely by the contractor. The Operating Costs incurred before DCC are considered as Development Costs. The Operating Costs incurred after DCC are paid respectively by CNPC and the Contractor in accordance with the Parties' proportion of the "investment recovery oil", or 20% by CNPC and 80% by contractor. After the "investment recovery oil" changes into the "allocable remainder oil", the Operating Costs are paid respectively by CNPC and the Contractor in accordance with the Parties' proportion of the "allocable remainder oil", or 52% by CNPC and 48% by the Contractor.

Crude Oil Production and Allocation

Cost Recovery Oil

"Cost Recovery Oil" are determined as annual gross oil production after deducting Value Added Tax ("VAT") and Royalty payable to the Chinese Government. The royalty volume is based on the following schedule. The 5% VAT and production rate based royalty volumes are shown as the difference between the "Working Interest" and "Company Net" volumes in the cashflow projections.

Lease Gross Production			Government Royalty Rate	Incremental Volume	Incremental Royalty Volume	Cum Royalty Volume
Min	Max	Max				
mbbl/yr	mbbl/yr	bopd	%	mbbl/yr	mbbl/yr	mbbl/yr
0	3,700	10,137	0.0%			
3,700	7,400	20,274	2.0%	3,700	74	74
7,400	11,000	30,137	4.0%	3,700	148	222
11,000	15,000	41,096	6.0%	3,600	216	438
15,000	22,000	60,274	8.0%	4,000	320	758
22,000	30,000	82,192	10.5%	7,000	735	1,493
30,000			12.5%	8,000	1,000	2,493

Investment Recovery Oil

The "investment recovery oil" is the remainder of the "cost recovery oil" after payment for operating costs. It is used for the simultaneous recovery of the Pilot Test Costs and the Development Costs incurred by the Contractor and the Pre-development Costs spent by CNPC in proportion of 20% by the CNPC and 80% by the Contractor. The unrecovered costs are to be carried forward and recovered in succeeding Calendar Years until fully recovered.

Allocable Remainder Oil

The "allocable remainder oil" is the remainder of the "investment recovery oil" after all Pilot Test Costs and Development Costs incurred by the Contractor to that time have been recovered. This "allocable remainder oil" is determined on annual basis and it is allocated in proportion of 52% by the CNPC and 48% by the Contractor.

Ryder Scott interpreted this petroleum contract as a modified farmout agreement that the Contractor's working interest changes from 80% before payout to 48% after payout on annual basis.

Other Deductions

Tariff at RMB52 per tonne and price based Excess Profit Tax ("EPT") are payable by the Contractor in proportion to its share of the Remainder Oil. These deductions are not eligible for Cost Recovery but are deductible for income tax purpose. The "Other Costs" shown in the cashflow projections include the deductions for Tariff, EPT, as well as Contractor Overhead; the later is eligible for cost recovery.

25.8 Economic Evaluation: Price and Cost Sensitivity Case

The same projections that generated the base case using constant price and cost parameters were utilized in the price and cost sensitivity case. No adjustments were made to the projections for the potential extension of the economic life due to the higher prices realized under the escalated case. Therefore we view this sensitivity case as conservative in regards to the volumes and hence the net present value.

Hydrocarbon Prices

The future hydrocarbon price parameters used in this sensitivity case reflect our current estimates which are based on our survey of future hydrocarbon price parameters used by financial institutions and others in the industry as well as NYMEX futures prices and, in our opinion, are within the range of future hydrocarbon price parameters currently considered reasonable. Estimates of future price parameters have been revised in the past because of changes in governmental policies, changes in hydrocarbon supply and demand, and variations in general economic conditions. The price parameters used in this report may be revised in the future for similar reasons.

Oil

The future NYMEX price for West Texas Intermediate crude delivered to Cushing, Oklahoma is estimated to average $79.00/bbl for the remainder of 2010, $82.00 for 2011, $84.00 for 2012, $86.00 for 2013, and $88.00 for 2014. Beginning in 2015, the price is escalated at the rate of 2.0 percent per year through 2023 (i.e., for nine years), at which time the price is $105.17/bbl, and held constant after that.

By contract MI Energy receives the posted price at Daqing. The West Texas Intermediate crude price derived in accordance with our estimates was adjusted by a constant $2.38 per barrel to reflect the prices received at Daqing. This price differential between West Texas Intermediate and Daqing is based on the historical average for the last twelve months.

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in our individual property evaluations.

Costs

The operating and development costs utilized in the base case were escalated in accordance with Ryder Scott's current policy for the sensitivity case.

Current costs were escalated at the rate of 1.0 percent for the remaining 6 months of 2010 (equivalent to 2.0 percent for 12 months), annually at the rate of 2.0 percent for 2011 and each year thereafter until the major hydrocarbon pr and then beginning in 2010 they were escalated annually at the rate of 2.0 percent and each year thereafter until the oil price reaches its final price.

ESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation
As of June 30, 2010

	Total Proved	Total Probable	Total Possible
Net Remaining Reserves			
Oil/Condensate – Barrels	29,287,889	18,106,877	13,360,281
Income Data			
Future Gross Revenue	$2,092,688,079	$1,343,503,462	$1,004,525,100
Deductions	1,018,074,027	857,479,600	577,694,824
Future Net Income (FNI)	$1,074,614,052	$ 486,023,862	$ 426,830,276
Discounted FNI @ 10%	$ 630,952,751	$ 136,183,921	$ 132,927,643

	Total Proved (1P)	Total Proved + Probable (2P)	Total Proved + Probable + Possible (3P)
Net Remaining Reserves			
Oil/Condensate – Barrels	29,287,889	47,394,766	60,755,047
Income Data			
Future Gross Revenue	$2,092,688,079	$3,436,191,541	$4,440,716,641
Deductions	1,018,074,027	1,875,553,628	2,453,248,451
Future Net Income (FNI)	$1,074,614,052	$1,560,637,913	$1,987,468,190
Discounted FNI @ 10%	$ 630,952,751	$ 767,136,672	$ 900,064,315

ESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation – Daan Field
As of June 30, 2010

	Proved		
	Producing	**Undeveloped**	**Total Proved**
Gross Remaining Reserves			
Oil/Condensate – Barrels.	43,128,502	18,819,854	61,948,356
Net Remaining Reserves			
Oil/Condensate – Barrels.	17,334,809	7,221,452	24,556,261

	Probable		
	Producing	**Undeveloped**	**Total Probable**
Gross Remaining Reserves			
Oil/Condensate – Barrels.	14,787,726	19,339,189	34,126,915
Net Remaining Reserves			
Oil/Condensate – Barrels.	6,383,146	7,646,330	14,029,476

	Possible		
	Producing	**Undeveloped**	**Total Possible**
Gross Remaining Reserves			
Oil/Condensate – Barrels.	10,543,255	9,353,148	19,896,403
Net Remaining Reserves			
Oil/Condensate – Barrels.	4,237,224	3,714,098	7,951,322

ESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation – Miao-3 Field
As of June 30, 2010

	Proved		
	Producing	**Undeveloped**	**Total Proved**
Gross Remaining Reserves			
Oil/Condensate – Barrels	441,160	–	441,160
Net Remaining Reserves			
Oil/Condensate – Barrels	277,613	–	277,613

	Probable		
	Producing	**Undeveloped**	**Total Probable**
Gross Remaining Reserves			
Oil/Condensate – Barrels	600,046	48,037	648,083
Net Remaining Reserves			
Oil/Condensate – Barrels	286,109	27,168	313,277

	Possible		
	Producing	**Undeveloped**	**Total Possible**
Gross Remaining Reserves			
Oil/Condensate – Barrels	606,449	4,605	611,054
Net Remaining Reserves			
Oil/Condensate – Barrels	212,279	–214	212,065

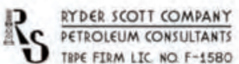
Note: Negative volumes due to the PSC terms.

ESCALATED PARAMETERS (After Income Tax)
Estimated Net Reserves and Income Data
Certain Interests Derived from Production Sharing Agreements
MIE Holdings Corporation – Moliqing Field
As of June 30, 2010

	Proved			
	Developed			
	Producing	Non-Producing	Undeveloped	Total Proved
Gross Remaining Reserves				
Oil/Condensate – Barrels.	5,304,948	2,025,379	3,175,276	10,505,603
Net Remaining Reserves				
Oil/Condensate – Barrels.	2,362,392	781,587	1,310,035	4,454,014

	Probable			
	Developed			
	Producing	Non-Producing	Undeveloped	Total Probable
Gross Remaining Reserves				
Oil/Condensate – Barrels.	–	2,712,853	6,031,941	8,744,794
Net Remaining Reserves				
Oil/Condensate – Barrels.	–	1,245,898	2,518,227	3,764,125

	Possible			
	Developed			
	Producing	Non-Producing	Undeveloped	Total Possible
Gross Remaining Reserves				
Oil/Condensate – Barrels.	–	1,804,922	9,918,182	11,723,104
Net Remaining Reserves				
Oil/Condensate – Barrels.	–	938,589	4,258,306	5,196,895



MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: ESCALATED
AS OF JUNE 30, 2010

TABLE 1

GRAND SUMMARY

TOTAL PROVED ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)
INITIAL							
FINAL							
REMARKS							

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00 %	811,836,560
8.00 %	695,631,499
10.00 %	630,952,751
15.00 %	503,164,670
20.00 %	410,650,663

		ESTIMATED 8/8THS PRODUCTION			COMPANY NET PRODUCTION			AVERAGE PRICES		
Year	Number of Wells	Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	Oil/Cond. ($/bbl)	Plt Prod. ($/bbl)	Gas ($/Mcf)
2010	1,604	3,607,477	0	0	1,536,381	0	0	76.62	0.00	0.00
2011	1,899	6,934,280	0	0	3,453,221	0	0	79.62	0.00	0.00
2012	2,087	7,081,216	0	0	3,224,956	0	0	81.62	0.00	0.00
2013	2,184	7,307,229	0	0	2,958,470	0	0	83.62	0.00	0.00
2014	2,076	7,087,480	0	0	2,669,521	0	0	85.62	0.00	0.00
2015	2,076	6,508,307	0	0	2,454,503	0	0	87.38	0.00	0.00
2016	2,073	5,916,862	0	0	2,229,475	0	0	89.18	0.00	0.00
2017	2,062	5,263,001	0	0	1,986,750	0	0	91.01	0.00	0.00
2018	2,048	4,702,858	0	0	1,778,585	0	0	92.87	0.00	0.00
2019	2,044	4,195,778	0	0	1,587,115	0	0	94.78	0.00	0.00
2020	2,032	3,697,746	0	0	1,398,885	0	0	96.72	0.00	0.00
2021	2,027	3,222,919	0	0	1,219,360	0	0	98.70	0.00	0.00
2022	2,026	2,813,415	0	0	1,064,509	0	0	100.73	0.00	0.00
2023	1,986	2,452,819	0	0	928,124	0	0	102.79	0.00	0.00
2024	1,984	2,103,732	0	0	798,033	0	0	102.79	0.00	0.00
Sub-Total		72,895,119	0	0	29,287,889	0	0	88.15	0.00	0.00
Remainder		0	0	0	0	0	0	0.00	0.00	0.00
Total Future		72,895,119	0	0	29,287,889	0	0	88.15	0.00	0.00
Cumulative		25,748,489	0	358						
Ultimate		98,643,608	0	358						

	COMPANY FUTURE GROSS REVENUE (FGR) - $					PRODUCTION TAXES - $			FGR AFTER PRODUCTION TAXES - $
Year	From Oil/Condensate	From Plant Products	From Gas	Other	Total	Oil/ Condensate	EPT	Gas	
2010	117,717,509	0	0	0	117,717,509	0	18,463,810	0	99,253,699
2011	274,945,488	0	0	0	274,945,488	0	45,575,415	0	229,370,073
2012	263,220,871	0	0	0	263,220,871	0	45,421,397	0	217,799,474
2013	247,387,266	0	0	0	247,387,266	0	43,984,156	0	203,403,110
2014	228,564,368	0	0	0	228,564,368	0	41,811,894	0	186,752,474
2015	214,474,472	0	0	0	214,474,472	0	40,203,720	0	174,270,752
2016	198,813,839	0	0	0	198,813,839	0	38,155,753	0	160,658,086
2017	180,806,794	0	0	0	180,806,794	0	35,509,634	0	145,297,160
2018	165,184,342	0	0	0	165,184,342	0	33,169,917	0	132,014,424
2019	150,425,384	0	0	0	150,425,384	0	30,808,519	0	119,616,865
2020	135,303,399	0	0	0	135,303,399	0	28,241,981	0	107,061,419
2021	120,356,150	0	0	0	120,356,150	0	25,584,295	0	94,771,856
2022	107,223,739	0	0	0	107,223,739	0	23,196,083	0	84,027,656
2023	95,400,165	0	0	0	95,400,165	0	20,989,768	0	74,410,396
2024	82,028,365	0	0	0	82,028,365	0	18,047,730	0	63,980,636
Sub-Total	2,581,852,151	0	0	0	2,581,852,151	0	489,164,072	0	2,092,688,079
Remainder	0	0	0	0	0	0	0	0	0
Total Future	2,581,852,151	0	0	0	2,581,852,151	0	489,164,072	0	2,092,688,079

