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 statements as at and for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, including the notes thereto, as set forth in Appendix I—"Accountant's Report" and other financial information appearing elsewhere in this prospectus. Our financial statements have been prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties including, but not limited to, those factors included under the caption "Risk Factors" in this prospectus. Our future results could differ materially from those projected in the forward-looking statements.

OVERVIEW

We are one of the leading Chinese non-state-owned providers of integrated oilfield services in the market segments we serve in China in terms of revenue in 2010, according to Spears and Associates. We are one of the few non-state-owned providers of oilfield services in China that have the capability to provide integrated oilfield services ranging from reservoir research, drilling, well completion and well testing to oil and gas production-related services (e.g., oil and gas production enhancement), well workover and other related services. We also source, manufacture and sell oilfield services-related products to our customers. We offer customised solutions that integrate sophisticated well design with technologically advanced tools and materials. Our solutions, which focus on increasing oil and gas productivity and extending well life in technically demanding geological conditions, have enabled us to gain and retain a stable client base.

Our operations cover an extensive geographical range in China. We are currently operating in the Tarim Oilfield, Changqing Oilfield, Daqing Oilfield, Jilin Oilfield, Jidong Oilfield, Dagang Oilfield and several other major oilfields in China. We generated a significant portion of our revenue from the Tarim Oilfield during the Track Record Period by primarily providing well completion services on high-end or critical services wells—wells that are deep, high pressure and/or high temperature. According to Spears and Associates, in the three market segments we serve (i.e., drilling, well completion and reservoir services) in China, we have an aggregate 5% share of the market that is captured by non-state-owned services providers, or a 0.5% share of the entire market, in terms of revenue in 2010.

To diversify our customer base, enhance our market competitiveness and capture business opportunities in new markets, we have strategically expanded our operation to overseas regions that are active in the global oil and gas industry, including Central Asia, North America, Southeast Asia and the Middle East. For the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, revenue generated from our overseas subsidiaries accounted for approximately 59.2%, 59.0%, 57.9% and 70.0% of our total revenue, respectively. We commenced our operations in Kazakhstan in 2002 and Kazakhstan and it has grown to become our most important overseas market. Revenue of our subsidiaries in Kazakhstan represented 44.0% and 53.4% of our total revenue for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively. We provide a wide range of oilfield services in Kazakhstan and our major customers in Kazakhstan primarily include subsidiaries and affiliates of CNPC. According to Spears and Associates, we have a market share of approximately 13% of the oilfield services market segments we serve in Central Asia, including Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan, in terms of revenue in 2010.

Our operations are geographically diversified, with revenue of our subsidiaries in China, Kazakhstan, Canada, Singapore and other regions accounting for approximately 30.0%, 53.4%, 9.5%, 4.4% and 2.7% of our total revenue, respectively, for the six months ended 30 June 2011. Our major customers in China, Kazakhstan and other overseas markets primarily include subsidiaries and affiliates of CNPC. The profit margins of our services depend on a number of factors including reservoir's geological conditions, service complexity, the cost of materials and equipment and the service fees we pay to third parties. For the Track Record Period, the profit margins of our overseas subsidiaries[1] were 42.3%, 35.0%, 28.5% and 28.0%, and the profit margins of our subsidiaries in the PRC[2] were 24.1%, 18.7%, 21.0% and 19.7%, respectively. The profit margins of our overseas subsidiaries decreased during the Track Record Period primarily due to the proportional decrease of such subsidiaries' revenue from the reservoir services segment, which has a higher profit margin than the other two segments, i.e., drilling and well completion services.

We derived a majority of our revenue from the provision of services to the subsidiaries and affiliates of CNPC, China's largest state-owned oil and gas company. The revenue generated from our five largest customers, all of whom are subsidiaries or affiliates of CNPC, accounted for 66.6%, 72.0%, 65.1%, 70.4% and 69.7% of our total revenue for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, respectively. Our revenue attributable to CNPC, on a group basis, accounted for 82.3%, 90.6%, 87.1%, 88.9% and 82.3% of our total revenue for the same periods. We have entered into long-term strategic alliances with some of these major customers, including CNODC, PetroChina Tarim Oilfield Company, PetroChina Exploration & Production Company and CPTDC, all of whom are subsidiaries or affiliates of CNPC. We have made and will continue to make significant efforts to reduce our business concentration on subsidiaries and affiliates of CNPC. We have expanded into certain overseas markets to provide services to other oil and gas companies. For example, we set up a branch office in Dubai in July 2010 to seek business opportunities with local and international oil and gas companies in the Middle East. We expanded into Indonesia and secured several service contracts there, including a package drilling service contract with a contract value of US$2.7 million with an Indonesian subsidiary of an Australian Company in 2011. We hired a number of senior marketing managers with extensive marketing and business development experience from international oilfield services providers, to strengthen our marketing efforts targeting local and international oil and gas companies in our overseas markets. We have also placed a significant emphasis on the level of success in securing new business from local and international oil and gas companies when evaluating the performance of the staff in our overseas subsidiaries.

For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, our revenue was RMB663.9 million, RMB911.5 million, RMB1,050.4 million, RMB392.0 million and RMB408.5 million, respectively, while our operating profit for the same periods was RMB146.7 million, RMB153.1 million, RMB180.9 million, RMB58.5 million and RMB68.6 million, respectively.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company and its subsidiaries (the "Group") are principally engaged in the provision of oilfield services including drilling, well completion and reservoir services, with ancillary activities in trading and manufacturing of oilfield services-related products.

The consolidated income statements, consolidated statements of comprehensive income, consolidated cash flow statements and consolidated statements of changes in equity of the Group for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 have been prepared using the financial information of the companies engaged in the oilfield services business, under the common control of the Controlling Shareholders and now comprising the Group as if the current group structure had been in existence throughout each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, or since the respective dates of incorporation/establishment of the combining companies, or since the date when the combining companies first came under the control of the Controlling Shareholders, whichever is a shorter period. The consolidated balance sheets of the Group as at 31 December 2008, 2009 and 2010 and 30 June 2011 have been prepared to present the assets and liabilities of the companies now comprising the Group at these dates, as if the current group structure had been in existence as at these dates. The net assets and results of the Group were consolidated using the existing book values from the Controlling Shareholders' perspective.

(1) Only taking into account the direct, attributable expenses and costs of such subsidiaries.

(2) Only taking into account the direct, attributable expenses and costs of such subsidiaries, and such direct expenses and costs do not include the inventory write-off amounting to RMB58.5 million in 2008.

The financial information also includes the assets, liabilities and results of operations of certain entities that were historically associated with the oilfield services business under the common control of the Controlling Shareholders during each of the years ended 31 December 2008, 2009 and 2010 but not transferred to the Company pursuant to the Reorganization because their business ceased as of 31 December 2010.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below.

General Economic Conditions and Demand for Oil and Gas

Our results of operations are affected by demand for oil and gas and the energy policies in countries and areas where we operate, in particular, China and Kazakhstan. Following several years of robust oil demand growth, the global economic recession that began in 2008 and continued into 2009 had a profound impact on world oil demand. Global oil consumption decreased in 2009 for the first time since 1992. The economic recession also caused global gas consumption to fall in 2009. However, in the longer term, global oil and gas demand growth is expected to recover as the global economy recovers. According to the U.S. EIA, global oil and natural gas consumption is expected to grow by 7% and 26%, respectively, from 2007 to 2020. In the same period, China, driven by its strong economic growth, is expected to have the highest oil consumption growth among major countries, at a CAGR of 3.3%, and second highest natural gas consumption growth among major countries, at a CAGR of 7.4%. To maintain the sustainable growth of its economy, the Chinese government is expected to continue to support oilfield exploration and development in China in the foreseeable future. Countries in Central Asia, such as Kazakhstan, whose economies and state budgets rely heavily on the export of oil and oil byproducts, are also expected to continue to support the oilfield industry. Our Directors believe that such expected growth in the oil and natural gas market will generate significant business opportunities for us in the next few years.

Development of Oilfields in China and Overseas Markets

The development of oilfields includes the discovery of new oilfields, the expansion of the operations in existing oilfields and the development of marginal oilfields. The current overall level of exploration in some regions where we operate, China and Kazakhstan in particular, is still below that of some other major oil producing countries, such as Saudi Arabia. We believe our target markets offer greater potential for discovering new oilfields and more growth opportunities for both exploration and production companies and oilfield services providers. The development of oilfields in the regions where we operate will increase the demand for oilfield services and related products, which would in turn have a positive impact on our results of operations. Conversely, a lack of new development of oilfields may dampen the demand for oilfield services and intensify the competition among the existing service providers in the market. During the Track Record Period, a majority of our revenue was attributable to our subsidiaries in China and Kazakhstan. The revenue of our subsidiaries in China and Kazakhstan represented 42.1% and 44.0%, respectively, of our revenue for the year ended 31 December 2010 and 30.0% and 53.4%, respectively, of our revenue for the six months ended 30 June 2011. During the Track Record Period, the revenue of our subsidiaries in China increased as the demand for our services in China grew steadily and the revenue of our subsidiaries in Kazakhstan increased significantly as we successfully expanded our business in Kazakhstan to address the growing demand in that region.

Major Customers

Our principal business is the provision of oilfield services to oil and gas companies. The oil and gas industry in China is dominated by the three major state-owned oil companies, namely CNPC, Sinopec and CNOOC. Our strong and strategic relationships with major PRC state-owned oil companies, in particular CNPC, provide us with opportunities to grow in conjunction with their expansion and to develop new markets for our services and products. According to Spears and Associates, CNPC plans to spend at least US$60 billion in the next decade on overseas takeovers. The rapid expansion of the three major oil companies has increased the demand for oilfield services. We have been focusing on developing and strengthening a long-term relationship with our major customers. Our Directors believe that business derived from our major customers will continue to constitute a significant portion of our revenue in the near future.

By leveraging our relationship with our major customers and following their overseas expansions, we have expanded our operations in overseas markets, in particular, Central Asia. Our Directors believe that the geographic diversification of our business operations will reduce our potential exposure to political, financial, business, operational and other risks that are associated with any single market.

Fluctuations in Foreign Currency Exchange

During the Track Record Period, we mainly operated in the PRC, Kazakhstan and Canada, with most of the transactions denominated and settled in the local currencies, i.e., RMB, KZT or CAD. Our purchases from overseas were denominated in USD. We are exposed to currency exchange risk, in particular with respect to RMB, KZT, USD and CAD. Fluctuations in exchange rates of RMB, KZT, USD and CAD may materially and adversely affect our business, financial condition and results of operations.

Fluctuations in exchange rates may adversely affect the value of our net assets, earnings or any declared dividends. In addition, any unfavourable movement in the exchange rate may also lead to an increase in our costs or a decline in sales, which could materially and adversely affect our business, financial condition and results of operations.

Cost of Materials

Material costs constituted one of the largest component of our operating costs during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, material costs were approximately RMB193.9 million, RMB273.8 million, RMB264.9 million, RMB101.0 million and RMB98.9 million, accounting for 36.2%, 38.4%, 30.3%, 30.3% and 29.5% of our total operating costs, respectively. The materials used in our services consist of screen pipes, pressure gauges, completion tools, consumables and other materials. Changes in the availability and prices of any such materials could have a significant impact on our operating costs and results of operations.

Tax

Our operating results will be affected by changes in tax rates, particularly the applicable tax rates in the PRC, Kazakhstan and Canada where we carry out most of our operations and derive most of our revenue and profits. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, our effective income tax rate was 32.5%, 42.6%, 32.0%, 31.6% and 28.7%, respectively.

Prior to 1 January 2008, the normal statutory income tax rate for enterprises in the PRC was 33%. However, the PRC government provided various favourable tax treatments for foreign-invested or other qualified enterprises, for example, the tax exemption for a two-year period (commencing from an enterprise's first profit-making year) and the 50% reduction in tax rate for another three years thereafter applicable to foreign-invested enterprises. Under the new PRC Enterprise Income Tax Law, which became effective on 1 January 2008, foreign-invested enterprises and domestic companies are subject to a uniform income tax rate of 25%. The new tax law provides a five-year transition period starting from its effective date for those enterprises which were established prior to the passing of the new tax law and which were otherwise entitled to a preferential lower income tax rate under the then effective tax laws and regulations. The tax rates applicable to some of our subsidiaries in the PRC during the Track Record Period represented favourable tax rates granted by the PRC government. Some of such favourable treatments are expected to continue to be available to certain of our PRC subsidiaries in the future based on the current PRC government tax policies. See note 24 to the "Accountant's Report" in Appendix I to this prospectus for further details. However, there can be no assurance that the current favourable tax policies will continue to be available upon expiration.

In addition, income tax is charged on all business income generated from Kazakhstan and Canada by local jurisdictions with relief for tax deductible expenses. The prevailing rate of corporate income tax for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 was 30%, 20%, 20% and 20%, respectively in Kazakhstan, and 38%, 38%, 38% and 38% in Canada. Any increase of the tax rate in the two jurisdictions may have an adverse impact on our financial condition and results of operations.

Seasonality

Our operating results are affected by the seasonality of the orders we receive from our customers. Historically, our revenue was higher in the second half of the year partly due to the fact that most of our customers, particularly state-owned enterprises, set annual budgets early in the year and make payments later in the year, particularly in the fourth quarter. The seasonality was also, to a lesser extent, due to the fact that the weather conditions of some regions where we operate were too cold for oilfield operations in the winter, which partly restricted our operations in the first half of the year.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgments and uncertainties and potentially yield materially different results under different assumptions and conditions. Our consolidated financial statements have been prepared in accordance with IFRS, which requires that we adopt accounting policies and make estimates that, we believe, are the most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial condition. Estimates and judgments are based on historical experience, prevailing market conditions and rules and regulations, and are reviewed on a continual basis taking into account the changing environment and circumstances. The critical accounting policies adopted and estimates made in preparation of our financial statements are set out as follows:

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of our activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within our Group. There were no material returns, rebates and discounts during the Track Record Period. We have paid the relevant value-added taxes in accordance with the local tax regulations in the respective jurisdictions.

We recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Provision of services

We provide well drilling services, well completion services and reservoir services to our customers. These services are provided on each well according to contracts with customers. A well operation service generally lasts from a few days to a few months while a service contract generally covers more than one well operation and lasts from a few weeks to a year. Customers formally acknowledge satisfactory completion of the services. Provisions of services are recognised in the accounting period in which the services are accepted by the customers and collectability of the related receivables is reasonably assured.

(ii) Sales of goods

Revenue associated with sales of pressure gauges, packers and other goods is recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods and collectability of the related receivables is reasonably assured.

(iii) Lease income

Operating lease income is recognised over the term of the lease, based on the standard unit charge prescribed in the lease contracts, number of equipment leased out and the duration of lease period. All contracts are generally for one year.

(iv) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Income Taxes

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. The tax determination for some transactions is uncertain. We recognise liabilities for anticipated tax audit issues based on the estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Impairment of Trade and Other Receivables

Our Directors make provision for doubtful debts based on the assessment of the recoverability of trade and other receivables with reference to the extent that the amount will be recovered and the expected timing of recovery. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

Despite the significant increase in the gross balance of trade receivables as at 31 December 2010, no further impairment provision of trade receivables needs to be made because the increase in gross trade receivables was mainly derived from the increase in sales to major customers with no default history. A default from our major customers could have an adverse impact on our future results.

Impairment Loss of Inventories

We write down inventories to net realisable value based on the estimates of the expected net realisable value of inventories. Write-downs on inventories are recorded where there are events or changes in circumstances such that the balances may not be realised. The identification of write-downs requires the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

Property, Plant and Equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised 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. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Estimated useful life
Buildings	10 to 20 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 to 7 years
Furniture, fixtures and others	3 to 10 years

The asset's 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains—net' in the income statement.

RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	663,872	911,526	1,050,432	391,979	408,482
Other gains/(losses), net	18,169	(44,630)	4,206	(46)	(4,964)
Operating costs					
Material costs	(193,874)	(273,814)	(264,852)	(101,046)	(98,898)
Employee benefit expenses	(99,088)	(154,629)	(208,952)	(77,461)	(91,784)
Operating lease expenses	(17,910)	(27,623)	(36,400)	(14,464)	(18,241)
Transportation costs	(33,655)	(35,577)	(51,228)	(23,126)	(24,508)
Depreciation and amortisation	(18,519)	(26,854)	(31,542)	(15,446)	(18,981)
Technical service expenses	(15,777)	(90,990)	(139,410)	(48,348)	(32,596)
Impairment loss of assets	(58,536)	—	—	—	(1,283)
Others	(97,990)	(104,324)	(141,321)	(53,512)	(48,675)
	(535,349)	(713,811)	(873,705)	(333,403)	(334,966)
Operating profit	146,692	153,085	180,933	58,530	68,552
Finance income	665	278	339	234	152
Finance costs	(6,087)	(5,582)	(5,689)	(1,855)	(3,681)
Finance cost, net	(5,422)	(5,304)	(5,350)	(1,621)	(3,529)
Profit before income tax	141,270	147,781	175,583	56,909	65,023
Income tax expense	(45,926)	(62,978)	(56,140)	(17,976)	(18,663)
Profit for the year/period	95,344	84,803	119,443	38,933	46,360
Attributable to:					
Equity holders of the Company	95,344	84,803	119,509	38,944	47,241
Non-controlling interests	—	—	(66)	(11)	(881)
	95,344	84,803	119,443	38,933	46,360

Discussion of Certain Key Income Statement Items

Revenue

Our revenue comprises the fair value of the consideration received or receivable for services and goods we provided and sold in the ordinary course of business. Revenue is shown net of VAT, returns, rebates and discounts and after eliminating sales within our Group.

We recognise revenue when the amount of revenue can be reliably measured. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale of services have been resolved.

The following table sets forth a breakdown of our revenue by our business line for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Drilling	110,589	310,162[1]	343,822	117,079	128,707[3]
Well completion	245,025	268,420	323,808[2]	121,332	74,610[4]
Reservoir	308,258	332,944	382,802	153,568	205,165
	663,872	911,526	1,050,432	391,979	408,482

Notes:

(1) Includes revenue of RMB86.4 million from our trading business sourced through our subsidiaries in Canada.

(2) Includes revenue of RMB40.5 million from our trading business sourced through our Singapore subsidiary.

(3) Includes revenue of RMB5.7 million from our trading business sourced through our Singapore subsidiary.

(4) Includes revenue of RMB12.2 million from our trading business sourced through our Singapore subsidiary.

The following table sets forth a breakdown of our revenue by geographical location of the members of our Group for the periods indicated[1]:

	Year ended 31 December			Six months end 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
PRC	270,796	373,735	441,847	160,818	122,674
Kazakhstan	263,487	357,776	462,137	148,376	218,309
Canada	129,589	177,636	91,375	47,253	38,719
Singapore	—	2,333	40,549	30,107	17,917
Others	—	46	14,524	5,425	10,863
	663,872	911,526	1,050,432	391,979	408,482

Note:

(1) Our revenue is from (a) the provision of services and (b) the trading of tools and equipment, as well as from manufacturing, sale and leasing of products:

(a) revenue from the provision of services is categorised in the locations either where the actual services are rendered or where our contracting subsidiary is incorporated. Such revenue represented approximately 85.5% of our revenue for the six months ended 30 June 2011; and

(b) revenue from the trading of tools and equipment, as well as from manufacturing, sale and leasing of products is categorised in the locations where our contracting subsidiary is domiciled and where management's decision relating to the underlying contract was made. Such revenue represented approximately 14.5% of our revenue for the six months ended 30 June 2011.

Our revenue from all individual markets increased from 2008 to 2010, except for revenue from Canada, which decreased from RMB177.6 million in 2009 to RMB91.4 million in 2010. The decrease was primarily due to the fact that our Canadian subsidiaries, which had revenue of RMB86.4 million in 2009 from the trading of equipment and tools had no such revenue in 2010 as we moved the sourcing function for our trading business to Singapore in 2010. We did this for (i) tax efficiency purposes (see "History, Reorganisation and Group

Structure—Reorganisation—(7) Exclusion of four operating BVI companies and restructuring of accounts payables to the BVI Companies") and (ii) sourcing efficiency purposes as Singapore is an international oil trading hub and oil refining centre(1) and many oilfield services equipment and tools suppliers, particularly Halliburton, have manufacturing centres in Singapore. Consequently, revenue of RMB40.5 million from the trading of equipment and tools in 2010 was recorded as the revenue of our subsidiary in Singapore. Our trading business customers primarily include oil companies in China and Kazakhstan who occasionally need oilfield services equipment and tools for their oilfield operations. Our trading business largely depends on specific requests of our customers and as a result, revenue from the trading business may fluctuate significantly from time to time.

The total revenue of our subsidiaries in Kazakhstan increased from RMB148.4 million for the six months ended 30 June 2010 to RMB218.3 million for the six months ended 30 June 2011, primarily due to the fact that the demand for our services from our customers in Kazakhstan continued to increase as they expanded exploration activities into new areas and took various measures to maintain or increase production volume.

Other gains/(losses), net

Our other gains and losses primarily include foreign exchange gains or losses and other gains or losses from miscellaneous sources including disposal of fixed assets.

Our foreign exchange gains or losses relate primarily to certain of our liabilities and borrowings of our subsidiaries (whose functional currencies are RMB, KZT or CAD, as the case may be) that are denominated and recorded in USD. Movements in USD against RMB, KZT or CAD will result in foreign exchange gains or losses relating to such liabilities and borrowings. See "—Market Risks—Foreign Exchange Risk."

Material costs

Our material costs primarily comprise purchasing costs for raw materials, parts and components and consumables used in our services and products. Our raw materials include screen pipes, completion tools, consumables and other materials, the prices of which are subject to, amongst other factors, the price volatility of steel and nonferrous metals. Purchases we made from suppliers in China represented approximately 56.7%, 34.1%, 41.3%, 40.7% and 36.5% of our total purchases for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, respectively.

Employee benefit expenses

Employee benefit expenses primarily comprise employee salaries, housing subsidies, pension subsidies, share-based payments, employee welfare and other expenses.

The following table sets forth a breakdown of our employee benefits expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and allowances	89,085	103,680	151,144	66,831	75,953
Housing subsidies	1,462	2,636	4,950	2,137	3,096
Pension subsidies	6,040	10,379	16,187	7,089	11,042
Share-based payments	—	33,000	31,000	—	—
Welfare and other expenses	2,501	4,934	5,671	1,404	1,693
	99,088	154,629	208,952	77,461	91,784

Operating lease expenses

Our operating lease expenses primarily consist of expenses incurred for lease of operating vehicles, offices, warehouses, equipment and employee housing.

Transportation costs

Transportation costs primarily consist of our expenses relating to transportation of our equipment and materials to operation sites.

Depreciation and amortisation

Depreciation and amortisation primarily consists of depreciation of our fixed assets over their useful life, including manufacturing facilities, oilfield services equipment and transportation vehicles.

Technical services expenses

Technical services expenses primarily consist of payment to third-party services providers for their technical services. During the Track Record Period, we subcontracted certain technically challenging services such as FMPD and geosteering drilling services to Halliburton, and other drilling services such as sidetracking that require specific equipment and instruments to local oil field services providers, including Xibu Drilling Engineering Company (Aktan) and Kaz Batys Munai.

Impairment loss of assets

Impairment loss of assets is recognised in the amount by which the assets' carrying amount exceeds their net realisable amount.

Others

Other operating costs primarily comprise travel expenses, entertainment expenses, consulting service fees, other taxes, administrative expenses and repairs and maintenance. The increase of our other operating costs was primarily due to the fact that as we grow our business and expand into new markets, we incurred more expenses such as travel, entertainment and administrative expenses in connection with such growth and expansion.

The following table sets forth a breakdown of our other operating costs for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Travel expenses					
China	13,579	14,569	14,790	6,568	3,898
Kazakhstan	12,147	13,424	13,469	5,060	2,190
Other Regions	1,435	3,151	6,902	4,382	1,206
Subtotal	27,161	31,144	35,161	16,010	7,294
Entertainment expenses					
China	8,594	13,823	16,106	5,856	4,443
Kazakhstan	7,417	10,927	13,800	4,864	2,340
Other Regions	1,670	3,599	6,007	4,773	1,343
Subtotal	17,681	28,349	35,913	15,493	8,126
Consulting service fees	14,373	11,984	11,871	3,274	5,189
Other taxes	4,116	4,477	11,169	2,239	2,046
Administrative expenses	11,486	12,950	25,495	6,991	8,793
Repairs and maintenance	4,875	3,018	4,690	1,598	5,986
Others	18,298	12,402	17,022	7,907	11,241
	97,990	104,324	141,321	53,512	48,675

Our travel expenses primarily consist of airfare, hotel and meal expenses incurred by our employees during the course of their business travel and a travel allowance for our employees relocated overseas. Our travel expenses in China, Kazakhstan and other regions increased by 7.3%, 10.5% and 119.7% from 2008 to 2009, and further increased by 1.5%, 0.3% and 119.0% from 2009 to 2010, respectively. The significant increase of our travel expenses in other regions was due to the fact that we incurred greater travel expenses as we generally sent our employees from China or other regions to develop our business in our new markets such as Indonesia, Turkmenistan and the Middle East at the initial market entry phase. Our travel expenses for the six months ended 30 June 2011 decreased from the six months ended 30 June 2010 primarily due to the fact that our market development activities in new markets were increasingly carried out by our local employees and that starting from 2011 we pay directly the travel allowance to our employee relocated overseas as part of their salary instead of allowance reimbursing them (the total travel allowance was approximately RMB7.0 million and approximately RMB7.5 million for the six months ended 30 June 2010 and 2011, respectively). Consequently the travel allowance is accounted for as employee compensation, resulting a significant decrease in the travel expenses in China and Kazakhstan.