	DEDUCTIONS - $					FUTURE NET INCOME AFTER INCOME TAXES - $		
						Undiscounted		Discounted
Year	Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	Annual	Cumulative	@ 10.00 %
2010	15,146,562	2,327,406	23,417,840	13,599,330	54,491,137	44,762,562	44,762,562	43,963,794
2011	36,502,186	6,228,943	117,648,016	31,258,689	191,637,834	37,732,238	82,494,800	35,866,114
2012	36,329,991	5,404,918	73,529,821	25,588,657	140,853,386	76,946,088	159,440,888	64,737,553
2013	33,464,527	4,578,255	35,340,287	20,286,792	93,669,863	109,733,247	269,174,135	82,370,561
2014	29,124,119	3,696,934	919,975	17,339,616	51,080,645	135,671,829	404,845,964	91,679,375
2015	29,465,977	3,488,009	938,375	15,709,353	49,601,714	124,669,038	529,515,003	76,282,568
2016	29,612,809	3,250,982	0	16,395,212	49,259,003	111,399,082	640,914,085	61,768,546
2017	29,719,080	3,005,503	0	17,247,953	49,972,536	95,324,624	736,238,709	47,915,532
2018	29,925,674	2,798,554	0	18,468,594	51,192,822	80,821,603	817,060,312	36,857,255
2019	30,203,437	2,612,392	0	19,883,681	52,699,509	66,917,356	883,977,668	27,718,089
2020	30,483,412	2,429,607	0	18,987,194	51,900,213	55,161,206	939,138,874	20,732,300
2021	30,710,417	2,253,959	0	16,844,714	49,809,090	44,962,765	984,101,639	15,318,150
2022	30,969,925	2,104,546	0	13,915,207	46,989,679	37,037,976	1,021,139,616	11,425,251
2023	31,155,908	1,971,552	0	11,308,634	44,436,094	29,974,303	1,051,113,918	8,372,415
2024	29,745,790	1,790,936	117,589	8,826,187	40,480,502	23,500,134	1,074,614,052	5,945,248
Sub-Total	452,559,814	47,942,495	251,911,903	265,659,816	1,018,074,027	1,074,614,052		630,952,751
Remainder	0	0	0	0	0	0	1,074,614,052	0
Total Future	452,559,814	47,942,495	251,911,903	265,659,816	1,018,074,027	1,074,614,052		630,952,751

Life of summary is: 14.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

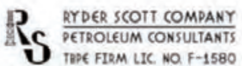


TABLE 2

MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: ESCALATED
AS OF JUNE 30, 2010

GRAND SUMMARY

TOTAL PROBABLE ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond (\$/bbl)	Plt. Prod. (\$/bbl)	Gas (\$/Mcf)
INITIAL							
FINAL							
REMARKS							

DISCOUNTED FUTURE NET INCOME - \$ COMPOUNDED MONTHLY	
5.00 %	265,418,180
8.00 %	179,828,187
10.00 %	136,183,921
15.00 %	60,157,350
20.00 %	15,541,373

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond. (\$/bbl)	Plt Prod. (\$/bbl)	Gas (\$/Mcf)
2010	3	63,739	0	0	28,512	0	0	76.62	0.00	0.00
2011	24	474,830	0	0	228,164	0	0	79.62	0.00	0.00
2012	220	1,198,048	0	0	939,635	0	0	81.62	0.00	0.00
2013	572	2,254,360	0	0	1,654,860	0	0	83.62	0.00	0.00
2014	843	3,332,909	0	0	1,679,524	0	0	85.62	0.00	0.00
2015	884	3,850,620	0	0	1,502,649	0	0	87.38	0.00	0.00
2016	881	3,973,045	0	0	1,475,610	0	0	89.18	0.00	0.00
2017	878	3,942,227	0	0	1,464,376	0	0	91.01	0.00	0.00
2018	878	3,749,287	0	0	1,394,466	0	0	92.87	0.00	0.00
2019	781	3,561,172	0	0	1,326,238	0	0	94.78	0.00	0.00
2020	781	3,412,463	0	0	1,274,423	0	0	96.72	0.00	0.00
2021	781	3,257,622	0	0	1,220,191	0	0	98.70	0.00	0.00
2022	781	3,095,376	0	0	1,162,744	0	0	100.73	0.00	0.00
2023	821	2,933,335	0	0	1,105,037	0	0	102.79	0.00	0.00
2024	821	2,795,768	0	0	1,054,361	0	0	102.79	0.00	0.00
Sub-Total		41,894,800	0	0	17,510,792	0	0	92.14	0.00	0.00
Remainder		1,624,992	0	0	596,085	0	0	102.79	0.00	0.00
Total Future		43,519,792	0	0	18,106,877	0	0	92.49	0.00	0.00
Cumulative		0	0	262						
Ultimate		43,519,792	0	262						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - \$ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - \$ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - \$
2010	2,184,600	0	0	0	2,184,600	0	346,365	0	1,838,235
2011	18,166,443	0	0	0	18,166,443	0	3,006,549	0	15,159,894
2012	76,692,971	0	0	0	76,692,971	0	13,166,408	0	63,526,562
2013	138,379,405	0	0	0	138,379,405	0	24,470,590	0	113,908,815
2014	143,800,820	0	0	0	143,800,820	0	26,086,316	0	117,714,504
2015	131,301,445	0	0	0	131,301,445	0	24,308,412	0	106,993,033
2016	131,587,838	0	0	0	131,587,838	0	24,930,641	0	106,657,197
2017	133,267,487	0	0	0	133,267,487	0	25,787,540	0	107,479,946
2018	129,509,711	0	0	0	129,509,711	0	25,569,144	0	103,940,567
2019	125,699,659	0	0	0	125,699,659	0	25,367,714	0	100,331,945
2020	123,265,131	0	0	0	123,265,131	0	25,415,849	0	97,849,283
2021	120,438,120	0	0	0	120,438,120	0	25,356,799	0	95,081,320
2022	117,118,611	0	0	0	117,118,611	0	25,159,697	0	91,958,914
2023	113,584,745	0	0	0	113,584,745	0	24,881,393	0	88,703,352
2024	108,375,859	0	0	0	108,375,859	0	23,805,823	0	84,570,036
Sub-Total	1,613,372,845	0	0	0	1,613,372,845	0	317,659,242	0	1,295,713,603
Remainder	61,270,477	0	0	0	61,270,477	0	13,480,617	0	47,789,859
Total Future	1,674,643,321	0	0	0	1,674,643,321	0	331,139,859	0	1,343,503,462

Year	DEDUCTIONS - \$ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - \$ Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	66,061	39,915	590,123	8,999,309	9,695,407	-7,857,173	-7,857,173	-7,487,806
2011	567,765	482,757	15,591,088	20,743,242	37,384,852	-22,224,958	-30,082,130	-19,107,332
2012	6,256,912	2,261,126	78,697,213	30,603,015	117,818,266	-54,291,704	-84,373,834	-43,371,354
2013	12,522,253	4,148,687	146,338,640	38,178,790	201,188,370	-87,279,554	-171,653,388	-62,938,108
2014	13,930,909	3,268,704	79,841,089	33,938,257	130,978,959	-13,264,456	-184,917,844	-7,306,254
2015	10,543,744	2,100,166	14,828,129	28,411,350	55,883,390	51,109,643	-133,808,201	31,945,442
2016	10,154,978	1,845,609	0	23,799,655	35,800,243	70,856,955	-62,951,246	39,564,806
2017	10,204,088	1,836,662	0	19,033,290	31,074,039	76,405,907	13,454,661	38,479,481
2018	8,433,598	1,705,766	106,504	14,595,803	24,841,670	79,098,896	92,553,557	35,965,011
2019	8,185,281	1,629,388	0	13,531,477	23,346,146	76,985,799	169,539,357	31,680,846
2020	8,253,996	1,577,882	0	15,602,497	25,434,375	72,414,908	241,954,264	27,019,128
2021	8,326,669	1,523,854	0	19,948,397	29,798,920	65,282,400	307,236,664	22,138,006
2022	8,504,685	1,469,873	0	21,856,618	31,831,177	60,127,737	367,364,401	18,507,857
2023	8,820,679	1,419,999	0	21,432,777	31,673,454	57,029,898	424,394,300	15,901,327
2024	9,981,949	1,406,386	-117,589	20,073,283	31,344,029	53,226,007	477,620,307	13,434,996
Sub-Total	124,753,566	26,716,774	335,875,197	330,747,760	818,093,296	477,620,307		134,426,047
Remainder	34,324,325	1,736,436	117,589	3,207,954	39,386,304	8,403,555	486,023,862	1,757,875
Total Future	159,077,891	28,453,210	335,992,785	333,955,714	857,479,601	486,023,862		136,183,921

Life of summary is: 18.51 years

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

TABLE 3

MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN
INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: ESCALATED
AS OF JUNE 30, 2010

GRAND SUMMARY

TOTAL POSSIBLE
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)
INITIAL							
FINAL							
REMARKS							

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00%	239,350,333
8.00%	168,511,446
10.00%	132,927,643
15.00%	72,018,139
20.00%	37,024,496

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond ($/bbl)	Plt Prod ($/bbl)	Gas ($/Mcf)
2010	2	27,431	0	0	14,842	0	0	76.62	0.00	0.00
2011	10	180,897	0	0	92,784	0	0	79.62	0.00	0.00
2012	24	426,988	0	0	250,899	0	0	81.62	0.00	0.00
2013	59	791,545	0	0	478,872	0	0	83.62	0.00	0.00
2014	328	1,532,789	0	0	1,098,019	0	0	85.62	0.00	0.00
2015	458	2,211,821	0	0	1,262,307	0	0	87.38	0.00	0.00
2016	484	2,726,803	0	0	1,173,826	0	0	89.18	0.00	0.00
2017	484	2,974,523	0	0	1,090,946	0	0	91.01	0.00	0.00
2018	484	3,074,525	0	0	1,130,225	0	0	92.87	0.00	0.00
2019	581	3,047,501	0	0	1,125,942	0	0	94.78	0.00	0.00
2020	581	3,010,083	0	0	1,117,229	0	0	96.72	0.00	0.00
2021	484	2,835,232	0	0	1,050,873	0	0	98.70	0.00	0.00
2022	484	2,685,577	0	0	995,663	0	0	100.73	0.00	0.00
2023	484	2,546,655	0	0	944,395	0	0	102.79	0.00	0.00
2024	484	2,407,962	0	0	893,155	0	0	102.79	0.00	0.00
Sub-Total		30,480,334	0	0	12,719,976	0	0	93.55	0.00	0.00
Remainder		1,750,227	0	0	640,305	0	0	102.79	0.00	0.00
Total Future		32,230,561	0	0	13,360,281	0	0	93.99	0.00	0.00
Cumulative		0	0	-262						
Ultimate		32,230,561	0	-262						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - $ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - $
2010	1,137,226	0	0	0	1,137,226	0	180,306	0	956,920
2011	7,387,472	0	0	0	7,387,472	0	1,229,696	0	6,157,776
2012	20,478,342	0	0	0	20,478,342	0	3,526,274	0	16,952,067
2013	40,043,248	0	0	0	40,043,248	0	7,101,474	0	32,941,773
2014	94,012,371	0	0	0	94,012,371	0	16,967,407	0	77,044,965
2015	110,300,359	0	0	0	110,300,359	0	20,404,463	0	89,895,896
2016	104,676,177	0	0	0	104,676,177	0	19,760,627	0	84,915,550
2017	99,282,963	0	0	0	99,282,963	0	19,128,774	0	80,154,190
2018	104,968,567	0	0	0	104,968,567	0	20,693,888	0	84,274,679
2019	106,715,734	0	0	0	106,715,734	0	21,509,565	0	85,206,169
2020	108,060,975	0	0	0	108,060,975	0	22,245,094	0	85,815,882
2021	103,725,730	0	0	0	103,725,730	0	21,727,789	0	81,997,941
2022	100,289,141	0	0	0	100,289,141	0	21,372,672	0	78,916,470
2023	97,072,607	0	0	0	97,072,607	0	21,032,763	0	76,039,844
2024	91,805,741	0	0	0	91,805,741	0	19,885,891	0	71,919,850
Sub-Total	1,189,956,653	0	0	0	1,189,956,653	0	236,766,681	0	953,189,972
Remainder	65,815,799	0	0	0	65,815,799	0	14,480,671	0	51,335,128
Total Future	1,255,772,452	0	0	0	1,255,772,452	0	251,247,352	0	1,004,525,100