Our entertainment expenses primarily consist of meals and entertainment expenses incurred in our ordinary marketing activities or relating to our internal meetings, technical seminars and team building activities. Entertainment expenses are incurred in the ordinary course of business and are generally recognised when employees file an entertainment expense claim form which is supported by an official receipt. The expense claim must be approved by the relevant department supervisor and confirmed by the finance department. Our entertainment expenses in China, Kazakhstan and other regions increased by 60.9%, 47.3% and 115.5% from 2008 to 2009, and further increased by 16.5%, 26.3% and 67.0% from 2009 to 2010, respectively. The significant increase of our entertainment expenses from 2008 to 2009 in both China and Kazakhstan was primarily due to the fact that we enhanced our marketing efforts to promote our drilling services in the two existing markets. The significant increase of our entertainment expenses in other regions from 2008 to 2010 was due to the fact that we expanded into new markets such as Indonesia, Turkmenistan and the Middle East which involved significant start up market development efforts. Our entertainment expenses for the six months ended 30 June 2011 decreased from the six months ended 30 June 2010 primarily due to the fact that in the first half of 2011 our market development activities in new markets such as the Middle East and Southeast Asia became less significant after the initial market entry efforts and our market development activities were stable in China and Kazakhstan where we believed our significant presence has been further solidified.

Net finance income/(costs)

Net finance income/(costs) represent our interest expenses on our borrowings and bank charges, netted against our interest income on short-term bank deposits and net foreign exchange gains on financing activities.

Income tax expense

Our Company was incorporated in the Cayman Islands and is not subject to income tax in the Cayman Islands. Our income tax expenses primarily consist of income taxes payable by us at the prevailing rates in the countries in which we operate, principally the PRC, Kazakhstan and Canada.

PRC enterprise income tax is provided on the basis of the profits of our PRC subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The current applicable enterprise income tax rate for our PRC subsidiaries is 25%, except that certain subsidiaries are subject to preferential tax rates as below.

- Pursuant to tax incentive programmes applicable to foreign manufacturing enterprises, one of our subsidiaries has been granted a two-year tax exemption, commencing from the year when the subsidiary starts to have taxable income, followed by a 50% reduction of the prevailing rate for the subsequent three years.
- Pursuant to a tax incentive circular issued by the State Tax Bureau of Luntai County, Xinjiang Uygur Autonomous Region, one of our subsidiaries in Xinjiang Uygur Autonomous Region was exempt from enterprise income tax from 2007 to 2009 as a newly set up enterprise in the western area of the PRC.

Kazakhstan income tax is charged on the basis of our income from Kazakhstan, with relief for certain tax deductible expenses. The prevailing rate of corporate income tax for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011 was 30%, 20%, 20%, 20% and 20%, respectively.

The Canadian corporate income tax rate was 38% for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011. Our Canadian subsidiaries have voluntarily disclosed to the tax authorities their outstanding tax due to the federal government of approximately CAD3 million and due to the provincial government of approximately CAD1 million for the period from 2000 to 2009 pursuant to the voluntary disclosure program in Canada. The voluntary disclosure was made based on our Canadian tax advisers' advice to manage the uncertainty associated with our Canadian subsidiaries' tax liability during the period from 2000 to 2009. The disclosed amount of federal tax has been fully paid up and the federal government confirmed our Canadian subsidiaries will not be subject to any other penalties or charges for the federal tax. The provincial tax authority has accepted our disclosure and confirmed the amount of outstanding tax. Our Canadian subsidiaries settled the outstanding provincial tax on 31 October 2011. Once the outstanding tax is settled, our Canadian subsidiaries should not be subject to any further penalty or interest in respect of their 2000-2009 taxation years.

EBITDA

The following table sets forth a breakdown of the profit or loss before income tax expense, depreciation and amortization, interest income and finance costs (the "EBITDA") by our business lines for the periods indicated:

	Drilling	Well completion	Reservoir	Total
	(RMB'000 except percentages)			
Year ended 31 December 2008				
Revenue from external customers	110,589	245,025	308,258	663,872
EBITDA	40,923	25,341[(1)]	125,329	191,593[(2)]
EBITDA as % of revenue	37.0%	10.3%[(1)]	40.7%	28.9%[(2)]
Year ended 31 December 2009				
Revenue from external customers	310,162	268,420	332,944	911,526
EBITDA	99,829	51,771	133,583	285,183
EBITDA as % of revenue	32.2%	19.3%	40.1%	31.3%
Year ended 31 December 2010				
Revenue from external customers	343,822	323,808	382,802	1,050,432
EBITDA	98,759	57,635	141,628	298,022
EBITDA as % of revenue	28.7%	17.8%	37.0%	28.4%
Six months ended 30 June 2010 (unaudited)				
Revenue from external customers	117,079	121,332	153,568	391,979
EBITDA	28,641	15,823	56,935	101,399
EBITDA as % of revenue	24.5%	13.0%	37.1%	25.9%
Six months ended 30 June 2011				
Revenue from external customers	128,707	74,610	205,165	408,482
EBITDA	34,147	9,814	77,871	121,832
EBITDA as % of revenue	26.5%	13.2%	38.0%	29.8%

Notes:

(1) EBITDA for our well completion business line would have been RMB83.9 million, or 34.2% of its revenue, if the write-off of inventory in an amount of RMB58.5 million, which was all for our well completion business line, were not taken into account.

(2) Total EBITDA would have been RMB250.1 million, or 37.7% of total revenue, if the write-off of inventory in an amount of RMB58.5 million were not taken into account.

A reconciliation of EBITDA to total profit before income tax is set forth below:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
EBITDA for reportable segments	191,593	285,183	298,022	101,399	121,832
Unallocated expenses					
—Share-based payments	—	(33,000)	(31,000)	—	—
—Other gains/(losses), net	18,169	(44,630)	4,206	(46)	(4,964)
—Unallocated overhead expenses	(44,551)	(27,614)	(58,753)	(27,377)	(29,335)
	(26,382)	(105,244)	(85,547)	(27,423)	(34,299)
	165,211	179,939	212,475	73,976	87,533
Depreciation and amortisation	(18,519)	(26,854)	(31,542)	(15,446)	(18,981)
Finance costs	(6,087)	(5,582)	(5,689)	(1,855)	(3,681)
Finance income	665	278	339	234	152
Profit before tax	141,270	147,781	175,583	56,909	65,023

Six months ended 30 June 2011 compared to six months ended 30 June 2010

Revenue

Our revenue was approximately RMB408.5 million for the six months ended 30 June 2011, representing an increase of RMB16.5 million, or 4.2%, from approximately RMB392.0 million for the six months ended 30 June 2010. The increase in our revenue was primarily due to the revenue increase from our reservoir and drilling services from the six months ended 30 June 2011 compared to the six months ended 30 June 2010, partially offset by the decrease in the revenue from our well completion services.

Drilling services. Our revenue derived from drilling services was approximately RMB128.7 million for the six months ended 30 June 2011, representing an increase of approximately RMB11.6 million, or 9.9%, from approximately RMB117.1 million for the six months ended 30 June 2010. The increase was primarily due to an increase in our revenue by approximately RMB7.3 million from well workover services and by approximately RMB5.6 million from sidetracking and unconventional drilling technology services provided to our customers in Kazakhstan.

Well completion services. Our revenue derived from well completion services was approximately RMB74.6 million for the six months ended 30 June 2011, representing a decrease of approximately RMB46.7 million, or 38.5%, from approximately RMB121.3 million for the six months ended 30 June 2010. The decrease was primarily due to a decrease in our revenue by approximately RMB16.0 million from supplying well completion tools and by approximately RMB29.0 million from supplying wellhead equipment to our customers in Turkmenistan as we had substantially performed a well completion services subcontract with a value of RMB117.1 million in 2009 and 2010.

Reservoir services. Our revenue derived from reservoir services was approximately RMB205.2 million for the six months ended 30 June 2011, representing an increase of approximately RMB51.6 million, or 33.6%, from approximately RMB153.6 million for the six months ended 30 June 2010. The increase was primarily due to an increase in our revenue by approximately RMB38.5 million from slickline services and dynamic monitoring services and by approximately RMB9.5 million from well production technology services provided to our customers in Kazakhstan.

Other gains/(losses), net

Our net other losses were approximately RMB5.0 million in the six months ended 30 June 2011, while our net other losses were approximately RMB46,000 in the six months ended 30 June 2010. Our net other losses for the six months ended 30 June 2011 increased significantly primarily due to foreign exchange losses resulting from the appreciation of the CAD and the RMB against our USD-denominated accounts receivable. We had accounts receivable of approximately RMB25.8 million with a credit term of four months denominated in USD as at 30 June 2011. In addition, there were accounts receivable of approximately RMB79.5 million denominated in USD that were settled during the six months ended 30 June 2011, in respect of which we sustained exchange losses due to the depreciation of USD against the CAD and the RMB from the revenue recognition date to the settlement date.

Material costs

Our material costs were RMB98.9 million for the six months ended 30 June 2011, representing a decrease of RMB2.1 million, or 2.1%, from RMB101.0 million for the six months ended 30 June 2010. The decrease was primarily due to a significant increase in the revenue from our reservoir services, which generally involve less material costs, and a significant decrease in the revenue from our well completion services, which generally involve more material costs.

Employee benefit expenses

Our employee benefit expenses were approximately RMB91.8 million for the six months ended 30 June 2011, representing an increase of RMB14.3 million, or 18.5%, from RMB77.5 million for the six months ended 30 June 2010. The increase was primarily due to the increase in the number of our employees in line with the growth of our business and the fact that starting from 2011, instead of being reimbursed (which is classified as other operating costs) our employees located overseas have a travel allowance paid directly as part of their salary.

Operating lease expenses

Our operating lease expenses were approximately RMB18.2 million for the six months ended 30 June 2011, representing an increase of RMB3.8 million, or 26.1% from RMB14.5 million for the six months ended 30 June 2010. The increase was primarily due to an increase in the number of operating vehicles leased by us for providing oilfield services, particularly reservoir services that generally require more vehicles than our other business lines.

Transportation costs

Our transportation costs were approximately RMB24.5 million for the six months ended 30 June 2011, representing an increase of RMB1.4 million, or 6.0%, from RMB23.1 million for the six months ended 30 June 2010.

Depreciation and amortization

Our depreciation and amortization expenses were approximately RMB19.0 million for the six months ended 30 June 2011, representing an increase of RMB3.5 million, or 22.9%, from RMB15.4 million for the six months ended 30 June 2010. The increase was primarily due to an increase in our machinery and equipment used in our oilfield services, particularly machinery and equipment required for our drilling services and reservoir services.

Technical service expenses

Our technical service expenses were approximately RMB32.6 million in the six months ended 30 June 2011, representing a decrease of RMB15.8 million, or 32.6%, from RMB48.3 million in the six months ended 30 June 2010. The decrease was primarily due to a decrease in the services we undertook to provide, particularly the FMPD services, geosteering drilling and coil-tubing hydraulic fracturing services that we subcontract to Halliburton.

Impairment loss of assets

Our impairment loss of assets was approximately RMB1.3 million and nil, respectively, for the six months ended 30 June 2011 and the six months ended 30 June 2010. We wrote off trade receivables and other receivables of RMB1.3 million for the six months ended 30 June 2011, as we considered that a portion of the service fee amounting to RMB1.3 million that was withheld by a client probably would not be collectible as the client claimed our services did not fully meet their requirements. We did not experience similar events during the Track Record Period.

Other operating costs

Our other operating costs were RMB48.7 million for the six months ended 30 June 2011, representing a decrease of RMB4.8 million, or 9.0%, from RMB53.5 million for the six months ended 30 June 2010. The decrease was primarily due to a decrease in the travelling and entertainment expenses relating to our market development activities. This is because in the first half of 2011 our market development activities in new markets became less significant after the initial market entry efforts and our market development activities were stable in China and Kazakhstan where we believed our presence has been solidified.