Year	DEDUCTIONS - $ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual	Cumulative	Discounted @ 10.00 %
2010	49,041	16,179	0	245,584	310,804	646,117	646,117	630,006
2011	345,747	236,503	8,482,584	1,417,126	10,481,960	-4,324,185	-3,678,068	-3,837,333
2012	1,443,279	517,408	15,141,413	3,051,367	20,153,467	-3,201,400	-6,879,468	-2,637,972
2013	2,379,653	1,047,099	32,528,560	7,640,373	43,595,685	-10,653,912	-17,533,380	-7,681,078
2014	7,162,374	2,893,543	105,963,272	14,836,956	130,856,145	-53,811,180	-71,344,560	-35,376,388
2015	10,605,647	2,805,269	84,973,561	14,064,256	112,448,733	-22,552,837	-93,897,397	-12,955,663
2016	9,254,277	1,947,601	33,099,313	11,041,627	55,342,818	29,572,732	-64,324,665	16,678,879
2017	7,251,578	1,356,932	0	9,720,953	18,329,462	61,824,728	-2,499,937	30,990,613
2018	9,090,849	1,459,328	-106,504	10,331,860	20,775,533	63,499,145	60,999,209	28,838,322
2019	9,423,843	1,463,205	0	10,800,407	21,687,455	63,518,714	124,517,923	26,119,375
2020	9,192,656	1,444,737	110,807	11,546,074	22,294,273	63,521,609	188,039,532	23,659,713
2021	7,248,150	1,315,062	0	12,228,957	20,792,169	61,205,771	249,245,303	20,659,113
2022	7,210,022	1,257,985	0	15,093,718	23,561,726	55,354,744	304,600,047	16,968,902
2023	7,181,759	1,205,337	0	17,280,619	25,667,715	50,372,129	354,972,176	14,023,178
2024	7,020,550	1,148,308	0	17,359,322	25,528,179	46,391,671	401,363,847	11,708,707
Sub-Total	94,859,424	20,114,497	280,193,006	156,659,198	551,826,125	401,363,847		127,788,375
Remainder	15,117,597	1,151,773	0	9,599,329	25,868,699	25,466,429	426,830,276	5,139,268
Total Future	109,977,020	21,266,271	280,193,006	166,258,527	577,694,824	426,830,276		132,927,643

Life of summary is: 18.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: ESCALATED
AS OF JUNE 30, 2010

TABLE 4

PV+PB SUMMARY

PV+PB

ALL CLASSES
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)
INITIAL							
FINAL							
REMARKS	THIS SUMMARY REPRESENTS NON-RISKED PROVED + PROBABLE						

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00%	1,077,254,740
8.00%	875,459,686
10.00%	767,136,672
15.00%	563,322,020
20.00%	426,192,036

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond. ($/bbl)	Plt Prod. ($/bbl)	Gas ($/Mcf)
2010	1,607	3,671,216	0	0	1,564,893	0	0	76.62	0.00	0.00
2011	1,923	7,409,110	0	0	3,681,386	0	0	79.62	0.00	0.00
2012	2,307	8,279,264	0	0	4,164,590	0	0	81.62	0.00	0.00
2013	2,756	9,561,589	0	0	4,613,330	0	0	83.62	0.00	0.00
2014	2,919	10,420,389	0	0	4,349,044	0	0	85.62	0.00	0.00
2015	2,960	10,358,926	0	0	3,957,152	0	0	87.38	0.00	0.00
2016	2,954	9,889,907	0	0	3,705,085	0	0	89.18	0.00	0.00
2017	2,940	9,205,228	0	0	3,451,127	0	0	91.01	0.00	0.00
2018	2,926	8,452,144	0	0	3,173,051	0	0	92.87	0.00	0.00
2019	2,825	7,756,951	0	0	2,913,353	0	0	94.78	0.00	0.00
2020	2,813	7,110,209	0	0	2,673,309	0	0	96.72	0.00	0.00
2021	2,808	6,480,541	0	0	2,439,551	0	0	98.70	0.00	0.00
2022	2,807	5,908,791	0	0	2,227,253	0	0	100.73	0.00	0.00
2023	2,807	5,386,153	0	0	2,033,162	0	0	102.79	0.00	0.00
2024	2,805	4,899,500	0	0	1,852,395	0	0	102.79	0.00	0.00
Sub-Total		114,789,919	0	0	46,798,680	0	0	89.64	0.00	0.00
Remainder		1,624,992	0	0	596,085	0	0	102.79	0.00	0.00
Total Future		116,414,911	0	0	47,394,765	0	0	89.81	0.00	0.00
Cumulative		25,748,489	0	620						
Ultimate		142,163,400	0	620						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - $ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - $
2010	119,902,109	0	0	0	119,902,109	0	18,810,175	0	101,091,934
2011	293,111,931	0	0	0	293,111,931	0	48,581,964	0	244,529,967
2012	339,913,842	0	0	0	339,913,842	0	58,587,805	0	281,326,036
2013	385,766,671	0	0	0	385,766,671	0	68,454,746	0	317,311,925
2014	372,365,188	0	0	0	372,365,188	0	67,898,211	0	304,466,977
2015	345,775,917	0	0	0	345,775,917	0	64,512,132	0	281,263,785
2016	330,401,677	0	0	0	330,401,677	0	63,086,394	0	267,315,283
2017	314,074,280	0	0	0	314,074,280	0	61,297,174	0	252,777,106
2018	294,694,052	0	0	0	294,694,052	0	58,739,061	0	235,954,991
2019	276,125,043	0	0	0	276,125,043	0	56,176,233	0	219,948,810
2020	258,568,531	0	0	0	258,568,531	0	53,657,829	0	204,910,701
2021	240,794,270	0	0	0	240,794,270	0	50,941,094	0	189,853,176
2022	224,342,350	0	0	0	224,342,350	0	48,355,780	0	175,986,569
2023	208,984,909	0	0	0	208,984,909	0	45,871,161	0	163,113,748
2024	190,404,224	0	0	0	190,404,224	0	41,853,552	0	148,550,672
Sub-Total	4,195,224,995	0	0	0	4,195,224,995	0	806,823,313	0	3,388,401,682
Remainder	61,270,477	0	0	0	61,270,477	0	13,480,617	0	47,789,859
Total Future	4,256,495,472	0	0	0	4,256,495,472	0	820,303,931	0	3,436,191,541

Year	DEDUCTIONS - $ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	15,212,622	2,367,320	24,007,963	22,598,639	64,186,544	36,905,390	36,905,390	36,475,987
2011	37,069,951	6,711,701	133,239,104	52,001,931	229,022,687	15,507,280	52,412,670	16,758,783
2012	42,586,903	7,666,043	152,227,034	56,191,672	258,671,652	22,654,384	75,067,054	21,366,199
2013	45,986,780	8,726,942	181,678,927	58,465,582	294,858,232	22,453,693	97,520,747	19,432,453
2014	43,055,028	6,965,638	80,761,064	51,277,873	182,059,604	122,407,373	219,928,121	84,373,121
2015	40,009,721	5,588,175	15,766,504	44,120,703	105,485,104	175,778,681	395,706,802	108,228,010
2016	39,767,788	5,096,591	0	40,194,867	85,059,246	182,256,037	577,962,839	101,333,352
2017	39,923,168	4,842,164	0	36,281,243	81,046,575	171,730,531	749,693,370	86,395,013
2018	38,359,271	4,504,320	106,504	33,064,397	76,034,492	159,920,499	909,613,869	72,822,266
2019	38,388,718	4,241,779	0	33,415,158	76,045,655	143,903,155	1,053,517,024	59,398,935
2020	38,737,408	4,007,489	0	34,589,691	77,334,588	127,576,114	1,181,093,138	47,751,428
2021	39,037,086	3,777,813	0	36,793,111	79,608,010	110,245,166	1,291,338,303	37,456,157
2022	39,474,610	3,574,420	0	35,771,826	78,820,856	97,165,714	1,388,504,017	29,933,108
2023	39,976,586	3,391,551	0	32,741,411	76,109,548	87,004,201	1,475,508,218	24,273,742
2024	39,727,739	3,197,322	0	28,899,470	71,824,531	76,726,141	1,552,234,359	19,380,244
Sub-Total	577,313,380	74,659,268	587,787,100	596,407,576	1,836,167,323	1,552,234,359		765,378,798
Remainder	34,324,325	1,736,436	117,589	3,207,954	39,386,304	8,403,555	1,560,637,914	1,757,875
Total Future	611,637,704	76,395,705	587,904,688	599,615,530	1,875,553,628	1,560,637,914		767,136,672

Life of summary is: 18.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
TBPE FIRM LIC. NO. F-1580

MI ENERGY HOLDINGS CORPORATION
ESTIMATED FUTURE RESERVES AND INCOME ATTRIBUTABLE TO CERTAIN INTERESTS DERIVED THROUGH PRODUCTION SHARING CONTRACTS
CURRENCY: USD PRICE SCENARIO: ESCALATED
AS OF JUNE 30, 2010

TABLE 5

GRAND SUMMARY

ALL CLASSES
ALL CATEGORIES

	Expense Interest	REVENUE INTEREST Oil/ Condensate	Plant Products	Gas	PRODUCT PRICES Oil/Cond ($/bbl)	Plt. Prod. ($/bbl)	Gas ($/Mcf)
INITIAL							
FINAL							

REMARKS THIS SUMMARY REPRESENTS NON-RISKED PROVED + PROBABLE + POSSIBLE

DISCOUNTED FUTURE NET INCOME - $ COMPOUNDED MONTHLY	
5.00%	1,316,605,073
8.00%	1,043,971,132
10.00%	900,064,315
15.00%	635,340,159
20.00%	463,216,531

Year	Number of Wells	ESTIMATED 8/8THS PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Gas (MMcf)	COMPANY NET PRODUCTION Oil/Cond. (Barrels)	Plant Products (Barrels)	Sales Gas (MMcf)	AVERAGE PRICES Oil/Cond. ($/bbl)	Plt Prod. ($/bbl)	Gas ($/Mcf)
2010	1,609	3,698,647	0	0	1,579,736	0	0	76.62	0.00	0.00
2011	1,933	7,590,008	0	0	3,774,170	0	0	79.62	0.00	0.00
2012	2,331	8,706,252	0	0	4,415,489	0	0	81.62	0.00	0.00
2013	2,815	10,353,134	0	0	5,092,202	0	0	83.62	0.00	0.00
2014	3,247	11,953,179	0	0	5,447,063	0	0	85.62	0.00	0.00
2015	3,418	12,570,747	0	0	5,219,458	0	0	87.38	0.00	0.00
2016	3,438	12,616,710	0	0	4,878,911	0	0	89.18	0.00	0.00
2017	3,424	12,179,752	0	0	4,542,073	0	0	91.01	0.00	0.00
2018	3,410	11,526,670	0	0	4,303,276	0	0	92.87	0.00	0.00
2019	3,406	10,804,451	0	0	4,039,295	0	0	94.78	0.00	0.00
2020	3,394	10,120,292	0	0	3,790,538	0	0	96.72	0.00	0.00
2021	3,292	9,315,773	0	0	3,490,424	0	0	98.70	0.00	0.00
2022	3,291	8,594,369	0	0	3,222,916	0	0	100.73	0.00	0.00
2023	3,291	7,932,808	0	0	2,977,557	0	0	102.79	0.00	0.00
2024	3,289	7,307,462	0	0	2,745,550	0	0	102.79	0.00	0.00
Sub-Total		145,270,253	0	0	59,518,656	0	0	90.48	0.00	0.00
Remainder		3,375,219	0	0	1,236,390	0	0	102.79	0.00	0.00
Total Future		148,645,472	0	0	60,755,047	0	0	90.73	0.00	0.00
Cumulative		25,748,489	0	358						
Ultimate		174,393,961	0	358						

Year	COMPANY FUTURE GROSS REVENUE (FGR) - $ From Oil/Condensate	From Plant Products	From Gas	Other	Total	PRODUCTION TAXES - $ Oil/ Condensate	EPT	Gas	FGR AFTER PRODUCTION TAXES - $
2010	121,039,335	0	0	0	121,039,335	0	18,990,481	0	102,048,854
2011	300,499,403	0	0	0	300,499,403	0	49,811,660	0	250,687,743
2012	360,392,183	0	0	0	360,392,183	0	62,114,079	0	298,278,104
2013	425,809,919	0	0	0	425,809,919	0	75,556,220	0	350,253,698
2014	466,377,559	0	0	0	466,377,559	0	84,865,617	0	381,511,942
2015	456,076,275	0	0	0	456,076,275	0	84,916,594	0	371,159,681
2016	435,077,855	0	0	0	435,077,855	0	82,847,021	0	352,230,833
2017	413,357,244	0	0	0	413,357,244	0	80,425,948	0	332,931,296
2018	399,662,619	0	0	0	399,662,619	0	79,432,950	0	320,229,670
2019	382,840,778	0	0	0	382,840,778	0	77,685,798	0	305,154,979
2020	366,629,506	0	0	0	366,629,506	0	75,902,923	0	290,726,583
2021	344,520,000	0	0	0	344,520,000	0	72,668,884	0	271,851,116
2022	324,631,491	0	0	0	324,631,491	0	69,728,452	0	254,903,039
2023	306,057,517	0	0	0	306,057,517	0	66,903,924	0	239,153,593
2024	282,209,965	0	0	0	282,209,965	0	61,739,443	0	220,470,522
Sub-Total	5,385,181,649	0	0	0	5,385,181,649	0	1,043,589,994	0	4,341,591,654
Remainder	127,086,275	0	0	0	127,086,275	0	27,961,288	0	99,124,987
Total Future	5,512,267,924	0	0	0	5,512,267,924	0	1,071,551,282	0	4,440,716,641