Operating profit

As a result of the foregoing, our operating profit was approximately RMB68.6 million for the six months ended 30 June 2011, representing an increase of approximately RMB10.0 million, or 17.1%, from

RMB58.5 million for the six months ended 30 June 2010. Our operating profit margin was 16.8% for the six months ended 30 June 2011 as compared with 14.9% for the six months ended 30 June 2010. The increase of the operating profit margin was due to the fact that, while our revenue increased, our other operating costs and material costs decreased.

Net finance costs

Our net finance costs were approximately RMB3.5 million for the six months ended 30 June 2011, representing an increase of approximately RMB1.9 million, or 117.7%, from RMB1.6 million for the six months ended 30 June 2010. The increase was primarily due to an increase in our bank borrowings, primarily to finance the repayment of a portion of debt owed to our shareholders and BVI affiliates.

Income tax expense

Our income tax expense was approximately RMB18.7 million for the six months ended 30 June 2011, representing an increase of approximately RMB0.7 million, or 3.8%, from RMB18.0 million for the six months ended 30 June 2010.

Profit for the period

As a result of the foregoing, our profit was approximately RMB46.4 million for the six months ended 30 June 2011, representing an increase of RMB7.4 million, or 19.1%, from RMB38.9 million for the six months ended 30 June 2010. Our profit margin increased from 9.9% for the six months ended 30 June 2010 to 11.3% for the six months ended 30 June 2011. The increase of the profit margin was due to the fact that, while our revenue increased, our other operating costs and material costs decreased.

Year ended 31 December 2010 compared to year ended 31 December 2009

Revenue

Our revenue was approximately RMB1,050.4 million for the year ended 31 December 2010, representing an increase of RMB138.9 million, or 15.2%, from approximately RMB911.5 million for the year ended 31 December 2009. The increase in our revenue was primarily due to our business growth and overall expansion of our service portfolio. Our revenue growth is further discussed below according to our business lines.

Drilling services. Our revenue derived from drilling services was approximately RMB343.8 million for the year ended 31 December 2010, representing an increase of approximately RMB33.6 million, or 10.9%, from approximately RMB310.2 million for the year ended 31 December 2009. The increase was primarily due to (i) an increase in revenue of approximately RMB34.2 million from drilling fluids services and by approximately RMB19.6 million from geosteering drilling services, both provided to our customers in the Tarim Oilfield in China and (ii) an increase in revenue of approximately RMB19.0 million from providing sidetracking services to customers in Kazakhstan.

Well completion services. Our revenue derived from well completion services was approximately RMB323.8 million for the year ended 31 December 2010, representing an increase of approximately RMB55.4 million, or 20.6%, from approximately RMB268.4 million for the year ended 31 December 2009. The increase was primarily due to (i) an increase of revenue of approximately RMB26.8 million from providing well completion string services to customers in the Tarim Oilfield in China; (ii) an increase in revenue of approximately RMB25.2 million in 2010 from providing conventional fracturing services to customers in Kazakhstan; and (iii) an increase in revenue of approximately RMB22.8 million from providing coil-tubing and hydraulic fracturing services at Changqing Oilfiled in China.

Reservoir services. Our revenue derived from reservoir services was approximately RMB382.8 million for the year ended 31 December 2010, representing an increase of approximately RMB49.9 million, or 15.0%, from approximately RMB332.9 million for the year ended 31 December 2009. The increase was primarily due to (i) an increase in revenue of approximately RMB11.4 million and RMB11.8 million from dynamic monitoring services and reservoir research services provided to customers in Kazakhstan, respectively; (ii) the commencement of our slickline services in Indonesia, the revenue from which was approximately RMB14.5 million in 2010; and (iii) an increase in revenue of approximately RMB12.5 million from the sale and leasing of electronic pressure gauges to our customers.

Other gains/(losses), net

Our net other gains were approximately RMB4.2 million for the year ended 31 December 2010, while we had net other losses of approximately RMB44.6 million for the year ended 31 December 2009. Our net other losses for the year ended 31 December 2009 were primarily due to foreign exchange losses resulting from the appreciation in value of USD-denominated accounts payable of our subsidiaries in Kazakhstan against the KZT in 2009.

Material costs

Our material costs were RMB264.9 million for the year ended 31 December 2010, representing a decrease of RMB9.0 million, or 3.3%, from RMB273.8 million for the year ended 31 December 2009. The decrease was primarily due to our efforts to diversify our supply sources and the fact that we purchased more parts and materials from PRC domestic suppliers at lower prices.

Employee benefit expenses

Our employee benefit expenses were approximately RMB209.0 million for the year ended 31 December 2010, representing an increase of RMB54.3 million, or 35.1%, from RMB154.6 million for the year ended 31 December 2009. The increase was primarily due to a significant increase in the number of our employees and the fact that we hired more senior executives and managers to develop and grow our business.

Operating lease expenses

Our operating lease expenses were approximately RMB36.4 million for the year ended 31 December 2010, representing an increase of RMB8.8 million, or 31.8% from RMB27.6 million for the year ended 31 December 2009. The increase was primarily due to an increase in the number of operating vehicles leased by us for the provision of oilfield services, particularly reservoir services that generally require more vehicles than our other business lines.

Transportation costs

Our transportation costs were approximately RMB51.2 million for the year ended 31 December 2010, representing an increase of RMB15.7 million, or 44.0%, from RMB35.6 million for the year ended 31 December 2009. The increase was primarily due to the strong growth of our business during the year, particularly in our overseas operations, which generally incur higher transportation costs than our operations within China.

Depreciation and amortisation

Our depreciation and amortisation expenses were approximately RMB31.5 million for the year ended 31 December 2010, representing an increase of RMB4.7 million, or 17.5%, from RMB26.9 million for the year ended 31 December 2009. The increase was primarily due to the increase in the machinery and equipment used in our oilfield services in 2010.

Technical service expenses

Our technical service expenses were approximately RMB139.4 million for the year ended 31 December 2010, representing an increase of RMB48.4 million, or 53.2%, from RMB91.0 million for the year ended 31 December 2009. The increase was primarily due to an increase in sidetracking services, fracturing services and geosteering services subcontracted to independent third parties, such as Halliburton, in Kazakhstan and China.

Other operating costs

Our other operating costs were RMB141.3 million for the year ended 31 December 2010, representing an increase of RMB37.0 million, or 35.5%, from RMB104.3 million for the year ended 31 December 2009. The increase was primarily due to an increase in the travel and entertainment expenses related to our market development activities in the Middle East, Indonesia and Kazakhstan and the fact that we incurred expenses for setting up and maintaining new offices in some of these regions.

Operating profit

As a result of the foregoing, our operating profit was approximately RMB180.9 million for the year ended 31 December 2010, representing an increase of approximately RMB27.8 million, or 18.2%, from RMB153.1 million for the year ended 31 December 2009. Our operating profit margin was 17.2% for the year ended 31 December 2010, slightly higher than 16.8% for the year ended 31 December 2009.

Net finance costs

Our net finance costs were approximately RMB5.4 million for the year ended 31 December 2010, representing an increase of approximately RMB46,000, or 0.9% from RMB5.3 million for the year ended 31 December 2009.

Income tax expense

Our income tax expense was approximately RMB56.1 million for the year ended 31 December 2010, representing a decrease of approximately RMB6.8 million, or 10.9%, from RMB63.0 million for the year ended 31 December 2009. The decrease was primarily due to the fact that our Singaporean subsidiary generated revenue from Kazakhstan that was subject to Kazakhstan withholding tax. A portion of such withholding tax was not tax deductible in Singapore and that the non-deductible amount in 2010 decreased by RMB23.8 million in 2010 mainly as a result of the decrease in the revenue of our Singaporean subsidiary attributable to Kazakhstan. For the same reason, our effective income tax rate decreased from 42.6% for the year ended 31 December 2009 to 32.0% for the year ended 31 December 2010.

Profit for the year

As a result of the foregoing, our profit for the year was approximately RMB119.4 million for the year ended 31 December 2010, representing an increase of RMB34.6 million, or 40.8%, from RMB84.8 million for the year ended 31 December 2009. Our profit margin increased from 9.3% for the year ended 31 December 2009 to 11.4% for the year ended 31 December 2010, primarily due to a higher operating profit and a decrease of our income tax expense.

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

Our revenue was approximately RMB911.5 million for the year ended 31 December 2009, representing an increase of RMB247.7 million, or 37.3%, from approximately RMB663.9 million for the year ended 31 December 2008. The overall increase in our revenue was primarily attributable to the growth of our drilling services. The details of our revenue growth are further discussed below according to our business lines.

Drilling services. Our revenue derived from drilling services was approximately RMB310.2 million for the year ended 31 December 2009, representing an increase of RMB199.6 million, or 180.5%, from approximately RMB110.6 million for the year ended 31 December 2008. The increase was primarily due to strong growth in our drilling business, particularly an increase in revenue of approximately RMB86.4 million from supplying drilling tools to customers in the Tarim Oilfield in China. We also successfully commenced FMPD services in the Tarim Oilfield in China and well workover services in Kazakhstan, the revenue attributable to which was RMB68.5 million and RMB49.2 million, respectively.

Well completion services. Our revenue derived from well completion services was approximately RMB268.4 million for the year ended 31 December 2009, representing an increase of approximately RMB23.4 million, or 9.5%, from approximately RMB245.0 million for the year ended 31 December 2008. The increase was primarily due to a significant increase in our well completion business in Turkmenistan in 2009 as we successfully secured a well completion services subcontract with a contract value of approximately RMB117.1 million from CPTDC, which acted as the general contractor for the project.

Reservoir services. Our revenue derived from reservoir services was approximately RMB332.9 million for the year ended 31 December 2009, representing an increase of approximately RMB24.7 million, or 8.0%, from approximately RMB308.3 million for the year ended 31 December 2008. The increase was primarily due to the increased sales of our reservoir services as a result of a general increase in the market demand for these services, particularly from Kazakhstan, in 2009.

Other gains/(losses), net

We had net other losses of approximately RMB44.6 million for the year ended 31 December 2009 while we had net other gains of approximately RMB18.2 million for the year ended 31 December 2008. Our net other losses for the year ended 31 December 2009 were primarily due to foreign exchange losses resulting from the appreciation of the value of the USD against the Tenge, in which certain accounts payable of our subsidiaries in Kazakhstan were denominated. Our net other gains for the year ended 31 December 2008 were primarily relating to foreign exchange gains, resulting from depreciation of USD-denominated accounts payable against the RMB in 2008.

Material costs

Our material costs were RMB273.8 million in 2009, representing an increase of RMB79.9 million, or 41.2%, from RMB193.9 million in 2008. The increase was in line with the increase in our revenue and was primarily due to the increase in our purchases of completion services-related tools and materials in connection with the significant increase in our completion services in Turkmenistan.

Employee benefit expenses

Our employee benefit expenses were approximately RMB154.6 million for the year ended 31 December 2009, representing an increase of RMB55.5 million, or 56.1%, from RMB99.1 million for the year ended 31 December 2008. The increase was primarily due to the share-based payment expenses incurred in 2009 as well as the increase in the number of our employees in line with our business growth.

Operating lease expenses

Our operating lease expenses were approximately RMB27.6 million for the year ended 31 December 2009, representing an increase of RMB9.7 million, or 54.2%, from RMB17.9 million for the year ended 31 December 2008. The increase was primarily due to an increase in the number of operating vehicles leased by us for the provision of oilfield services, which was in line with our business growth.

Transportation costs

Our transportation costs were approximately RMB35.6 million for the year ended 31 December 2009, representing an increase of RMB1.9 million, or 5.7%, from RMB33.7 million for the year ended 31 December 2008. The increase was primarily due to the growth of our overall business operations during the year.

Depreciation and amortisation

Our depreciation and amortisation expenses were approximately RMB26.9 million for the year ended 31 December 2009, representing an increase of RMB8.3 million, or 45.0%, from RMB18.5 million for the year ended 31 December 2008. The increase was primarily due to an increase in our acquisition of machinery and equipment in connection with our oilfield services.

Technical service expenses

Our technical service expenses were approximately RMB91.0 million for the year ended 31 December 2009, representing an increase of RMB75.2 million, or 475.9%, from RMB15.8 million for the year ended 31 December 2008. The substantial increase was primarily due to an increase of approximately RMB54.6 million in fees incurred for services subcontracted to Halliburton, particularly for FMPD and geosteering services which we subcontracted to Halliburton in the Tarim Oilfield in 2009.

Impairment loss on inventories

Our impairment loss on inventories was nil for the year ended 31 December 2009, compared to RMB58.5 million for the year ended 31 December 2008. The RMB58.5 million of impairment loss on inventory reflected the adjustment for some of our inventories in respect of their expected net realisable values during 2008. We recognised losses of RMB58.5 million in respect of a write-down of inventories to their net realisable value in 2008. Our customer in Jidong Oilfield advised us in 2007 that they were expecting a discovery of oil reserves of over one billion tonnes in Jidong Oilfield. Our customer prepared a large investment budget for that project, made significant investments and urged us to make necessary preparations for that project. Our senior management evaluated the situation, opportunity and facts at that time, including the risks relating to preparing inventories before signing a binding service contract, and considered it a good business opportunity to pursue. We estimated that should the opportunity materialise, the revenue from oilfield services relating to that project would be approximately RMB150 million to RMB200 million for 2008. We entered into a non-binding arrangement with our customer and proceeded to purchase approximately RMB69.4 million of inventories in aggregate to prepare for that project. However, it was later found that the oil reserves were much less than expected and as a result there were much fewer oilfield services that were required from us. A substantial portion of these inventories remained unutilised as at 31 December 2008 and were written off as they may not be easily consumed in other projects. We received no compensation from our client as we had no binding agreement with them. Since this one-off event, we have conducted an extensive review of our internal control system and risk management system in general and particularly in respect of procurement and contracting and have made improvements and adopted new measures. Subsequently, and as part of our ongoing development, we have set up an internal audit department in charge of, among others, compliance and internal control matters. We also adopted a policy of not purchasing any inventories for our services that are requested by customers on a project by project basis unless relevant service contracts have been executed. We did not experience similar inventory impairment during the Track Record Period. See "Risk Factors—We have relatively high inventories and inventory turnover days and some of our inventories ordered for a particular project are not easily transferable to other projects and may be subject to write-off if the inventories are not fully utilised."

Other operating costs

Our other operating costs were RMB104.3 million for the year ended 31 December 2009, representing an increase of RMB6.3 million, or 6.5%, from RMB98.0 million for the year ended 31 December 2008. The increase was primarily due to an increase in costs associated with entry into and development of new markets such as Indonesia and Turkmenistan, including, in particular, the travelling costs of our staff.

Operating profit

As a result of the foregoing, our operating profit was approximately RMB153.1 million for the year ended 31 December 2009, representing an increase of approximately RMB6.4 million, or 4.4%, from RMB146.7 million for the year ended 31 December 2008. Our profit margin decreased from 22.1% for the year ended

31 December 2008 to 16.8% for the year ended 31 December 2009, primarily due to the fact that the pricing terms from our customers, particularly customers in Kazakhstan and in the Tarim Oilfield in China, were challenging. This is because our customers were taking various measures to control costs, including cutting service fees payable to relevant services providers, to address challenges resulting from the global financial crisis and the decrease in oil prices.

Net finance costs

Our net finance costs were approximately RMB5.3 million for the year ended 31 December 2009, representing a decrease of approximately RMB0.1 million, or 2.2%, from RMB5.4 million for the year ended 31 December 2008.

Income tax expense

Our income tax expense was approximately RMB63.0 million for the year ended 31 December 2009, representing an increase of approximately RMB17.1 million, or 37.1%, from RMB45.9 million for the year ended 31 December 2008. The income tax expenses for the year ended 31 December 2008 have included Canadian income tax of approximately CAD0.6 million in relation to the voluntary tax disclosure. See "—Key Factors Affecting Our Results of Operations—Income tax expense" for details of the voluntary tax disclosure. The increase was primarily due to the fact that our Singaporean subsidiary generated certain revenue from Kazakhstan that was subject to a withholding tax imposed by Kazakhstan authorities, a portion of such withholding tax was not tax deductible in Singapore and that in 2009 the non-deductible amount increased by RMB15.6 million mainly as a result of the increase in the revenue of our Singaporean subsidiary attributable to Kazakhstan. For the same reason, our effective income tax rate increased from 32.5% for the year ended 31 December 2008 to 42.6% for the year ended 31 December 2009. There were also expenses not deductible for taxation purposes amounting to approximately RMB10.2 million for the year ended 31 December 2009, representing an increase of approximately RMB2.6 million, or 34.4%, from RMB7.6 million for the year ended 31 December 2008. These expenses primarily comprised share-based payments which were recognised but could not be deducted for tax purposes pursuant to relevant regulations.

Profit for the year

As a result of the foregoing, our profit for the year was approximately RMB84.8 million for the year ended 31 December 2009, representing a decrease of RMB10.5 million or 11.1%, from RMB95.3 million for the year ended 31 December 2008. Our profit margin decreased from 14.4% for the year ended 31 December 2008 to 9.3% for the year ended 31 December 2009, primarily due to the fact that the pricing terms from our customers, particularly customers in Kazakhstan and in the Tarim Oilfield in China, were challenging. Our customers were taking various measures to control costs, including cutting service fees payable to relevant services providers, to address challenges resulting from the global financial crisis and the decrease in oil prices.

Discussion of Certain Balance Sheet Data

The following table sets forth our consolidated balance sheets as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	145,422	150,065	196,433	217,191
Intangible assets	243	118	760	644
Deferred income tax assets	25,341	32,412	31,826	39,431
Prepayments and other receivables	2,959	1,832	7,156	9,019
	173,965	184,427	236,175	266,285
Current assets				
Inventories	166,932	193,863	211,065	265,686
Trade and notes receivables	294,068	340,294	445,142	339,901
Prepayments and other receivables	37,233	37,436	95,888	87,019
Restricted bank deposits	1,922	12,455	10,694	2,446
Cash and cash equivalents	106,920	106,512	166,721	83,246
	607,075	690,560	929,510	778,298
Total assets	781,040	874,987	1,165,685	1,044,583
EQUITY				
Share capital	57	68	68	68
Other reserves	28,756	63,937	313,330	151,426
Currency translation difference	(42,148)	(43,534)	(15,228)	(16,367)
Retained earnings	343,920	426,610	303,837	341,570
Equity attributable to the Company's equity holders	330,585	447,081	602,007	476,697
Non-controlling interests	—	—	(57)	27,809
Total equity	330,585	447,081	601,950	504,506
LIABILITIES				
Non-Current liabilities				
Deferred income tax liabilities	1,060	434	434	56
Current liabilities				
Borrowings	105,346	60,000	159,975	292,216
Trade payables	109,668	108,947	269,210	188,721
Accruals and other payables	118,215	108,076	61,114	37,744
Income tax liabilities	116,166	150,449	73,002	21,340
	449,395	427,472	563,301	540,021
Total liabilities	450,455	427,906	563,735	540,077
Total equity and liabilities	781,040	874,987	1,165,685	1,044,583
Net current assets	157,680	263,088	366,209	238,277
Total assets less current liabilities	331,645	447,515	602,384	504,562

Property, Plant and Equipment

Property, plant and equipment consist of buildings, machinery and equipment, motor vehicles, furniture, fixtures, construction-in-progress and others. As at 31 December 2008, 2009 and 2010 and 30 June 2011, property, plant and equipment amounted to approximately RMB145.4 million, RMB150.1 million, RMB196.4 million and RMB217.2 million, respectively. The increase from 2008 to 30 June 2011 was primarily due to the expansion of our business, which led to the need for more equipment, transportation vehicles, furniture and buildings.

Inventory

Our inventories consist of raw materials, work-in-progress and finished goods. Our inventory is sourced primarily for services that are regularly performed on an annual basis and for services that are specifically requested by customers on a project by project basis. Our inventory mainly consists of materials and tools required or consumed during the provision of our services, primarily including well completion tools that are installed deep in the well or on the ground at the wellhead, drilling fluids used in drilling activities, replacement components and parts for services equipment such as drilling rigs and winches and related consumable items. Other than inventory for services, we also keep a small amount of inventory that is related to our manufacturing business and trading business. As at 30 June 2011, approximately 92.4% of our inventory was for our services while approximately 7.6% of our inventory was related to our manufacturing or trading business. We record relevant inventory as our operating costs upon our customers' acceptance of our services, at which time relevant revenue will also be recognised.

Our inventory level is affected by a number of factors and reflect our business model, including among others (i) a majority of our revenue is derived from oilfields outside China, particularly oilfields in Kazakhstan, we source most of the inventory for these oilfields from China, and it typically requires two or more months to transport the relevant inventory to these oilfields; (ii) we provide services at various oilfields across geographically dispersed regions and we are required to keep an appropriate level of inventory for and close to each oilfields in which we operate; (iii) a significant portion of our services require us to prepare materials and tools in advance (while other services providers may only offer services that do not require them to prepare materials and tools in advance) and (iv) we generally provide more services in the second half of the year. Based on the above, we have adopted an inventory management policy, which we believe is appropriate for our business, to maintain an adequate level of inventory in order to deliver our services effectively. As such, our inventory levels may be higher than other oilfield services providers who provide services primarily in China, or in oilfields which are more geographically concentrated, or primarily provide services that require them to prepare little or no materials and tools in advance. As we perform more services in the second half of the year, we maintain a relatively high level of inventory at the end of the first half of the year.

The following table sets forth a summary of our inventory balances at the end of the periods indicated.

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	193,040	219,681	218,980	262,357
Work-in-progress	17,094	15,321	15,688	28,900
Finished goods	15,334	17,397	34,933	32,014
	225,468	252,399	269,601	323,271
Provision for impairment of raw materials(1)	(58,536)	(58,536)	(58,536)	(57,585)
	166,932	193,863	211,065	265,686

Note:

(1) The provision for impairment of raw materials relates to inventories as to which the Company incurred an impairment loss in an amount of approximately RMB58.5 million in 2008. The amount had not been written off in the balance sheet as at the end of the relevant periods because these raw materials are still physically held by the Company.

The increase in our inventory balance from approximately RMB166.9 million as at 31 December 2008 to RMB193.9 million as at 31 December 2009, to RMB211.1 million as at 31 December 2010 reflected the growth of our business and the increase in our sales. The further increase in our inventory balance to RMB265.7 million as at 30 June 2011 was primarily due to the fact that we generally have a higher amount of inventory at the end of the first half of a year in anticipation of more services to be performed in the second half of the year. As at 30 June 2011, inventory for services that were specifically requested by our customers on a project by project basis and were covered by binding contracts represented 62.3% of our total inventory. As at 31 October 2011, RMB90.7 million, or 34.1%, of our inventory as of 30 June 2011, had been utilised. Notwithstanding the fact that a significant portion of the inventory is being utilised in our operations for the second half of 2011 as work in progress, such utilised portion will remain classified as inventory according to accounting principles until the relevant services have been accepted by our customers. Based on our forecast of services to be performed in the remainder of 2011, we currently estimate that approximately 72% of inventory as at 30 June 2011 will have been utilized by 31 December 2011.

We store our inventory for and close to each of the oilfields we serve, which are widely distributed in China, Kazakhstan and other countries. As at 30 June 2011, inventory for oilfields in China, Kazakhstan and other countries represented 53.5%, 32.8% and 13.7% of our total inventory. Notwithstanding the fact that our revenue from Kazakhstan was higher than China for the six months ended 30 June 2011, our inventory as at 30 June 2011 was larger in China than Kazakhstan primarily due to the fact that we provide a much larger amount of well completion services in China than in Kazakhstan, which involve the installation of well completion tools deep in the well or on the surface at the wellhead and as such require a significant amount of inventory.

The following table sets forth the turnover days of our inventory for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2008	**2009**	**2010**	**2011**
Inventory turnover days[(1)]	248	178	180	326

Note:

(1) Turnover days of inventory = (beginning balance of inventory for the period + ending balance of inventory for the period)/2/(material costs + technical services expenses) x 360 days for a year (or 180 days for the six months ended 30 June 2011).

Our inventory turnover days decreased from 248 days in 2008 to 178 days in 2009, primarily due to (i) an increase of RMB79.9 million, or 41.2%, in material costs in 2009 resulting from a significant increase in the purchase of well completion tools and materials for customers in Turkmenistan and (ii) an increase of RMB75.2 million in technical services expenses, primarily due to an increase of technical service fees by approximately RMB54.6 million incurred for services subcontracted to Halliburton, particularly for FMPD and geosteering services in the Tarim Oilfield in 2009 which we undertook to provide and subsequently subcontracted to Halliburton. Our turnover days in 2010 were stable compared to 2009. Our turnover days increased to 326 days in the six months ended 30 June 2011 primarily due to the fact that (i) we generally have a higher amount of inventory at the end of the first half of a year in anticipation of more services to be performed in the second half of the same year and (ii) our material costs and technical services expenses are generally lower for the first half of a year due to the seasonality of our business such that we generally perform more services in the second half of a year.