Year	DEDUCTIONS - $ Operating Costs	Tariff/ Other Costs	Development Costs	Federal Income Tax	Total	FUTURE NET INCOME AFTER INCOME TAXES - $ Undiscounted Annual	Undiscounted Cumulative	Discounted @ 10.00 %
2010	15,261,663	2,383,500	24,007,963	22,844,223	64,497,348	37,551,506	37,551,506	37,105,994
2011	37,415,698	6,948,203	141,721,688	53,419,058	239,504,647	11,183,096	48,734,602	12,921,450
2012	44,030,182	8,183,451	167,368,447	59,243,039	278,825,119	19,452,985	68,187,587	18,728,227
2013	48,366,433	9,774,042	214,207,488	66,105,955	338,453,918	11,799,781	79,987,368	11,751,375
2014	50,217,402	9,859,180	186,724,336	66,114,829	312,915,749	68,596,193	148,583,561	48,996,733
2015	50,615,368	8,393,445	100,740,065	58,184,959	217,933,837	153,225,844	301,809,405	95,272,347
2016	49,022,064	7,044,192	33,099,313	51,236,494	140,402,064	211,828,769	513,638,174	118,012,231
2017	47,174,745	6,199,096	0	46,002,196	99,376,037	233,555,259	747,193,433	117,385,626
2018	47,450,121	5,963,648	0	43,396,256	96,810,025	223,419,645	970,613,077	101,660,589
2019	47,812,561	5,704,984	0	44,215,565	97,733,110	207,421,870	1,178,034,947	85,518,310
2020	47,930,063	5,452,227	110,807	46,135,764	99,628,861	191,097,722	1,369,132,670	71,411,140
2021	46,285,236	5,092,875	0	49,022,069	100,400,180	171,450,937	1,540,583,606	58,115,269
2022	46,684,633	4,832,405	0	50,865,544	102,382,581	152,520,458	1,693,104,064	46,902,010
2023	47,158,345	4,596,888	0	50,022,030	101,777,263	137,376,330	1,830,480,394	38,296,920
2024	46,748,289	4,345,630	0	46,258,792	97,352,710	123,117,812	1,953,598,206	31,088,951
Sub-Total	672,172,804	94,773,765	867,980,106	753,066,774	2,387,993,448	1,953,598,206		893,167,173
Remainder	49,441,921	2,888,210	117,589	12,807,283	65,255,003	33,869,984	1,987,468,190	6,897,142
Total Future	721,614,725	97,661,975	868,097,695	765,874,057	2,453,248,451	1,987,468,190		900,064,315

Life of summary is: 18.51 years.

These data are part of a Ryder Scott report and are subject to the conditions in the text of the report.

25.9 Social and Environmental:

MIE has informed Ryder Scott that:

> "We have implemented the action plan recommended by ENSR International since 2007, which includes, among others, improvements in our waste substance treatment, re-vegetation planning, soil and groundwater assessment, an improved environmental management system, environmental management training and an environmental compliance audit.
>
> We have a centralized safety and environmental protection department. Each oilfield also has its own staff and each well operation team has a dedicated worker responsible for monitoring and ensuring that environmental and safety measures are followed. Our environmental protection measures focus on top soil preservation, anti-leakage treatment and waste substance treatment. The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend any facility that fails to comply with orders requiring it to cease or cure operations causing environmental damage. In 2007, 2008, 2009 and the first half of 2010, none of the incidents on our oilfields or the aggregate amount of the fines imposed on us had a material adverse impact on our business or results of operations.
>
> We are not currently involved in any environmental claims and believe that our environmental protection systems and facilities are adequate for us to comply with applicable national and local environmental protection regulations."

Ryder Scott is not a professional environmental engineering company, and is not qualified to render an opinion regarding the environmental issues that may or may not exist on the properties. This is outside our area of expertise and therefore we make no statements regarding the status of the environmental condition other than reporting the information provided by MI Energy.

25.10 Basis of Opinion:

25.10.a

This investigation has been conducted within our understanding of the current petroleum legislation, taxation and the regulations that govern the production of hydrocarbons where the assets are located.

25.10.b

Based on the legal opinion prepared by Zhong Lun Law Firm, the company's PRC Legal advisers, the company owns or possesses the rights to explore and produce the three oilfields at Daan, Miao 3 and Moliqing pursuant to the three production sharing contracts as set out under such legal opinion.

25.10.c Basis of Opinion

The evaluation presented herein reflects our informed judgment, based on accepted standards of professional investigation, and is consistent with petroleum engineering and geoscience practices in the industry. However, this report and the conclusions set forth in it are subject to the inherent uncertainties associated with estimates of reserve and resource volumes, and the interpretation of engineering, geological, and geophysical data. This investigation has been conducted within our understanding of the current petroleum legislation, taxation and the regulations that govern the production of hydrocarbons where the assets are located. Ryder Scott Company can not attest to the ownership, title, any encumbrances that may exist, or to any legal issues involving the licenses or agreements. Our estimates of reserves (proved, probable and possible) are based upon data supplied by MI Energy (operator of the assets). We accepted the data and information as presented without independent verification.

This report presents our independent professional judgment and should not be considered as a guarantee of results or our estimate of a fair market value. It should be understood that there is uncertainty in petroleum exploration and production and that all evaluations are conducted under the framework of uncertainty. As additional information becomes available, our opinions and judgments will change to incorporate the latest information.

This report only presents the assets specifically contained herein. This study is for the exclusive use of MI Energy and its advisors. Ryder Scott Company has given and not withdrawn its written consent to the issue of this document with its name included within it and with inclusion therein of its report and references thereto. Ryder Scott Company accepts responsibility for the information contained in this report set out in this part of the document and to the best knowledge and belief of Ryder Scott Company, having taken all reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

Very truly yours,

RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

STATE OF TEXAS
LARRY P. CONNOR
58639
LICENSED
PROFESSIONAL ENGINEER

Larry P. Connor, P.E.
TBPE License No. 58639
Managing Senior Vice President

James R. Broome, P.G.
Senior Vice President

LPC/sm

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum Of Association

The memorandum of association of the Company was conditionally adopted on November 27, 2010 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The memorandum of association is available for inspection at the address specified in the section headed "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection" in this prospectus.

2 Articles Of Association

The Articles of Association of the Company were conditionally adopted on November 27, 2010 and include provisions to the following effect:

2.1 Classes of shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date when the Articles of Association take effect is US$100,000,000 divided into 100,000,000,000 shares of US$0.001 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the Board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

- the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
- the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

2.5 Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(c) sub-divide its shares of any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution – majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.8 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 clear days and any other extraordinary general meeting shall be called by not less than 14 clear days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

(f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favour of the Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.13 Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them/any dividends which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANIES LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 March 2008 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue

shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5 Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in Foss v. Harbottle (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16 Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18 Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

  (i) on or in respect of the shares, debentures or other obligations of the Company; or

  (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 2 April 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made to or by the Company.

19 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20 General

Maples and Calder the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection – Documents available for inspection" in this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on March 20, 2008.

Our company is registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance and our principal place of business in Hong Kong is at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong. Mr. Allen Mak of Flat F, 11th Floor, Phase 1, Blessings Garden, 95 Robinson Road, Mid-levels, Hong Kong, our authorized representative for the purposes of Part XI of the Companies Ordinance, has been appointed as our agent for the acceptance of service of process and notices in Hong Kong.

As our company is incorporated in the Cayman Islands, our operation is subject to the relevant laws and regulations of the Cayman Islands and the Company's constitution which comprises the memorandum of association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our constitution is set out in the section headed "Appendix VI – Summary of the Constitution of the Company and Cayman Islands Companies Law" in this prospectus.

2. Subsidiaries

As at the Latest Practicable Date, our company had the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up/authorized share capital	Attributable equity interest	Principal activities
MIE	the Cayman Islands, May 22, 2001	US$50,000/ US$50,000	100%	Development and production of oil fields in the PRC
MIE New Ventures	the Cayman Islands, August 6, 2010	US$100/ US$50,000	100%	Investment holding

3. Changes in our share capital

The following sets out the changes in our company's issued share capital since the date of its incorporation.

Our company was incorporated by Mapcal Limited on behalf of FEEL in the Cayman Islands on March 20, 2008 as an investment holding limited liability company. At the date of incorporation, our company's initial authorized share capital was US$50,000, divided into 50,000 ordinary shares of US$1 each, of which one ordinary share was allotted and issued to Mapcal Limited as the sole shareholder. The one share held by Mapcal Limited was transferred to FEEL on April 1, 2008. As a result, FEEL held one ordinary share, representing 100% of the then issued share capital of our company. On January 12, 2009, FEEL restructured some subsidiaries in preparation for a public offering of our shares and as part of an arrangement under MIE's existing revolving banking facility. In connection with the restructuring, on January 5, 2009, FEEL as our sole shareholder approved (a) a subdivision of each of the then existing issued and unissued shares of US$1 each into 100 subdivided shares of US$0.01 each; and (b) an increase in the authorized share capital of our company from US$50,000 divided into 5,000,000 ordinary shares of US$0.01 each to US$100,000 divided into 10,000,000 ordinary shares of US$0.01 each. Upon the subdivision becoming effective, the one ordinary share of US$1 held by FEEL as mentioned above was

subdivided into 100 ordinary shares of US$0.01 each. Pursuant to the restructuring, on January 12, 2009 we allotted and issued 9,999,900 of our ordinary Shares of US$0.01 each to FEEL in exchange for 50,000 ordinary shares of MIE, representing the entire interest in MIE held by FEEL at the time of the exchange. Upon the exchange, FEEL held 10,000,000 of our ordinary Shares of US$0.01 each, representing 100% of the then issued share capital of our company, and MIE became our wholly-owned subsidiary and Mr. Zhang and Mr. Zhao, through their control over FEEL, remained as our ultimate Controlling Shareholders.

On January 12, 2009, FEEL repaid the US$5 million loan from Standard Bank and accrued interest by transferring 1,970,490 ordinary Shares of our company to Standard Bank. Standard Bank entered into a share purchase agreement with FEEL, Mr. Zhang, Mr. Zhao and Mr. Shang for such shares. Under the share purchase agreement, Standard Bank had the right to convert the ordinary Shares into preferred shares if preferred shares are issued to new investors. FEEL also granted Standard Bank an option to purchase an additional US$8 million worth of ordinary Shares or preferred shares.

Series A Preferred Shares

On June 19, 2009, TPG entered into the TPG Series A Share Purchase Agreement with us to subscribe for 21,457,490 Series A Preferred Shares for a consideration of US$53.0 million. In connection with the TPG Series A Share Purchase Agreement, on July 9, 2009, our shareholders approved the increase of the authorized share capital of our company from US$100,000 to US$180,000, divided into (1) 15,000,000 ordinary shares of US$0.01 each and (2) 3,000,000 Series A Preferred Shares of US$0.01 each. The Series A Preferred Shares are convertible, at the option of the holder, at any time into our ordinary Shares and will automatically convert into our ordinary Shares (i) immediately prior to the consummation of a qualified initial public offering; (ii) upon our company obtaining the consent of the holders of at least eighty-five percent (85%) of our then outstanding Series A Preferred Shares; or (iii) 48 months after the completion date of the Series A Preferred Shares financing by TPG. Each Series A Preferred Share is initially convertible into one ordinary share, and no fractional ordinary Shares shall be issued upon conversion of Series A Preferred Shares. We issued Series A Preferred Shares to TPG on July 9, 2009.

On October 26, 2009, we entered into the Sino Link Series A Share Purchase Agreement with FEEL, FEEL's shareholders, MIE and Sino Link, an indirect subsidiary of CITIC Group, pursuant to which FEEL agreed to transfer 3,643,730 Series A Preferred Shares to Sino Link for a consideration of US$9 million. As FEEL was not at that time the holder of Series A Preferred Shares, our company repurchased 3,643,730 ordinary Shares held by FEEL and issued in exchange 3,643,730 Series A Preferred Shares, which were then transferred to Sino Link on October 30, 2009.

On October 30, 2009, FEEL entered into an agreement to purchase 1,970,490 ordinary Shares of our company, representing approximately 1.62% of our then issued share capital, from Standard Bank and an option termination agreement to terminate Standard Bank's option to purchase an additional US$8 million worth of ordinary or preferred shares.

On December 15, 2009, TPG transferred 1,287,550 Series A Preferred Shares to TPG LLC, an affiliate of TPG.

Series B Preferred Shares

On February 5, 2010, FEEL, our Controlling Shareholder, entered into the Harmony Series B Share Purchase Agreement with Harmony Energy, a direct subsidiary of Ever Union Capital Limited, Mr. Zhang, Mr. Zhao, MIE and us, pursuant to which FEEL agreed to transfer 36,425,120 Series B Preferred Shares to Harmony Energy for a consideration of US$90 million. As FEEL was not the holder of Series B Preferred Shares at the time of entering into the Harmony Series B Share Purchase Agreement, our company repurchased 18,212,560 ordinary Shares held by FEEL at the price of US$4.94 per Share, and issued in exchange 36,425,120 Series B Preferred Shares at the price of US$2.47 per share, which were

then transferred to Harmony Energy on March 10, 2010. The transaction was approved by our shareholders and Board of Directors on March 10, 2010. On the same day, our shareholders approved a further increase of the authorized share capital of our company from US$180,000 to US$230,000, divided into (1) 15,000,000 ordinary Shares of US$0.01 each; (2) 3,000,000 Series A Preferred Shares of US$0.01 each; and (3) 5,000,000 Series B Preferred Shares of US$0.01 each. We did not receive any cash consideration for the issuance of the Series B Preferred Shares. The Series B Preferred Shares are convertible, at the option of the holder, at any time into our ordinary Shares and will automatically convert into our ordinary Shares (i) immediately prior to the consummation of a qualified initial public offering; (ii) upon our company obtaining the consent of the holders of at least eighty-five percent (85%) of our then outstanding Series B Preferred Shares; or (iii) 48 months after the completion date of the Series A Preferred Shares financing by TPG. Series B Preferred Shares shall initially be convertible into ordinary Shares at the ratio of two preferred shares to one ordinary Share. No fractional ordinary Shares shall be issued upon conversion of Series B Preferred Shares, and in lieu of any fractional Shares, we will pay cash to such holder.

Holders of each of Series A Preferred Shares or Series B Preferred Shares are entitled to participate in the dividends (other than deemed dividends) paid on, and voting rights given to the ordinary Shares on an as-if-converted basis. Each Series A Preferred Share and Series B Preferred Share is convertible, at the option of the holder at any time, into fully paid ordinary Shares at the applicable conversion ratio. In the event of a liquidation, dissolution or winding-up of our company, the available assets and funds of our company are distributed to the Series A and Series B Preferred Shareholders, on a pro rata basis, prior and in preference to any distribution of any of the assets or funds of our company to the holders of ordinary Shares. The holders of the Series A Preferred Shares are entitled to recover the original purchase price and, if a put option given to the holders of the Series A Preferred Shares is exercised, to further recover an amount that would result in the holders 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). The holders of the Series B Preferred Shares are entitled to recover the original purchase price.

On April 16, 2010, our shareholders approved a 1-to-10 share split of our ordinary Shares, Series A Preferred Shares and Series B Preferred Shares which became effective immediately. At the same time, the par value of the shares was changed from US$0.01 per share to US$0.001 per share. As a result, the authorized share capital of our company of US$230,000 was divided into (1) 150,000,000 ordinary Shares of US$0.001 each; (2) 30,000,000 Series A Preferred Shares of US$0.001 each; and (3) 50,000,000 Series B Preferred Shares of US$0.001 each.

On November 27, 2010, our shareholders approved an increase of the authorized share capital of our company from US$230,000 to US$100,000,000 divided into 100,000,000,000 Shares of US$0.001 each. Upon completion of the Global Offering and the Capitalization Issue but not taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme, our issued share capital will be US$2,641,334 comprising 2,641,334,000 Shares, credited as fully paid.

Save as disclosed in this Appendix, there has been no alteration in our share capital since our incorporation.

4. Changes in share capital of our subsidiaries

Save as disclosed in this prospectus, there has been no other alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

5. Written resolutions signed by all shareholders of our company

Written resolutions were passed by our shareholders on November 27, 2010 pursuant to which, among other matters:

(1) that conditional upon the Listing, the new memorandum of association and Articles of Association of our company was adopted, the terms of which are summarized in the section headed "Appendix VI – Summary of the Constitution of the Company and Cayman Islands Companies Law" in this prospectus;

(2) that conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering, the exercise of any options granted under the Stock Incentive Plan and any options that may be granted under the Share Option Scheme and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange, and (ii) the final price of the Offer Shares having been agreed in accordance with the terms of the Underwriting Agreements and the execution and delivery of the Underwriting Agreements the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement at any time before 8:00 a.m. on the Listing Date:

(a) the Listing, the Global Offering and the Over-allotment Option were approved and the Directors were authorized to allot and issue, and to approve the transfer of, such number of Shares in connection with the Global Offering on and subject to the terms and conditions stated in this prospectus;

(b) the Directors were authorized to allot and issue a total of 2,078,542,510 Shares credited as fully paid at par to the shareholders of our company whose names appear on the register of members of our 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 standing to the credit of the share premium account of our company, and the Shares allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares;

(c) the conversion of all issued Series A Preferred Shares and Series B Preferred Shares into ordinary Shares in accordance with our then existing articles of association immediately prior to the completion of the Listing was approved and the Directors were authorized to take all such further actions and sign all such documents on behalf of our company as they may consider necessary or expedient to effect such conversion;

(d) immediately upon the conversion of the Series A Preferred Shares and Series B Preferred Shares into ordinary Shares and prior to the completion of the Listing, (a) all the unissued 30,000,000 Series A Preferred Shares and unissued 50,000,000 Series B Preferred Shares with a nominal value of US$0.001 each be designated as ordinary Shares with a nominal value of US$0.001 each, so that the authorized share capital of our company shall be US$230,000 divided into 230,000,000 ordinary Shares of US$0.001 each; and (b) the authorized share capital of our company be increased from US$230,000 divided into 230,000,000 ordinary shares of US$0.001 each to US$100,000,000 divided into 100,000,000,000 Shares of US$0.001 each was approved, which shall rank par passu in all respects with the Shares in issue as at the date thereof;

(e) all grants of share options and stock appreciation rights pursuant to the Stock Incentive Plan were ratified and approved and the Directors were authorized to allot, issue and deal with Shares pursuant to the exercise of any options which have been granted under the Stock Incentive Plan, and to take all such action as they may consider necessary or expedient to implement the Stock Incentive Plan or the transactions contemplated therein;

(f) the rules of our Share Option Scheme were approved and adopted, and the Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted under the Share Option

Scheme and to do all such acts and things as they consider necessary, desirable or expedient to implement the rules of our Share Option Scheme or the transactions contemplated therein and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;

(g) a general mandate was given to the Directors to allot, issue and deal with unissued Shares (otherwise than pursuant to, or in consequence of, the Global Offering, the Capitalization Issue, a rights issue, the exercise of any options granted under our Stock Incentive Plan and any options that may be granted under our Share Option Scheme, any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders) with an aggregate nominal value of not more than the sum of:

   (i) 20% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme); and

   (ii) the aggregate nominal value of the share capital of our company repurchased by us (if any), provided that such amount shall not exceed 10% of the aggregate nominal amount of our company's share capital in issue immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme);

(h) a general mandate was given to the Directors to exercise all the powers of our company to repurchase Shares on the Stock Exchange or any other stock exchange on which our Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose subject to all applicable laws, Listing Rules or any other stock exchange, with a total nominal value of not more than 10% of the aggregate nominal value of our company's share capital in issue immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme), provided that immediately following any such repurchase our company shall be able to pay its debts as they fall due in the ordinary course of business; and

(i) the general mandates as mentioned in paragraphs (g) and (h) above will remain in effect until whichever is the earliest of (i) the conclusion of our next annual general meeting; (ii) the expiration of the period within which our next annual general meeting is required to be held by any applicable law or the Articles of Association; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of our shareholders in a general meeting.

6. Repurchase by our company of our Shares

This section includes information relating to the repurchase by us of our own Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements in Hong Kong

The Listing Rules permit our shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution by our shareholders in a general meeting. The listing of all repurchased securities will be automatically cancelled and the certificates for such securities must be cancelled and destroyed.

(b) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On November 27, 2010, our Directors were granted a general mandate to repurchase Shares on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of our company in issue immediately following the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme). This mandate will expire at the earliest of (i) the conclusion of our next annual shareholders' general meeting, (ii) the expiration of the period within which our next shareholders' general meeting is required by any applicable laws or the Articles of Association to be held, or (iii) such mandate being revoked or varied by and ordinary resolution of our shareholders in a general meeting (the "Relevant Period").

(c) Source of funds

Our repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with our memorandum of association and Articles of Association and the applicable laws of the Cayman Islands. We may not repurchase our Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, we may make repurchases with funds of our company legally permitted to be utilized in this connection, including profits of our company or the proceeds of a fresh issue of our shares made for such purpose or, if authorized by the Articles of Association and subject to the applicable laws of the Cayman Islands, out of capital. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of profits of our company or out of sums standing to the credit of the share premium account of our company or, if authorized by the Articles of Association and subject to the applicable laws of the Cayman Islands, out of capital.

(d) Reasons for repurchases

Our Directors believe that it is in our and our shareholders' best interests for our Directors to have general authority to execute repurchases of our Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our shareholders.

(e) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our memorandum of association and Articles of Association and the Listing Rules.

On the basis of the current financial position of our company as disclosed in this prospectus and taking into account the current working capital position of our company, our Directors believe that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) Share capital

The exercise in full of the current repurchase mandate, on the basis of 2,641,334,000 Shares in issue immediately after the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme), could accordingly result in up to 264,133,400 Shares being repurchased by us during the Relevant Period.

(g) General

Neither our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, the memorandum of association and Articles of Association, the Cayman Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code as a result of any repurchase of Shares pursuant to the repurchase mandate.

No connected person as defined by the Listing Rules has notified us that he or it has a present intention to sell his or its Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR COMPANY

1. Summary of our material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years preceding the date of this prospectus which are or may be material:

(a) a series A preferred shares subscription and put option agreement dated June 19, 2009 entered into among TPG, FEEL, MIE and us in relation to the subscription of, and put option rights over, our Series A Preferred Shares for a consideration of US$53 million (together with the amendment to the series A preferred shares subscription and put option agreement dated July 9, 2009, the second amendment to the series A preferred shares subscription and put option agreement dated October 30, 2009, the third amendment to the series A preferred shares subscription and put option agreement dated November 27, 2010, each entered into among the same parties), further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(b) a shares purchase agreement dated January 12, 2009 entered into among Standard Bank, FEEL, Mr. Zhang, Mr. Zhao and Mr. Shang in respect of the purchase of 197,049 Shares in our company by Standard Bank from FEEL (together with the amendment to shares purchase agreement dated June 24, 2009 entered into among Standard Bank, FEEL, Mr. Zhang, Mr. Zhao, Mr. Shang, MIE and us), further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(c) an option agreement dated January 12, 2009 entered into between Standard Bank and FEEL, pursuant to which Standard Bank was granted the option to purchase US$8 million of our ordinary or preferred shares held by FEEL (together with a first amendment and restatement agreement dated June 26, 2009 entered into among Standard Bank, FEEL, MIE and us);

(d) a shareholders' agreement dated July 9, 2009 entered into among Standard Bank, FEEL, TPG, MIE and us relating to shares of our company (together with the amended and restated shareholders' agreement dated October 30, 2009 entered into among TPG, FEEL, Sino Link, MIE and us and the second amended and restated shareholders' agreement dated March 10, 2010 among TPG, TPG LLC, Harmony Energy, FEEL, Sino Link, MIE and us), further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(e) a shares purchase agreement dated October 26, 2009 entered into among Sino Link, Mr. Zhang, Mr. Zhao, Mr. Shang, MIE, FEEL and us in relation to the purchase by Sino Link from FEEL of, and put option rights over, our Series A Preferred Shares for a consideration of approximately US$9 million, further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(f) a shares purchase agreement dated October 30, 2009 entered into among FEEL, Standard Bank, Mr. Zhang, Mr. Zhao, Mr. Shang, MIE and us in respect of the repurchase of 197,049 Shares in our company from Standard Bank for a consideration of US$4,867,110, further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(g) a termination agreement dated October 30, 2009 entered into among FEEL, Standard Bank, MIE and us to terminate the option held by Standard Bank under the option agreement referred to in paragraph (c) above, further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(h) an agreement of adherence dated December 15, 2009 entered into among TPG LLC, TPG, Sino Link, FEEL, MIE and us in respect of TPG LLC's obligations pursuant to the shareholders' agreement referred to in paragraph (d) above, further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(i) a shares purchase agreement dated February 5, 2010 entered into among Harmony Energy, Mr. Zhang, Mr. Zhao, Mr. Shang, MIE, FEEL and us in relation to the purchase by Harmony Energy from FEEL of our Series B Preferred Shares for a consideration of approximately US$90 million, further details of which are set out in the section headed "History and Corporate Structure" of this prospectus;

(j) a credit support agreement dated March 10, 2010 entered into among TPG, Harmony Energy, FEEL, MIE and us in relation to the provision of a guarantee and security by Harmony Energy to TPG by way of first ranking charge over Series B Preferred Shares (together with the amendment to credit support agreement dated November 27, 2010 entered into among TPG, Harmony Energy, FEEL, MIE and us);

(k) the Non-competition Deed;

(l) a deed of indemnity dated November 23, 2010 given by our Controlling Shareholders in favor of our company containing indemnities in respect of estate duty, taxation and losses arising out of legal proceedings, properties and intellectual properties;

(m) a cornerstone placing agreement dated November 26, 2010 entered into among the Joint Bookrunners, China Huadian Capital Holdings Co. Ltd. and our company in relation to the subscription of our Shares for a consideration of approximately US$10 million, further details of which are set out in the section headed "Our Cornerstone Investors" of this prospectus;

(n) a cornerstone placing agreement dated November 28, 2010 entered into among the Joint Bookrunners, Atlantis Investment Management Limited and our company in relation to the subscription of our Shares for a consideration of approximately US$20 million, further details of which are set out in the section headed "Our Cornerstone Investors" of this prospectus; and

(o) the Hong Kong Underwriting Agreement.