Our sales and marketing managers reviewed our inventory aging list on a periodic basis throughout 2008, 2009 and 2010 and the six months ended 30 June 2011. This involved comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose of the comparison is to ascertain whether allowance is required for any obsolete and slow-moving items. In 2008, we recognised losses of RMB58.5 million in respect of a write-down of inventories to their net realisable value. Our customer in Jidong Oilfield advised us in 2007 that they were expecting a discovery of oil reserves of over one billion tonnes in Jidong Oilfield. Our customer prepared a large investment budget for that project, made significant investments and urged us to make necessary preparations for that project. Our senior management evaluated the situation, opportunity and facts at that time, including the risks relating to preparing inventories before signing a binding service contract, and considered it a good business opportunity to pursue. We estimated that, should the opportunity materialise, the revenue from oilfield services relating to that project would be approximately RMB150 million to RMB200 million for 2008. We entered into a non-binding arrangement without customer and proceeded to purchase approximately RMB69.4 million of inventories in aggregate to prepare for that project. However, it was later found that the oil reserves were much less than expected and as a result there were much fewer oilfield services that were required from us. A substantial portion of these inventories remained unutilised as at 31 December 2008 and were written off as they may not be easily consumed in other projects. We received no compensation from our client as we had no binding agreement with them. Since this one-off event, we have conducted an extensive review of our internal control system and risk management system in general and particularly in respect of procurement and contracting and have made improvements and adopted new measures. Subsequently, and as part of our ongoing development, we have set up an internal audit department in charge of, among others, compliance and internal control matters. We also adopted a policy of not purchasing any inventories for our services that are requested by customers on a project by project basis unless relevant service contracts have been executed. We did not experience similar inventory impairment during the Track Record Period. See "Risk Factors—We have relatively high inventories and inventory turnover days and some of our inventories ordered for a particular project are not easily transferable to other projects and may be subject to write-off if the inventories are not fully utilised."

Trade and notes receivables

Our trade receivables represented receivables primarily from sales of our services and products. Notes receivables principally represented bank acceptance notes with maturity dates within six months from our customers for payment of our products and services. The following table sets forth a breakdown of our trade and notes receivables as at the dates indicated:

	As at 31 December			**As at 30 June**
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables	294,715	340,048	445,789	341,605
Less: provision for impairment of trade receivables	(647)	(647)	(647)	(1,704)
Trade receivables – net	294,068	339,401	445,142	339,901
Notes receivable	—	893	—	—
	294,068	340,294	445,142	339,901

Our trade and notes receivables increased from RMB294.1 million as at 31 December 2008 to RMB340.3 million as at 31 December 2009 and further to RMB445.1 million as at 31 December 2010 primarily due to the growth of our business. The increase in our trade and notes receivables in 2010 was also due to an upgrade of the internal invoice approval and settlement system at CNPC in 2010 that delayed the settlement of trade receivables with us, resulting in our higher amount of trade receivables at the end of 2010. Our trade receivables as at 31 December 2010 excluded the amounts attributable to certain BVI affiliates pursuant to a reorganisation conducted in December 2010. Our trade and notes receivables decreased to RMB339.9 million as at 30 June 2011 primarily because a large portion of our service fees that were recognized in the second half of 2010 were settled by our clients in the first half of 2011. As at 31 October 2011, RMB172.0 million, or 50.6%, of our trade and notes receivables as of 30 June 2011, had been settled.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. A provision for impairment of 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 receivables. We usually give our customers a credit term of up to six months from the delivery of our services or products, although such terms may vary based on our historical relationships with, and the assessment of creditworthiness of, individual customers. As most of our key customers are subsidiaries or affiliates of CNPC, we generally consider the credit risks relating to our trade receivables to be relatively insignificant. During the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, trade receivables of RMB4.9 million, RMB18.9 million, RMB21.7 million and

RMB24.9 million were past due but not impaired. These past due receivables were from a number of independent customers who had no history of default with us.

The following table sets forth the aging analysis of our trade and notes receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 6 months	289,119	321,433	423,486	315,026
6 months – 1 year	3,210	5,537	20,142	19,558
1 – 2 years	1,366	12,070	245	5,118
2 – 3 years	978	973	1,314	67
Over 3 years	42	928	602	1,836
Trade and notes receivables, gross	294,715	340,941	445,789	341,605
Less: Impairment of trade receivables	(647)	(647)	(647)	(1,704)
Trade receivables, net	294,068	340,294	445,142	339,901

Substantially all of our trade and notes receivables at the end of the relevant periods were due within one year. Our trade and notes receivables due up to six months accounted for approximately 98.3%, 94.5%, 95.1% and 92.7% of our total trade and notes receivables as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively. As at 30 June 2011 RMB1.0 million of our service fees was withheld by our customers, representing 0.3% of our total trade and notes receivable as at the same date.

The following table set forth the turnover days of our trade and notes receivables for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
Trade and notes receivables turnover days[(1)]	129	125	135	173

Note:

(1) Turnover days of trade and notes receivables = (beginning balance of trade and notes receivables for the period + ending balance of trade and notes receivables for the period)/2/revenue x 360 days for a year (or 180 days for the six months ended 30 June 2011).

Our trade and notes receivables turnover days increased from 125 days in 2009 to 135 days in 2010 primarily due to the upgrading of CNPC's internal invoice approval and settlement system in 2010 which delayed the settlement of our trade receivables with them, resulting in a higher amount of trade receivables at the end of 2010. Our trade and notes receivables turnover days further increased to 173 days for the six months ended 30 June 2011 primarily due to the fact that our revenue is generally lower for the first half of a year due to the seasonality of our business such that we generally provide more services in the second half of year. It was also due to the fact that we had a higher amount of trade receivables at the end of 2010, which partially increased such turnover days under the formula adopted in calculating trade and receivables turnover days.

During the Track Record Period, the amount of trade receivables due from CNPC, on a group basis, was RMB220.0 million, RMB312.6 million, RMB328.3 million and RMB265.5 million. The credit terms we granted to subsidiaries and affiliates of CNPC were generally three to six months and relevant account receivables were generally settled within the granted credit terms during the Track Record Period, except that 2010 when CNPC was upgrading its internal invoice approval and settlement system and the settlement of relevant account payables to us was delayed by several months. As at 31 October 2011, approximately RMB153.3 million, or 57.8%, of the trade and notes receivable from CNPC, on a group basis, outstanding as at 30 June 2011 had been settled.

We incurred notes receivable of RMB0.9 million in 2009, which were bank acceptance notes with maturity dates of less than six months.

Prepayments and other receivables

In addition to trade and notes receivables, our receivables also include the following:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Advances to suppliers (Non-financial assets)	5,264	11,083	46,535	58,207
Amounts due from related parties	11,293	17,417	22,339	1,287
Other receivables	20,676	8,936	27,014	27,751
Less: provision for impairment of other receivables	—	—	—	(226)
Total financial assets	31,969	26,353	49,353	28,812
	37,233	37,436	95,888	87,019
Non-Current				
Prepayment for the purchase of land use right	—	—	—	6,500
Advances to suppliers (Non-financial assets)	2,959	1,832	7,156	2,519
	2,959	1,832	7,156	9,019
Total	40,192	39,268	103,044	96,038

Our advances to suppliers usually refer to our prepayments for materials and equipment which we use in our regular business or for planned expansions. Such prepayments are customary industry practice or are often required for supplies in shortage. Our advances to suppliers increased substantially from RMB5.3 million as at 31 December 2008 to RMB11.1 million as at 31 December 2009, to RMB46.5 million as at 31 December 2010 and further to RMB58.2 million as at 30 June 2011. Such increase was in line with the growth of our business and was primarily attributable to the fact that certain of our suppliers require full prepayment when we place an order for operating equipment or inventories.

The amounts due from related parties primarily represented loans made to the major shareholders of the Company, namely Mr. Wang, Mr. Wu and others. The amounts due from related parties increased from RMB11.3 million as at 31 December 2008 to RMB17.4 million as at 31 December 2009 and further to RMB22.3 million as at 31 December 2010. The amounts due from related parties decreased to RMB1.3 million as at 30 June 2011 as Mr. Wang and Mr. Wu paid back such shareholder's loans of RMB8.9 million and RMB8.1 million to us, respectively.

Other receivables comprise mainly VAT recoverable, advances to employees and guarantee deposits for project tender. The decrease of other receivables from 2008 to 2009 is mainly due to a decrease in VAT recoverable of approximately RMB7.3 million and RMB2.7 million relating to our subsidiaries in Kazakhstan and the PRC, respectively. The increase of other receivables in 2010 is mainly due to an increase in guarantee deposits for project tender in Kazakhstan of approximately RMB8.0 million and an increase in advances given to our employees of approximately RMB2.9 million. We give our employees advances in the ordinary course of business when they travel to remote oilfields for a long period of time where credit cards are generally not accepted.

We paid the local government in Tanggu, Tianjin in April 2011 a deposit of RMB6.5 million in connection with its granting to us the land use rights to a parcel of land with an area of approximately 43,355 square meters. We expect to enter into the land use right granting agreement with the local government in the next few months regarding this parcel of land and pay the granting fee of approximately RMB23.2 million. We plan to use this parcel of land to construct and develop our research and development centre, which we plan to put into operation in 2014.

The following table sets forth the amounts due from related parties as at the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties				
Mr. 王國強 (Mr. Wang Guoqiang)	5,753	6,269	10,180	1,259
Mr. 吳東方 (Mr. Wu Dongfang)	4,767	5,071	8,148	21
Ms. 沈翼 (Ms. Shen Yi)	71	79	4	4
Mr. 趙峰 (Mr. Zhao Feng)	2	198	3	3
Beijing Honghuianda Technology Ltd. (北京宏輝安達科技有限公司)	700	5,800	4,004	—
	11,293	17,417	22,339	1,287

All amounts due from related parties will be fully settled before the completion of the Global Offering.

The table below sets out the aging analysis of prepayments and other receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 6 months	33,724	22,728	64,867	63,251
6 months – 1 year	3,098	3,126	20,066	25,792
1 – 2 years	3,111	11,814	6,011	3,148
2 – 3 years	198	1,507	10,813	2,561
Over 3 years	61	93	1,287	1,512
Other receivables, gross	40,192	39,268	103,044	96,264
Less: impairment of other receivables	—	—	—	(226)
Other receivables, net	40,192	39,268	103,044	96,038

Trade payables

Our trade payables represent amounts payable for purchases of raw materials and components from various suppliers. The credit period we obtain from our suppliers generally ranges from one month to six months.

Our trade payables decreased slightly from RMB109.7 million as at 31 December 2008 to RMB108.9 million as at 31 December 2009 primarily due to the impact of the global financial crisis in 2009, when we were given less favourable credit terms by our suppliers and we endeavoured to fully utilise our inventories. Our trade payables increased from RMB108.9 million as at 31 December 2009 to RMB269.2 million as at 31 December 2010, primarily due to (i) the fact that certain accounts payable that used to be inter-company debt owed to certain BVI affiliates became accounts payable to related parties when such BVI affiliates were excluded from our Group (for further details, please see "History, Reorganisation and Group Structure—Reorganisation—(7) Exclusion of the four operating BVI companies and restructuring of accounts payables to the BVI Companies") and (ii) a significant increase in the purchase of materials, property and equipment and in technical service fees in 2010 in line with the growth of our business. Our trade payables decreased to RMB188.7 million as at 30 June 2011, primarily because we settled the accounts payables owed to such BVI affiliates in the first half of 2011. As at 31 October 2011, RMB36.8 million, or 19.5%, of our trade payables outstanding as at 30 June 2011 had been settled.

The following table sets forth the aging analysis of our trade payables as at the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 6 months	88,575	80,251	245,239	112,451
6 months to 1 year	15,839	10,850	9,989	64,112
1 – 2 years	4,046	16,575	3,413	6,124
2 – 3 years	361	1,271	10,483	2,653
Over 3 years	847	—	86	3,381
	109,668	108,947	269,210	188,721

Most of our trade payables at the end of the relevant periods were due within one year. Our trade payables due up to six months as at 31 December 2008, 2009 and 2010 and as at 30 June 2011 accounted for approximately 80.8%, 73.7%, 91.1% and 59.6% of our total trade payables, respectively. Our trade payables due between two and three years increased from RMB1.3 million as at 31 December 2009 to RMB10.5 million as at 31 December 2010, primarily due to the fact that we have not paid for a portion of the service fees in an amount of RMB8.5 million in connection with services performed by a third party in 2008 as that third party is required to first perform post-sale maintenance and other services. As at 30 June 2011, the balance of the service fees was RMB3.3 million and we expect to fully settle the balance by the end of the first half of 2012.