2. Our intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, our Group had obtained registration for the following trademarks:

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
	MI Energy Corporation	Algeria	4	063583	December 23, 2006	December 23, 2016
	MI Energy Corporation	Brazil	4	900107456	December 4, 2009	December 4, 2016
	MI Energy Corporation	Canada	4	TMA753640	November 23, 2009	November 23, 2024
	MI Energy Corporation	European Union	4	005429535	January 4, 2008	November 24, 2016
	MI Energy Corporation	Hong Kong	04, 37, 40, 42	301222767	October 17, 2008	October 16, 2018

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
	MI Energy Corporation	India	4	1513930	December 15, 2006	December 15, 2016
	MI Energy Corporation	Indonesia	4	IDM000170590	December 15, 2006	December 14, 2016
	MI Energy Corporation	Iran	4	143075	June 24, 2007	January 1, 2017
	MI Energy Corporation	Japan	4	5068709	August 10, 2007	August 10, 2017
	MI Energy Corporation	Korea	4	40-0732512	December 27, 2007	December 27, 2017
	MI Energy Corporation	Kuwait	4	70437	May 21, 2008	December 26, 2016
	MI Energy Corporation	PRC	4	5764388	December 7, 2009	December 6, 2019
	MI Energy Corporation	PRC	37	5764389	January 28, 2010	January 27, 2020
	MI Energy Corporation	PRC	40	5764390	January 21, 2010	January 20, 2020
	MI Energy Corporation	PRC	42	5764391	November 28, 2009	November 27, 2019
	MI Energy Corporation	Qatar	4	42525	August 17, 2009	December 19, 2016
	MI Energy Corporation	Saudi Arabia	4	966/37	January 8, 2008	September 3, 2016
	MI Energy Corporation	United States of America	4	3454521	June 24, 2008	June 24, 2018
	MI Energy Corporation	United Arab Emirates	4	87143	April 1, 2008	December 24, 2016
MIE	MI Energy Corporation	Hong Kong	04, 37, 40, 42	301222776	October 17, 2008	October 16, 2018
MIE	MI Energy Corporation	PRC	42	5764284	June 7, 2010	June 6, 2020
MIE	MI Energy Corporation	PRC	40	5764285	January 21, 2010	January 20, 2020

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
MIE	MI Energy Corporation	PRC	37	5764397	January 28, 2010	January 27, 2020
MIE	MI Energy Corporation	PRC	4	5764396	December 7, 2009	December 6, 2019
MI Energy Corporation	MI Energy Corporation	Hong Kong	04, 37, 40, 42	301222721	October 17, 2008	October 16, 2018
MI Energy Corporation	MI Energy Corporation	PRC	42	5764280	March 21, 2010	March 20, 2020
MI Energy Corporation	MI Energy Corporation	PRC	40	5764281	April 21, 2010	April 20, 2020
MI Energy Corporation	MI Energy Corporation	PRC	37	5764282	April 21, 2010	April 20, 2020
MIE Holdings Corporation	MIE Holdings Corporation	Hong Kong	04, 37, 40, 42	301224675	October 21, 2008	October 20, 2018
MI 能源	MI Energy Corporation	Hong Kong	04, 37, 40, 42	301222794	October 17, 2008	October 16, 2018
MI 能源	MI Energy Corporation	PRC	37	5764393	January 28, 2010	January 27, 2020
MI 能源	MI Energy Corporation	PRC	40	5764394	March 28, 2010	March 27, 2020
MI 能源	MI Energy Corporation	PRC	42	5764395	May 14, 2010	May 13, 2020

As at the Latest Practicable Date, our group had made applications for the registration of the following trademarks:

Trademark	Registered Owner	Place of Application	Class	Application Number	Application Date
	MI Energy Corporation	Nigeria	4	168266/06	December 7, 2006
	MI Energy Corporation	Venezuela	4	545-07	January 12, 2007
	MI Energy Corporation	Iraq	4	50358	January 9, 2007
	MI Energy Corporation	Libya	4	10775	April 10, 2007
MI Energy Corporation	MI Energy Corporation	PRC	4	5764283	December 4, 2006
MI 能源	MI Energy Corporation	PRC	4	5764392	December 4, 2006

(b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain name:

Domain Name	Registrant	Registration date	Expiration date
www.mienergy.com.cn	MI Energy Corporation	February 20, 2004	February 20, 2015

(c) Patents

As at the Latest Practicable Date, our Group had not filed any patent applications.

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of service contracts

We had entered into letters of appointment with each of our Directors, pursuant to which each of the executive Directors and the non-executive Director is appointed for terms of three years with effect from November 23, 2010, and each of the independent non-executive Directors is appointed for terms of three years with effect from November 27, 2010, subject to re-election in accordance with our Articles of Association at our general meetings.

The letters of appointment are available for inspection at the times and places set out in the paragraph headed "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection – Documents available for inspection" to this prospectus.

On November 20, 2009, Mr. Zhang and Mr. Zhao, each an executive Director, has each entered into a service contract with each of our company and MIE, which is renewable yearly unless terminated (i) with twelve month's notice by either party, or (ii) by our company or MIE (as applicable) upon certain events such as the Director having committed serious or persistent breaches of the service contract. Should our company or MIE (as applicable) terminate the service contract, Mr. Zhang and Mr. Zhao will be entitled to receive a severance payment equivalent to one year's basic pay under the service contract, save for circumstances described in item (ii) above.

Save as disclosed above, none of our Directors had entered into a service contract with us which does not expire or which is not terminable by us within one year without the payment of compensation (other than statutory compensation).

2. Directors' remuneration

Save as disclosed in this prospectus, none of our Directors received any allowances, benefits in kind (including our contribution to the pension scheme on behalf of our Directors) or any bonuses from us during each of the three years ended December 31, 2009 and the six months ended June 30, 2010.

It is estimated that remuneration and benefits in kind equivalent to approximately RMB16,033,760.3 in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2010 under arrangements in force at the date of this prospectus.

Our company had adopted a remuneration policy and the Board had appointed a remuneration committee (details of which are provided in the paragraph headed "Directors and Senior Management – Remuneration committee" in this prospectus) to determine and review the policy for remuneration of executive Directors, assess the performance of executive Directors and approve the terms of their service contracts on a periodic basis. Our company will disclose in the corporate governance report to be included in its annual report details of its remuneration policy, the composition of the remuneration committee and the summary of the work performed by it.

3. Fees or commissions received

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in the paragraph headed "Consents" in this appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group from our Group within the two years preceding the date of this prospectus.

4. Related party transactions

During the two years preceding the date of this prospectus, we were engaged in related party transactions as described in note 28 of the section headed "Appendix I – Accountants' Report" in this prospectus.

5. Disclosure of interests

(a) Interests and short positions of our Directors and chief executives in the share capital of our company and its associated corporations following the Global Offering and the Capitalization Issue

Immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme), the interests or short positions of our Directors and our chief executives in the shares, underlying shares and debentures of our company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

(i) Interests and short positions in the shares, underlying shares and debentures of our company or its associated corporations

Name of Director	Name of corporation	Capacity/Nature of interest	Total number of shares/ underlying shares	Approximate percentage of interest in the corporation
Mr. Zhang	Our company	Interest of controlled corporation *(Note 1)*	1,414,600,000	53.6%
Mr. Zhao	Our company	Interest of controlled corporation *(Note 1)*	1,414,600,000	53.6%
Mr. Zhang	FEEL	Beneficial owner *(Note 1)*	999	9.99%
Mr. Zhao	FEEL	Beneficial owner *(Note 1)*	9,000	90.0%
Forrest Dietrich	Our company	Beneficial owner *(Note 2)*	6,819,489	0.26%
Allen Mak	Our company	Beneficial owner *(Note 2)*	9,092,712	0.34%
Mei Jianping	Our company	Beneficial owner *(Note 2)*	1,267,933	0.05%
Jeffrey Miller	Our company	Beneficial owner *(Note 2)*	1,811,333	0.07%

Notes:

(1) FEEL is held by Mr. Zhang and Mr. Zhao as to 9.99% and 90%, respectively. On May 16, 2003, 9,999 shares in FEEL were issued to Mr. Zhang, who then transferred 9,000 shares out of his 9,999 shares to Mr. Zhao on October 4, 2003. Mr. Zhang and Mr. Zhao have entered into an Acting-in-Concert Agreement under which they agreed to act in concert in relation to all matters that require the decisions of the shareholders of FEEL. Pursuant to the Acting-in-Concert Agreement, if a unanimous opinion in relation to the matters that require action in concert is unable to be reached, Mr. Zhang shall be allowed to vote on both his and Mr. Zhao's shares. The Acting-in-Concert Agreement is governed by the laws of the State of New York. Our PRC legal counsel, Zhong Lun Law Firm, has confirmed that the provisions of the Acting-in-Concert Agreement do not violate the relevant laws of the PRC. After consultation with our U.S. counsel, our Directors are of the view that the Acting-in-Concert Agreement is a legally valid, binding and enforceable agreement of the parties.

(2) These interests represent interests in outstanding stock options under the Stock Incentive Plan, details of which are set out under the section headed "D. Stock Incentive Plan – 2. Share Options" in this Appendix.

(b) Interests and short positions of the Substantial Shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO following the Global Offering and the Capitalization Issue

Immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme, and assuming that the obligations of the Underwriters to subscribe and/or purchase, and procure the subscription and/or purchase of, Shares under the Underwriting Agreements will terminate on the Listing Date and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date), in addition to the interests disclosed under paragraph (a) above, so far as our Directors were aware, as at the Latest Practicable Date, the following persons (other than our Directors, chief executive(s) or members of our Group) were expected to have interests and/or short positions in the Shares or underlying shares of our company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our company or any other member of our Group:

(i) Interests and short positions in the shares and underlying shares of our company

Name of interested party	Capacity/Nature of interest	Total number of Shares (assuming the Over-allotment Option is not exercised)	Approximate percentage of interest in our company (assuming the Over-allotment Option is not exercised)	Total number of Shares (assuming the Over-allotment Option is fully exercised)	Approximate percentage of interest in our company (assuming the Over-allotment Option is fully exercised)
FEEL	Beneficial owner *(Note 1)*	1,414,600,000	53.6	1,414,600,000	53.6
Mr. Fung Che	Interest of controlled corporation *(Note 2)*	285,667,000	10.8	236,017,000	8.9
Harmony Energy	Beneficial owner *(Note 2)*	285,667,000	10.8	236,017,000	8.9
David Bonderman	Interest of controlled corporation *(Note 3)*	279,067,000	10.6	229,417,000	8.7
James Coulter	Interest of controlled corporation *(Note 3)*	279,067,000	10.6	229,417,000	8.7
TPG	Beneficial owner *(Note 3)*	258,497,000	9.8	210,481,000	8.0

Notes:

(1) FEEL is held by Mr. Zhang and Mr. Zhao as to 9.99% and 90%, respectively. On May 16, 2003, 9,999 shares in FEEL were issued to Mr. Zhang, who then transferred 9,000 shares out of his 9,999 shares to Mr. Zhao on October 4, 2003. Mr. Zhang and Mr. Zhao have entered into an Acting-in-Concert Agreement under which they agreed to act in concert in relation to all matters that require the decisions of the shareholders of FEEL. Pursuant to the Acting-in-Concert Agreement, if a unanimous opinion in relation to the matters that require action in concert is unable to be reached, Mr. Zhang shall be allowed to vote on both his and Mr. Zhao's shares. The Acting-in-Concert Agreement is governed by the laws of the State of New York. Our PRC legal counsel, Zhong Lun Law Firm, has confirmed that the provisions of the Acting-in-Concert Agreement do not violate the relevant laws of the PRC. After consultation with our U.S. counsel, our Directors are of the view that the Acting-in-Concert Agreement is a legally valid, binding and enforceable agreement of the parties.

(2) Consists of 285,667,000 ordinary Shares held by Harmony Energy, assuming a conversion ratio of two Series B Preferred Shares for one ordinary Share. All Series B Preferred Shares will convert into ordinary Shares immediately prior to the Listing. Harmony Energy is a wholly owned subsidiary of Ever Union Capital Limited. Mr. Fung Che is the sole shareholder of Ever Union Capital Limited and has voting and investment control over the securities beneficially owned by Ever Union Capital Limited.