The following table set forth the turnover days of our trade payables for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
Trade payables turnover days[1]	86	74	107	185

Note:

(1) Turnover days of trade payables = (beginning balance of trade payables for the period + ending balance of trade payables for the period)/2/operating costs (excluding employee benefit expenses, depreciation and amortisation and impairment loss on assets) x 360 days for a year (or 180 days for the six months ended 30 June 2011).

Our trade payables turnover days were 86 days in 2008, which decreased to 74 days in 2009 and increased to 107 days in 2010. The decrease of our trade payables turnover in 2009 was primarily because the amount of our trade payables remained stable as at 31 December 2009 compared with 31 December 2008 while our operating costs increased significantly between those days. The increase of our trade payables turnover days in 2010 was primarily due to the fact that the amount of our trade payables increased significantly as at 31 December 2010 as (i) certain amounts of accounts payables that used to be intercompany debt owed to certain BVI affiliates became debt owed to related parties when such BVI affiliates were excluded from our Group and (ii) there was a significant increase in the purchase of materials, technical services and property and equipment in 2010 in line with the growth of our business. Our trade payables turnover days increased to 185 days for the six months ended 30 June 2011, primarily due to the facts that (i) our trade payables generally increase in the first half of a year as we purchase large amounts of inventory in that period and (ii) our operating costs are generally lower in the first half of a year due to the seasonality of our business such that we generally perform more services in the second half of a year.

Accruals and other payables

In addition to trade payables, our payables also consist of the following:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties	15,965	16,406	883	1,860
Dividend payable	17,493	17,493	—	—
Interest payable	3,432	86	789	181
Others	43,571	45,949	8,594	4,811
Total financial liabilities	80,461	79,934	10,266	6,852
Customer deposits and receipts in advance	26,996	1,007	2,333	5,201
Payroll and welfare payable	8,884	10,079	9,492	13,341
Taxes other than income taxes payable(1)	1,874	17,056	39,023	12,350
Total non-financial liabilities	37,754	28,142	50,848	30,892
	118,215	108,076	61,114	37,744

Note:

(1) Taxes other than income taxes payable mainly comprise accruals for value-added tax.

Our accruals and other payables decreased from RMB118.2 million as at 31 December 2008 to RMB108.1 million as at 31 December 2009, primarily due to a decrease in customer deposits and receipts in advance, partially offset by an increase in (i) payroll and welfare payable as we recruited more employees, and (ii) taxes other than income taxes payable primarily due to an increase in accruals for value-added tax.

Our accruals and other payables decreased from RMB108.1 million as at 31 December 2009 to RMB61.1 million as at 31 December 2010, primarily due to a decrease in other accruals and other payables as we excluded from our Group certain BVI affiliates that had certain amounts of accruals and other payables in a reorganisation conducted in December 2010. See "History, Reorganisation and Group Structure—Reorganisation—(7) Exclusion of four operating BVI companies and restructuring of accounts payables to the BVI Companies" and "Risk Factors—We may be subject to potential tax liability of certain BVI companies that used to be part of our Group."

Our accruals and other payables decreased from RMB61.1 million as at 31 December 2010 to RMB37.7 million as at 30 June 2011, primarily due to the fact that the tax payable incurred in December 2010 by one of our subsidiaries in the PRC in the amount of approximately RMB14.9 million was settled in the first half of 2011.

The following table sets forth amounts payable to related parties as at the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties				
Mr. 王國強 (Mr. Wang Guoqiang)	9,764	9,441	453	447
Mr. 吳東方 (Mr. Wu Dongfang)	6,201	6,916	430	430
Ms. 沈翼 (Ms. Shen Yi)	—	49	—	—
Sinopetroleum International Limited	—	—	—	983
	15,965	16,406	883	1,860

The amounts payable to shareholders primarily consisted of our declared but unpaid dividends. The amount of approximately RMB1.0 million as at 30 June 2011 was an interest-free loan from Sinopetroleum International Limited. Our Directors confirm that the balances set forth in the table above were non-trade in nature, unsecured, interest-free and repayable on demand. Our Directors confirm that our amounts payable to shareholders will be fully settled before the completion of the Global Offering.

The following table sets forth an aging analysis of accrual and other payables as at the dates indicated:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 1 year	78,759	50,760	59,645	35,505
1 – 2 years	12,488	18,220	1,445	1,333
2 – 3 years	14,337	12,135	24	906
Over 3 years	12,631	26,961	—	—
	118,215	108,076	61,114	37,744

During the Track Record Period, a majority or a significant portion of our accruals and other payables were due within one year. Specifically, approximately 66.6%, 47.0%, 97.6% and 94.1% of our total accruals and other payables as at 31 December 2008, 2009 and 2010 and as at 30 June 2011, respectively, were due within one year.

Current Asset and Current Liability Position

The following table sets out our current assets, current liabilities and net current assets at the dates indicated:

	As at 31 December			As at 30 June	As at 30 September
	2008	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	166,932	193,863	211,065	265,686	317,627
Trade and notes receivables	294,068	340,294	445,142	339,901	357,419
Prepayments and other receivables	37,233	37,436	95,888	87,019	131,106
Restricted bank deposits	1,922	12,455	10,694	2,446	1,382
Cash and cash equivalents	106,920	106,512	166,721	83,246	77,053
	607,075	690,560	929,510	778,298	884,587
Current liabilities					
Borrowings	105,346	60,000	159,975	292,216	349,383
Trade payables	109,668	108,947	269,210	188,721	191,770
Accruals and other payables	118,215	108,076	61,114	37,744	44,723
Income tax liabilities	116,166	150,449	73,002	21,340	28,112
	449,395	427,472	563,301	540,021	613,988
Net current assets	157,680	263,088	366,209	238,277	270,599

Our inventories increased from RMB265.7 million as at 30 June 2011 to RMB317.6 million as at 30 September 2011, primarily because of an increase in our work in progress which consisted of materials costs, technical services expenses, employee benefits expenses and other operating costs which are classified as part of inventory in accordance with the accounting principles before relevant services had not been accepted by our customers. Our prepayment and other receivables increased from RMB87.0 million as at 30 June 2011 to RMB131.1 million as at 30 September 2011 primarily because we made prepayments for equipment and tools that are required for our services and for our trading business for delivery later in the year. Our borrowings increased from RMB292.2 million as at 30 June 2011 to RMB349.4 million as at 30 September 2011 primarily because we prepared inventory for more services in the second half of the year.

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

In general, we have the ability to generate adequate cash from our operations to fund our ongoing cash needs for our business operations. We may use short-term bank borrowings to finance operations and repay bank borrowings when we have surplus cash. We have not experienced in the past and do not expect, in the foreseeable future, to have any significant difficulties in meeting our repayment obligations when they become due. We will use a portion of the net proceeds from the Global Offering to fulfil our capital commitments for future operations and expansions.

To maintain an adequate level of liquidity, we review and analyse our inventory, accounts payable, accounts receivable and cash on a monthly basis, aim to match our accounts receivable with our accounts payable, and obtain bank borrowings if required. We also actively manage our inventory as part of our efforts to maintain adequate liquidity for our business. See "Business—Inventory."

Due to the seasonality of our business such that more services are typically provided in the second half of the year, our cash flow from operations is generally lower in the first half of the year. In the first half of 2011, our cash flow from operations was further impacted by a one-off tax payment of approximately RMB21.0 million in Canada in connection with our voluntarily disclosure of tax liabilities. See "Financial Information—Discussion of Certain Key Income Statement Items—Income tax expense."

To enhance our liquidity management, particularly in the first half of a year, we plan to increase the usage of bank acceptance bills in the payment of our accounts payable and are currently in discussions with several banks to seek financing based on service contracts we have signed with our customers. In addition, we may seek financing from banks based on letters of credit we receive from our trading business. We recently obtained a facility of up to US$20 million from CITIC Bank International Limited on 27 October 2011. We drew down US$10 million on 25 November 2011 and used it to repay a portion of our loans from related parties. We plan to use the remaining US$10 million to fund our general working capital requirements. See "—Indebtedness—Subsequent changes." Taking into account the facts that we had been able to fund our working capital requirements from our operations, had not experienced any material liquidity problems during the Track Record Period and are actively taking further measures to enhance the management of our liquidity position, our Directors are of the view that we do not face any material liquidity risk.

The following table sets forth a condensed summary of our consolidated cash flow statements for the periods indicated. Such summary of our consolidated statements of cash flow is extracted from the Accountant's Report included in Appendix I to this prospectus and should be read in conjunction with the financial statements included therein, including the notes thereto.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net cash generated from/(used in) operating activities	(16,781)	98,146	67,858	23,040	(17,541)
Net cash used in investing activities	(75,935)	(51,768)	(88,508)	(34,437)	(54,776)
Net cash generated from/(used in) financing activities	94,265	(44,401)	82,791	3	(10,440)
Cash and cash equivalents at end of the year/period	106,920	106,512	166,721	94,732	83,246

Operating activities

During the Track Record Period, we generated our cash flow from operating activities primarily through the receipt of payment for oilfield services we provided. Our cash flow from operating activities was used primarily for our increased working capital requirements and purchase of raw materials.

Our net cash used in operating activities for the six months ended 30 June 2011 was RMB17.5 million, while we had profit before income tax of RMB65.0 million. This difference was primarily attributable to (i) payment of RMB78.5 million in income tax, (ii) a decrease of trade payables of RMB68.7 million, (iii) an increase of inventories of RMB54.6 million, partially offset by (x) a decrease of trade and notes receivable of RMB104.2 million and (y) adjustment for depreciation charge of property, plant and equipment of RMB18.8 million.

The difference between our net cash from operating activities of RMB67.9 million and our profit before income tax of RMB175.6 million for the year ended 31 December 2010 was primarily attributable to (i) an increase in trade and notes receivables of RMB184.7 million, (ii) an increase in prepayments and other receivables of RMB70.9 million, and (iii) payment of RMB69.5 million in income tax, partially offset by (x) an increase in trade payables of RMB162.2 million, (y) adjustment for depreciation charge of property, plant and equipment of RMB31.4 million, and (z) adjustment for share-based payment of RMB31.0 million.

The difference between our net cash from operating activities of RMB98.1 million and our profit before income tax of RMB147.8 million for the year ended 31 December 2009 was primarily attributable to (i) an increase of trade and notes receivable of RMB46.2 million, (ii) payment of RMB37.4 million in income tax, (iii) an increase of inventories of RMB26.9 million and (iv) a decrease in accruals and other payables of RMB32.4 million, partially offset by (x) adjustment for net foreign exchange loss of RMB44.5 million, (y) adjustment for share-based payment of RMB33.0 million and (z) adjustment for depreciation of property, plant and equipment of RMB26.7 million.

Our net cash used in operating activities for the year ended 31 December 2008 was RMB16.8 million, while we had profit before income tax of RMB141.3 million. The difference is primarily attributable to (i) an increase of trade and notes receivable of RMB113.3 million, (ii) an increase of inventories of RMB103.8 million, and (iii) the payment of RMB50.1 million in income tax, partially offset by (x) adjustment for provision for impairment of inventories of RMB58.5 million, (y) an increase in trade payables of RMB29.9 million and (z) an increase in accruals and other payables of RMB26.2 million.

Investing activities

For the six months ended 30 June 2011, we had net cash used in investing activities of approximately RMB54.8 million, which was principally attributable to the RMB53.1 million used to purchase property, plant and equipment and the purchase of land use right of RMB6.5 million, partially offset by the proceeds of RMB4.8 million from the disposal of property, plant and equipment.

For the year ended 31 December 2010, we had net cash used in investing activities of approximately RMB88.5 million, which was principally attributable to the RMB98.5 million used to purchase property, plant and equipment, partially offset by the proceeds of RMB10.8 million from disposal of property, plant and equipment.

For the year ended 31 December 2009, we had net cash used in investing activities of approximately RMB51.8 million, which was principally attributable to the RMB62.8 million used to purchase property, plant and equipment, partially offset by the proceeds of RMB11.0 million from the disposal of property, plant and equipment.

For the year ended 31 December 2008, we had net cash used in investing activities of approximately RMB75.9 million, which was principally attributable to the RMB111.5 million used to purchase property, plant and equipment, partially offset by the proceeds of RMB35.6 million from the disposal of property, plant and equipment.

Financing activities

For the six months ended 30 June 2011, we had net cash used in financing activities of approximately RMB10.4 million, which was primarily attributable to (i) RMB126.3 million for the repayments of borrowings and (ii) RMB158.0 million for the consideration we paid to acquire certain subsidiaries, partially offset by RMB258.5 million of proceeds from borrowings.