(3) The interests deemed to be held by each of David Bonderman and James Coulter consists of 258,497,000 ordinary shares held by TPG and 20,570,000 ordinary shares held by TPG Star Energy Co-Invest, LLC, assuming a conversion ratio of one Series A Preferred Share for one ordinary share. All Series A Preferred Shares will convert into ordinary shares immediately prior to the Listing. The sole shareholder of TPG is TPG Star, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Star GenPar Advisors, LLC., a Delaware limited liability company, whose sole member is TPG Holdings I, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Holdings I-A, LLC, a Delaware limited liability company, whose sole member is TPG Group Holdings (SBS), L.P., a Delaware limited partnership, which is managed by its general partner, TPG Group Holdings (SBS) Advisors, Inc., a Delaware company, whose shareholders are David Bonderman and James Coulter.

TPG Star Energy Co-Invest, LLC is a Delaware limited liability company, whose managing member is TPG Star Advisors, L.L.C., a Delaware limited liability company, whose sole member is TPG Ventures Holdings, L.L.C., a Delaware limited liability company, whose managing member is TPG Ventures Partners, L.P., a Delaware limited partnership, which is managed by its general partner, TPG Ventures Professionals, L.P., a Delaware limited partnership, which is managed by its general partner, Tarrant Advisors, Inc., a Texas company, whose sole shareholder is Tarrant Capital Advisors, Inc., a Delaware company, whose shareholders are David Bonderman and James Coulter.

6. Disclaimers

Save as disclosed in this prospectus, as at the Latest Practicable Date:

(a) our Directors were not aware of any person (not being a Director or chief executive of our company) who would, immediately after completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who would, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our company or any other member of our Group;

(b) none of our Directors had any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed in the section headed "Consents" of this Appendix was interested in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our company or any of its subsidiaries, or were proposed to be acquired or disposed of by or leased to our company or any of its subsidiaries;

(d) none of our Directors nor any of the parties listed in the section headed "Consents" of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to our Group's business;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed "Consents" of this Appendix:

   (i) were interested legally or beneficially in any securities of any member of our Group; or

   (ii) had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(f) none of our Directors or their associates nor, to the knowledge of the Directors, any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest customers of our Group;

(g) save as to Mr. Zhao, our executive Director, vice chairman and senior vice president, and Ms. Zhao Jiangbo, the spouse of Mr. Zhang, our executive Director, chairman and chief executive officer, who hold 70% and 30% of Jilin Guotai, respectively (further details of which are set out in the paragraph headed "Business – Suppliers" in this prospectus), none of our Directors or their associates nor, to the knowledge of our Directors, any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date had any interest in any of the five largest suppliers of our Group; and

(h) none of our Directors had entered into or was proposing to enter into a service contract with our company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

D. STOCK INCENTIVE PLAN

1. Stock Incentive Plan

Our Board of Directors has adopted the Stock Incentive Plan, which is intended to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. The following paragraphs describe the principal terms of the Stock Incentive Plan.

Administration

The Stock Incentive Plan is administered by our remuneration committee of the Board of Directors. In each case, our remuneration committee will determine the provisions, terms and conditions of each grant, including, but not limited to, the vesting schedule, grant or exercise price, forfeiture provisions, change of control provisions, payment contingencies and satisfaction of any performance conditions.

Awards

The following paragraphs briefly describe the principal features of the various awards that have been granted under the Stock Incentive Plan.

- *Share Options*. Share options provide for the right to purchase a specified number of our ordinary Shares at a specified price and period determined by our remuneration committee in one or more installments after the grant date.
- *Stock Appreciation Rights*. A stock appreciation rights award is to grant a right to receive a cash bonus related to the value of a certain number of our Shares. Such stock appreciation rights payment is calculated by reference to the increase, if any, in the fair market value of the relevant Shares as at the date of exercise above the price on the grant date of such Shares. The remuneration committee has the complete discretion in determining the number of Shares to which a stock appreciation right pertains, the grant date and grant price and any other terms and conditions pertaining to stock appreciation rights.

Change of control

If change of control occurs due to a third-party acquisition, all outstanding awards to participants may, in the discretion of our remuneration committee, be honored, assumed, or substituted by new rights granted by the new employer of the participants or parent or subsidiary of the new employer of the participants. Such honored, assumed and substituted awards must meet the terms and conditions described in the Stock Incentive Plan. If such conditions are not met, all outstanding awards will become fully vested and exercisable and all forfeiture restrictions shall lapse immediately prior to the change of control.

Amendment, modification and termination

Unless terminated earlier, the Stock Incentive Plan will expire in 2019. Our Board of Directors has the authority to amend or terminate the Stock Incentive Plan subject to shareholders' approval to the extent necessary to comply with applicable laws and regulations. However, no such action may materially adversely affect any awards previously granted pursuant to the Stock Incentive Plan without the consent of the plan participants.

2. Share Options

Under the Stock Incentive Plan, our company has granted options to purchase 29,902,758 Shares in our company in which options in relation to 1,818,579 Shares have lapsed. As of the Latest Practicable Date, our Board of Directors had granted certain of our executive Directors options to purchase 15,912,201 Shares in our company and granted to our independent non-executive Directors options to purchase 3,079,226 Shares in our company on the effective date of their appointment to our Board of Directors. The number of options mentioned hereinabove take into account adjustments made pursuant to the Capitalization Issue. The following paragraphs describe the principal terms of our share options.

Option award agreement

Options granted under the Stock Incentive Plan are evidenced by an option award agreement that contains, among other things, the number of shares granted and provisions concerning exercisability and forfeiture upon termination of employment, as determined by our Board.

Vesting schedule

Options granted under the Stock Incentive Plan vest over a two or three year period following a specified vesting commencement date. Typically, certain options granted vest at each anniversary of the grant date within the vesting period, subject to the participant continuing to be an employee on each vesting date.

Option exercise

The term of options granted under the Stock Incentive Plan may not exceed ten years from the grant date.

Termination of options

Where the option agreement permits the exercise of the options that were vested before the termination of employment by the participant with us, or before the termination of the participant without cause by us, the options will terminate to the extent not exercised or purchased on the thirty-first day after the participant's termination of employment. Upon the termination of the participant with cause by us, all the options not exercised will lapse immediately.

The following table summarizes, as of the Latest Practicable Date, the outstanding stock options that we granted to our Directors and employees under the Stock Incentive Plan.

Name	Relationship with our Group	Residential address	Date of grant	Date of expiration	Number of Shares to be issued pursuant to the option[1]	Exercise price (per Share)[1]	Approximate percentage of the shareholding upon full exercise of the option[1]
Forrest Dietrich	Executive Director and senior vice president of our company	404 Hui Xin Apartments, Hui Zhong Road, Chaoyang District, Beijing 100101, China	November 20, 2009	November 20, 2019	6,819,489	US$0.13	0.26
Allen Mak	Executive Director, chief financial officer, joint company secretary and senior vice president of our company	Flat F, 11th Floor Phase 1, Blessings Garden 95 Robinson Road, Mid-levels Hong Kong	November 20, 2009	November 20, 2019	9,092,712	US$0.13	0.34
Joseph Zhou	Vice president of our company	30 April Point North Drive Montgomery TX 77356 USA	November 20, 2009	November 20, 2019	9,092,712	US$0.13	0.34
Mei Jianping	Independent non-executive Director of our company	10 Landing Lane Princeton JCT NJ 08550 USA	November 23, 2010	10 years from date of grant	1,267,933	US$0.25	0.05
Jeffrey Miller	Independent non-executive Director of our company	4455 Camp Bowie Blvd. Suite 114-PMB 2 Fort Worth TX 76107 USA	November 23, 2010	10 years from date of grant	1,811,333	US$0.25	0.07

[1] The numbers of Shares, exercise prices and percentages are calculated on the basis of 2,641,334,000 Shares in issue immediately following completion of the Global Offering and the Capitalization Issue, and the full exercise of all options granted under the Stock Incentive Plan, but do not take into account any Shares which may fall to be allotted and issued upon exercise of any options which may be granted under the Stock Option Scheme.

3. Stock Appreciation Rights

As of the Latest Practicable Date, our Board of Directors had granted certain of our senior management and employees stock appreciation rights pertaining to 46,600,713 notional ordinary Shares to which the stock appreciation rights relate (assuming completion of the Capitalization Issue). The following paragraphs describe the principal terms of our stock appreciation rights.

Stock appreciation rights award agreement

Stock appreciation rights granted under the Stock Incentive Plan are evidenced by a stock appreciation rights award agreement that contains, among other things, the number of notional ordinary Shares to which the stock appreciation rights relate and the provisions concerning exercisability and forfeiture upon termination of employment or consulting arrangement, as determined by our Board.

Vesting schedule

Stock appreciation rights granted under the Stock Incentive Plan vest over a three-year period following a specified vesting commencement date. One-third of the stock appreciation rights granted vest at each anniversary of the grant date within the three-year vesting period, subject to the participant continuing to be an employee or a service provider on each vesting date.

Right exercise

The term of stock appreciation rights granted under the Stock Incentive Plan may not exceed ten years from the grant date. When a participant exercises the stock appreciation rights, we will pay such participant an amount in cash determined by multiplying (i) the excess of the fair market value of an ordinary Share on the exercise date over the grant price by (ii) the number of Shares stated in such participant's exercise notice. The stock appreciation rights do not involve the issuance of new shares and therefore do not fall within the regulation of Chapter 17 of the Listing Rules.

Termination of rights

Where the stock appreciation rights award agreement permits the exercise of the stock appreciation rights that were vested before the termination of employment by the participant with us, or before the termination of the participant without cause by us, the stock appreciation rights will terminate to the extent not exercised or purchased on the thirty-first day after the participant's termination of employment. Upon the termination of the participant with cause by us, all the rights which are not exercised will lapse immediately.

On February 26, 2010, our Board of Directors approved an amended stock appreciation rights award agreement for selected participants. For these selected participants, a portion or all of the one third of the granted stock appreciation rights shall vest and become exercisable on each anniversary of the grant date according to the performance evaluation target attained by these participants. All other material terms of the stock appreciation rights award agreement remain unchanged.

4. Present Status of the Stock Incentive Plan

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options granted under the Stock Incentive Plan (i.e. 28,084,179 Shares based on 2,641,334,000 Shares in issue as at the Listing Date).

Options granted under the Stock Incentive Plan are as set out in the tables above, and as at the Latest Practicable Date, the options represented an aggregate of approximately 1.1% of the issued share capital of our company immediately after the Global Offering and the Capitalization Issue (assuming full exercise of any options granted under the Stock Incentive Plan but without taking into account any Shares which may fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme).

Our company has undertaken that no further options shall be granted under the Stock Incentive Plan upon the Listing, but stock appreciation rights may continue to be granted. Save for the above, the provisions of the Stock Incentive Plan must in all other respects remain in full force and effect and the options and awards granted under the Stock Incentive Plan prior to the Listing and as set out in the tables above may continue to be exercised in accordance with the Stock Incentive Plan and their terms of issue.

The dilution effect upon full exercise of the share options granted under the Stock Incentive Plan (and assuming that the Over-allotment Option is not exercised) on our shareholding immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme) is as follows:

	Percentage shareholding in our company assuming no outstanding share options granted under the Stock Incentive Plan are exercised	Percentage shareholding in our company assuming all outstanding share options granted under the Stock Incentive Plan are exercised
	Approximate %	Approximate %
FEEL	53.6	53.0
Mr. Fung Che	10.8	10.7
Harmony Energy	10.8	10.7
David Bonderman	10.6	10.5
James Coulter	10.6	10.5
TPG	9.8	9.7

Upon issuance of the Shares granted under the Stock Incentive Plan, earnings per Share will be diluted from HK$0.105 to HK$0.104, representing a decrease of approximately 0.95%.

Save as disclosed in the tables above, no options or awards had been granted or agreed to be granted by our company under the Stock Incentive Plan as at the Latest Practicable Date. No further share options will be granted under the Stock Incentive Plan on or after the Listing Date.

E. SHARE OPTION SCHEME

1. Summary of Terms

The following is a summary of the principal terms of the Share Option Scheme, conditionally approved by a shareholders' meeting held on November 27, 2010. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

(a) Purpose of the scheme

The purpose of the Share Option Scheme is to enable our company to grant options to selected participants as incentives or rewards for their contributions to our Group.

(b) Who may join

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for our Shares:

(i) any employee (full time) of our company or any of our subsidiaries, including any executive director; and

(ii) any non-executive director (including independent non-executive director) of our company or any of our subsidiaries.

(c) Maximum number of Shares

(i) The maximum number of Shares to be issued upon exercise of any outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our company must not in aggregate exceed 30% of the issued share capital of our company from time to time.

(ii) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our company) to be granted under the Share Option Scheme and any other share option scheme of our company must not in aggregate exceed 10% of the Shares in issue as at the Listing Date (i.e. 264,133,400 Shares based on 2,641,334,000 Shares in issue upon completion of the Global Offering and the Capitalization Issue (without taking into account any Shares to be allotted and issued upon the exercise of any options granted under the Stock Incentive Plan or any options which may be granted under the Share Option Scheme)) ("General Scheme Limit").

(iii) Subject to (i) above and without prejudice to (iv) below, our company may seek approval of our shareholders in a general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our company must not exceed 10% of the Shares in issue, as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our company (as the case may be)) previously granted under the Share Option Scheme and any other share option scheme of our company will not be counted.

(iv) Subject to (i) above and without prejudice to (iii) above, our company must issue a circular to our shareholders and seek separate shareholders' approval in a general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (iii) above to participants specifically identified by our company before such approval is sought.

(d) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our company (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our company from time to time ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of our company with such participant and his associates (as defined under the Listing Rules) abstaining from voting.

(e) Grant of options to related persons

(i) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our company or any of their respective associates (as defined under the Listing Rules) ("Related Persons") must be approved by independent non-executive Directors of our company (excluding any independent non-executive Director who is the grantee of the options).

(ii) Any grant of options to a substantial shareholder or an independent non-executive Director of our company, or any of their respective associates, shall be subject to the approval of the shareholders in a general meeting if such proposed grant of options when aggregated with all options already granted, whether exercised, cancelled or outstanding, to such person during the 12-month period up to and including the date of such grant:

(A) represents in aggregate over 0.1% of the Shares in issue for the time being; and

(B) has an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million (or such other amount as shall be permissible under the Listing Rules from time to time).

In order to secure the approval called for in (ii), above, our company must send a circular to the shareholders. All connected persons of our company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(f) Time of acceptance and exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in whole or in part in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Directors to each grantee, which period may commence on the date upon which the offer for the grant of options is made ("Offer Date") but shall expire on the day immediately preceding the tenth anniversary of the Offer Date.

(g) Performance targets

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(h) Subscription price for Shares

The subscription price for Shares under the Share Option Scheme, subject to adjustment pursuant to paragraph(s), shall be a price determined by our Directors, but shall be the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the Offer Date; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the Shares. A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

(i) Ranking of Shares

(i) Shares to be allotted upon the exercise of an option will be subject to all the provisions of the memorandum of association and the Articles of Association and the Cayman Companies Law for the time being in force and will rank pan passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(ii) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our company of such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of our company from time to time.

(j) Restrictions on the time of grant of options

Any grant of options must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our company's results for the year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for our company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, no option may be granted.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our company.

(k) Period of the Share Option Scheme

Subject to early termination in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional and takes effect in accordance with its terms.

(l) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death or termination of his office or employment on one or more of the grounds specified in paragraph (n) below the option (to the extent not already exercised) will lapse and determine on the date of cessation, which will be taken to be the last day on which the grantee was at work with our Group.

(m) Rights on death

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death and none of the events which would be a ground for termination of his office or employment under paragraph (n) has arisen before exercising the option in full, his personal representative(s) may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months (or such longer period as our Directors may determine) of the date of death.

(n) Dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of termination of his office or employment or any one or more of the grounds that he has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board or the board of directors of the relevant member of our Group) on any other grounds on which an employer would be entitled to summarily terminate his office or employment at common law or pursuant to any applicable laws or under the grantee's service contract, or ceases to be an Eligible Employee on or after becoming bankrupt or insolvent or making any arrangements or composition with his creditors generally, his option will lapse automatically and will not in any event be exercisable.

(o) Non-assignment

If a grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option, his option shall lapse automatically and not be exercisable.

(p) Rights on a general offer

If a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror (being an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of our company) and such offer becomes or is declared unconditional during the period within which the option may be exercised, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our company in exercise of his option at any time within 14 days after the date on which such general offer becomes or is declared unconditional. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(q) Rights on winding up

In the event of an effective resolution being passed for the voluntary winding-up of our company, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of our company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Upon the date of commencement of the winding up of our company, all options shall lapse except insofar as previously exercised under the Share Option Scheme.

(r) Rights on a compromise or arrangement

In the event of a compromise or arrangement between our company and its shareholders or creditors being proposed in connection with a scheme for the reconstruction of our company or its amalgamation with any other company or companies, our company shall give notice thereof to the grantee on the same day as it gives notice of the meeting to our shareholders or creditors to consider such compromise or arrangement, and thereupon the grantee may, during the period commencing with the date of the aforesaid notice and ending with the earlier of the date two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the court exercise any of the option whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective Upon such compromise or arrangement becoming effective all options shall lapse except insofar as previously exercised under the Share Option Scheme.

(s) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of share capital of our company whilst an option remains exercisable, such corresponding adjustments (if any) certified by the auditors for the time being of our company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the Share Option Scheme and the option so far as unexercised and/or the subscription price provided that (i) any adjustments shall give a grantee the same rights over the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring adjustment; and (iii) no alternation shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors must confirm to our Directors in writing that the adjustments satisfy the requirement of the relevant provision of the Listing Rules and the supplemental guidance issued by the Stock Exchange on September 5, 2005 and any future guidance/interpretation of the Stock Exchange from time to time.

(t) Cancellation of options

Subject to the consent of the relevant grantee, our Directors may from time to time in their absolute discretion cancel any or all options granted but not exercised by such grantee. Our Directors may in their discretion offer to re-issue new options to such grantee provided that there are sufficient available unissued options (excluding such cancelled options) for such re-issuance under the General Scheme Limit or refreshed General Scheme Limit, as the case may be.

(u) Termination of the Share Option Scheme

Our Company may by resolution in a general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Rights are personal to the grantee

An option shall be personal to the grantee and shall not be transferable or assignable save as provided under the rules of the Share Option Scheme.

(w) Alterations of the Share Option Scheme

(i) The terms and conditions of the Share Option Scheme may be altered by resolution of our Directors except that the provisions relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees or prospective grantees of the options except with the approval of our shareholders in general meeting, with the grantees and their associates abstaining from voting.

(ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must first be approved by the shareholders of our company in a general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iii) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our company in a general meeting.

2. Present Status of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Committee granting approval of the listing of, and permission to deal in, the Shares to be issued as mentioned therein and is also conditional on the Listing taking place.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in all Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme (i.e. 264,133,400 Shares).

F. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders have entered into a deed of indemnity in favor of our Group (being a material contract referred to in the paragraph headed "Summary of material contracts" of this Appendix) to provide the following indemnities in favor of our Group. Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

Under the deed of indemnity, amongst others, our Controlling Shareholders will jointly and severally indemnify each of the members of the Group against (a) taxation falling on any member of the Group resulting from or by reference to any income, profits or gains accrued or received (or deemed to be so earned, accrued or received) on or before the date when the Global Offering becomes unconditional; (b) any costs, expenses and operating and business losses arising from the relocation of the business or assets from any property owned, leased, rented, occupied in the event any member of the Group is not being permitted to use or occupy or being evicted from such property due to non-compliance with PRC laws and regulations on or before the date when the Global Offering becomes unconditional; (c) any costs, expenses and operating and business losses arising from any business disruption attributable to, or failure of compliance with relevant PRC laws and regulations by any member of our Group which has not obtained the necessary approvals for its operations; and (d) any costs, expenses and operating and business losses arising from third-party infringement of our intellectual property rights. Our Controlling Shareholders further undertake to jointly and severally indemnify each of the members of the Group on demand against any of the foregoing losses, damages, costs or expenses.

Our Controlling Shareholders will, however, not be liable under the deed of indemnity for taxation where, among others, (a) provision has been made for such taxation in the audited accounts of the Group; and (b) the taxation arises or is incurred as a result of a retrospective change in law or regulation or the interpretation thereof or practice by the relevant tax authority coming into force after the date on which the Global Offering becomes unconditional or to the extent that the taxation arises or is increased by an increase in rates of taxation as a result of a change in law or regulation or interpretation thereof or practice by the relevant tax authority after the date on which the Global Offering becomes unconditional with retrospective effect.

2. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group that would have a material adverse effect on our Group's results of operations or financial condition.

3. Preliminary expenses

The preliminary expenses incurred by our company in relation to our incorporation were approximately HK$28,400 and were paid by our company.

4. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue as mentioned in this prospectus and any Shares falling to be issued pursuant to the Global Offering, any options and awards granted under the Stock Incentive Plan, and any options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No material adverse change

Our Directors believe that there has been no material adverse change in the financial or trading position of our Group since June 30, 2010 (being the date on which the latest audited combined financial statements of our Group was made up).

6. Compliance adviser

Our company will appoint Guotai Junan Capital Limited as our compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules.

7. Agency fees or commissions received

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted to the Directors or any of the persons whose names are listed in the paragraph headed "Consents" in this Appendix in connection with the issue or sale of any share or loan capital of our company or any of its subsidiaries.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Register of members

Subject to the provisions of the Cayman Companies Law, our register of members will be maintained in Hong Kong by Tricor Investor Services Limited.

10. Qualifications of experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given opinion or advice which are contained in this prospectus:

Name	Qualification
J.P. Morgan Securities (Asia Pacific) Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	Property valuers
Ryder Scott	Independent technical consultant
Zhong Lun Law Firm	PRC legal advisers
Maples and Calder	Cayman Islands legal advisers

11. Consents

Each of J.P. Morgan, PricewaterhouseCoopers, Jones Lang LaSalle Sallmanns Limited, Ryder Scott, Zhong Lun Law Firm and Maples and Calder has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As at the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the section headed “Qualifications of experts” in this Appendix had any shareholding interests in any member of our Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

13. Particulars of Selling Shareholders and Over-allotment Selling Shareholders

Name	Registered Address	Description	Number of Sale Shares under the International Offering	Number of Over-allotment Sale Shares under the Over-allotment Option
TPG	Maples Corporate Services Limited P.O. Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands	An exempted company incorporated under the laws of the Cayman Islands	106,703,000	48,016,000
Harmony Energy	Portcullis TrustNet Chambers P.O. Box 3444 Road Town, Tortola British Virgin Islands	A company incorporated under the laws of the British Virgin Islands	44,333,000	49,650,000
TPG LLC	1209 Orange Street Wilmington Delaware 19801 USA	A limited liability company formed under the laws of Delaware	3,630,000	1,634,000
Sino Link	Offshore Incorporations (Cayman) Limited Scotia Centre 4/F, P.O. Box 2804 George Town Grand Cayman KY1-1112 Cayman Islands	A company incorporated under the laws of the Cayman Islands	66,000,000	–
		Total:	220,666,000	99,300,000

14. Miscellaneous

(a) Unless otherwise noted, all share information and per share data included in this prospectus and accompanying financial statements have been adjusted to reflect the share split and change in par value on April 16, 2010 as set out in further details under the paragraph headed "History and Corporate Structure – History" in this prospectus.

(b) Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) neither our company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(iv) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our company;

(v) none of the equity and debt securities of our company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(vi) our company has no outstanding convertible debt securities or debentures; and

(vii) none of our Directors nor any of the parties listed in the paragraph headed "Consents" in this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW**, **GREEN** and **PINK** Application Forms, the written consents referred to in the paragraph headed "Appendix VII – Statutory and General Information – Consents" in this prospectus, copies of the material contracts referred to in the paragraph headed "Appendix VII – Statutory and General Information – Further Information About Our Company – Summary of our material contracts" in this prospectus, and a statement of the names, descriptions and addresses of the Selling Shareholders referred to in the paragraph headed "Appendix VII – Statutory and General Information – Other Information – Particulars of Selling Shareholders and Over-allotment Selling Shareholders" in this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Latham & Watkins, 41st Floor, 1 Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) our memorandum of association and our Articles of Association;

(b) the accountants' report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(c) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information of our company, the text of which is set out in Appendix II to this prospectus;

(d) the letters from PricewaterhouseCoopers and the Sole Sponsor relating to the profit forecast, the text of which is set forth in Appendix III to this prospectus;

(e) the full valuation report relating to the property interests of our company prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendix IV to this prospectus;

(f) the Independent Technical Report prepared by Ryder Scott, the text of which is set out in Appendix V to this prospectus;

(g) the letter of advice dated December 1, 2010 prepared by Maples & Calder, our legal adviser on Cayman Islands laws, summarising certain aspects of the Cayman Companies Law, the text of which is set out in Appendix VI to this prospectus;

(h) the PRC legal opinion dated December 1, 2010 issued by Zhong Lun Law Firm, our PRC legal adviser;

(i) copies of material contracts referred to under the paragraph headed "Appendix VII – Statutory and General Information – Further Information About Our Company – Summary of our material contracts" in this prospectus;

(j) the written consents referred to under the paragraph headed "Appendix VII – Statutory and General Information – Consents" in this prospectus;

(k) the service agreements and letters of appointment referred to under the paragraph headed "Appendix VII – Statutory and General Information – Further Information About Our Directors" in this prospectus;

(l) the Cayman Companies Law;

(m) the rules of the Share Option Scheme; and

(n) the statement of particulars of the Selling Shareholders including their respective names, addresses and descriptions.

MIE HOLDINGS CORPORATION
MI 能 源 控 股 有 限 公 司 *
* for identification purposes only