For the year ended 31 December 2010, we had net cash generated from financing activities of approximately RMB82.8 million, which was mainly attributable to (i) RMB214.5 million of proceeds from borrowings and (ii) RMB8.0 million of contribution to our subsidiaries by their then equity owners, partially offset by (x) RMB114.5 million in the repayment of borrowings, (y) RMB15.2 million for deemed distribution to the equity owners, and (z) RMB9.9 million for the consideration we paid to acquire certain subsidiaries.

For the year ended 31 December 2009, we had net cash used in financing activities of approximately RMB44.4 million, which was mainly attributable to RMB110.3 million for the repayment of borrowings, partially offset by RMB65.0 million of proceeds from our borrowings.

For the year ended 31 December 2008, we had net cash generated from financing activities of approximately RMB94.3 million, which was primarily attributable to RMB125.3 million of proceeds from borrowings, partially offset by (x) RMB22.0 million in the repayment of our borrowings and (y) RMB10.0 million for dividend payments.

WORKING CAPITAL

Taking into account the net cash flow from operating activities, the available existing banking facilities and the estimated net proceeds from the Global Offering, our Directors believe that we have sufficient working capital to satisfy our current business needs and the needs for the 12 months following the date of this prospectus.

INDEBTEDNESS

We have financed our operations primarily through cash flows from operations, supplemented by loans from banks.

Borrowings

Our borrowings as at the balance sheet dates indicated are set forth below:

	As at 31 December			As at 30 June	As at 31 October
	2008	2009	2010	2011	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Bank borrowings					
– Unsecured	—	23,000	80,000	110,000	110,000
– Secured	37,000	37,000	79,975	13,199	102,171
Secured Convertible Notes	68,346	—	—	—	—
Loan from third party	—	—	—	35,000	25,000
Loan from related parties	-—	—	—	134,017	132,504
	105,346	60,000	159,975	292,216	369,675

Our total borrowings were RMB105.3 million, RMB60.0 million, RMB160.0 million, RMB292.2 million and RMB369.7 million as at 31 December 2008, 2009 and 2010 and 30 June and 31 October 2011, respectively. We did not have any long-term borrowings due more than one year during the same periods.

Bank Borrowings

Our bank borrowings increased from RMB37.0 million as at 31 December 2008 to RMB60.0 million as at 31 December 2009, and further increased to RMB160.0 million as at 31 December 2010, primarily due to the growth of our business and the expansion of our service portfolios, which led to an increased need for working capital. Our bank borrowings were RMB123.2 million as at 30 June 2011, and increased to RMB212.2 million as at 31 October 2011, because we obtained more bank borrowings to strengthen our working capital position, taking into account of the fact that we generate less cash from operations in the first half of a year and the need to prepare inventory for more services in the second half of the year.

As at the Latest Practicable Date, we had unutilised bank facilities of approximately RMB70.8 million, which include the second tranche of the bridge loan from CITIC Bank International Limited. All our bank loans are repayable within one year from the respective drawdown dates. All of our unsecured bank borrowings as at 31 October 2011 were denominated in RMB. Out of our secured bank borrowings of RMB102.2 million, RMB19.0 million are denominated in USD and secured by trade receivables of one of our Kazakhstan subsidiaries, and RMB83.2 million are denominated in RMB and are guaranteed by Mr. Wang, Mr. Wu and certain subsidiaries and secured by certain trade receivables of the Group. The guarantee provided by the Controlling Shareholders will be released prior to the completion of Global Offering. The bank loans carried interest rates of 5.3%-7.5%, 5.3%, 5.3%-6.1%, 5.3%-7.6% and 6.1%-8.5% in 2008, 2009 and 2010 and in the first half and ten months of 2011, respectively.

Secured Convertible Notes

The secured convertible notes with a principal of US$10.0 million were issued to and purchased by China Renaissance Capital Investment Inc ("CRIC") under the Subscription Agreement for Senior Secured Convertible Notes dated 9 September 2008 entered into by, among others, one of our subsidiaries and CRIC. The secured convertible notes carried an interest rate of 18% that was payable per annum. The entire outstanding principal and accrued interest were fully repaid in February 2009.

Loan from a third party

As at 30 June 2011, we have an unsecured loan of RMB35.0 million from a third party repayable within six months, bearing a fixed interest rate of 7.28% and denominated in RMB. Its carrying amount is approximately equal to its fair value due to the short maturity period. We borrowed the loan in April and June 2011 for working capital purposes. As at 31 October 2011, the outstanding amount was RMB25.0 million. We repaid an additional RMB15.0 million in November 2011 and the remaining RMB10.0 million will be repaid before the completion of the Global Offering. As advised by our PRC legal adviser, the lender advancing such loan to us is in breach of the General Lending Provisions of the PRC and as a result, the loan may be subject to cancellation and the lender may be subject to a fine up to five times the interest the lender received. However, we as the borrower would not be subject to any penalty.

Loan from related parties

As at 31 October 2011, we had unsecured interest-free loans of RMB132.5 million from related parties repayable on demand. The loans are denominated in RMB (in an amount of RMB68.0 million) and USD (in an amount of US$10.2 million). The loans from related parties will be fully repaid before the completion of the Global Offering.

Subsequent Changes

Our Company entered into a bridge term loan agreement with CITIC Bank International Limited on 27 October 2011. Under the loan agreement, the lender granted our Company a facility of up to US$20 million consisting of two tranches, each up to US$10 million and bearing an interest rate equal to the applicable London Interbank Offered Rate plus 2.5%. We will use the proceeds from the first tranche to repay a portion of our loans from related parties and will use the proceeds from the second tranche for our working capital requirements. We shall repay the first tranche at the earlier of (i) the fifth business day after the completion of the Global Offering or (ii) the one-anniversary of the execution date of the loan agreement and shall repay the second tranche at the one-year anniversary of the execution date of the loan agreement. We will use a portion of the net proceeds from the Global Offering to repay the first tranche. See "Use of Proceeds" of this prospectus. As security for the loan, an entity controlled by Mr. Wang and Mr. Wu provided a charge over one of its bank accounts, and Mr. Wang and Mr. Wu provided guarantee, in favour of the lender in connection with the first tranche of US$10 million. Both securities will be released before the completion of the Global Offering if the estimated net proceeds from the Global Offering are larger than the amount of the first tranche. The first tranche was drawn down on 25 November 2011 and was used to repay a portion of our loans from related parties on the same date.

CAPITAL COMMITMENTS

The following table presents our capital commitments as at the dates indicated.

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	282	354	4,636	1,700

GEARING RATIO

Our debt gearing ratio was 31.9%, 13.4%, 26.6% and 57.9%[1] as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively. The gearing ratio is calculated by dividing total borrowings by total equity as at the end of each period, and then multiplying by 100%. Our gearing ratio decreased from 31.9% as at 31 December 2008 to 13.4% as at 31 December 2009, primarily due to the fact we repaid the principal and the accrued interest under the secured convertible notes we issued to CRIC in September 2008, resulting in a substantial decrease in our borrowings. Our gearing ratio increased from 13.4% as at 31 December 2009 to 26.6% as at 31 December 2010, primarily due to a significant increase of RMB100.0 million in our bank borrowings. Our gearing ratio increased from 26.6% as at 31 December 2010 to 57.9% as at 30 June 2011, primarily due to the fact that we borrowed interest-free loans in an aggregate amount of RMB134.0 million from related parties in June 2011.

OPERATING LEASE ARRANGEMENTS

Our Group leases various offices, warehouses and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments under these non-cancellable operating leases are as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
No later than 1 year	1,884	9,542	11,126	18,631
Later than 1 year and no later than 5 years	2,670	23,026	24,754	19,918
Later than 5 years	749	639	—	—
	5,303	33,207	35,880	38,549

CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures were primarily related to the acquisition of manufacturing facilities and oilfield equipment for drilling services, completion services and reservoir services. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our capital expenditures for the purchase of manufacturing facilities and oilfield equipment were RMB111.5 million, RMB62.8 million, RMB98.5 million and RMB53.1 million, respectively.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have any material contingent liabilities or guarantees.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any off-balance sheet arrangements.

(1) The debt that were used to calculate the gearing ratio included RMB134.0 million of related party loan which is not interest bearing; excluding non-interest bearing loans, the gearing ratio is 31.4%.

MARKET RISKS

Foreign Exchange Risk

We mainly operate in the PRC, Kazakhstan and Canada with most of the transactions denominated and settled in RMB, KZT and CAD, respectively. Some of our Group's purchases from overseas are denominated in USD. Foreign exchange risk also arises from certain bank deposits denominated in foreign currencies. Our Group is exposed to foreign currency exchange risk primarily with respect to USD.

During the Track Record Period, we did not use any financial instrument to hedge the foreign exchange risk. However, we will manage our foreign currency risk by closely monitoring the foreign currency exposure and will consider hedging significant currency exposure should the need arise.

At 31 December 2008, 2009 and 2010 and 30 June 2010 and 2011, if RMB, KZT or CAD had weakened/strengthened by 5% against the USD with all other variables unchanged, our net profit before income tax for the year would have changed mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and cash equivalents, trade receivables and payables and foreign exchange losses/gains on translation of USD-denominated borrowings. Set forth below is the analysis of the increase and decrease in our profit before income tax as a result of a 5% appreciation or depreciation of RMB, KZT or CAD against USD for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
RMB against USD					
—Weakened 5%	(244)	3,913	(508)	213	(2,908)
—Strengthened 5%	244	(3,913)	508	(213)	2,908
KZT against USD					
—Weakened 5%	(4,377)	(6,231)	(4,346)	(4,412)	(4,350)
—Strengthened 5%	4,377	6,231	4,346	4,412	4,350
CAD against USD					
—Weakened 5%	(239)	(437)	(524)	(417)	(222)
—Strengthened 5%	239	437	524	417	222

Interest Rate Risk

Other than cash and cash equivalents, we have no significant interest-bearing assets, and our income and operating cash flows are substantially independent of changes in market interest rates.

Our borrowings were obtained at fixed rates, and expose us to fair value interest rate risk.

Credit Risk

Credit risk is managed by us at our headquarters. The carrying amounts of bank deposits, trade and notes receivables and other receivables (except for prepayments) included in the consolidated balance sheets represent our maximum exposure to credit risk in relation to our financial assets.

We have concentrations of credit risk. Five largest customers represented approximately 66.6%, 72.0%, 65.1%, 70.4% and 69.7% of our revenue for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011, respectively. These entities are all subsidiaries or affiliates of CNPC. Our largest outstanding amounts of accounts receivable from a single customer (including its affiliates) as at 31 December 2008, 2009 and 2010 and 30 June 2011 were RMB220.0 million, RMB312.6 million, RMB328.3 million and RMB265.5 million, respectively, all from CNPC (including its affiliates), a PRC state-owned enterprise of good credit quality. We have policies in place to ensure that sales of our services and products are made to customers with sufficient level of creditworthiness and we generally grant our customers a credit term of up to six months. Our Directors believe that adequate provisions have been made for our uncollected accounts receivable.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, all cash and cash equivalents, including restricted cash, were deposited with major financial institutions in the PRC, Kazakhstan, Canada, Hong Kong and Singapore, which we believe are of good credit quality. The table below shows our bank deposit balances as at 31 December 2008, 2009 and 2010 and 30 June 2011:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
PRC state-owned listed banks	24,402	36,372	91,372	30,361
Other listed banks	69,260	30,184	50,517	35,789
Kazakhstan government-owned banks	—	41,568	33,605	15,751
Others	15,180	10,843	1,921	3,791
Total	108,842	118,967	177,415	85,692

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation pursuant to Rules 13.13 to 13.19 of the Listing Rules.

DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, our Company did not have any reserves available for distribution to its Shareholders.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2011

All figures in this table are based on the assumption that the Over-allotment Option is not exercised.

Forecast consolidated profit attributable to equity shareholders of our Company for the year ending 31 December 2011[(1)]	RMB177.0 million (equivalent to approximately HK$217.1 million)
Unaudited pro forma forecast earnings per Share[(2)]	RMB0.13 (equivalent to approximately HK$0.16)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix III to this prospectus. Our Directors have prepared the forecast consolidated profit attributable to the equity shareholders of our Company based on the audited consolidated results of our Group for the six months ended 30 June 2011, the unaudited consolidated results of the Group based on management accounts of our Group for the three months ended 30 September 2011 and a forecast of the consolidated results of our Group for the remaining three months ending 31 December 2011. The forecast has been prepared on a basis consistent in all material aspects with the accounting policies presently adopted by our Company as set out in Note 3 of Section II in Appendix I to this prospectus.

(2) The unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit attributable to equity shareholders of the Company for the year ending 31 December 2011 by 1,335,000,000 Shares assumed to be issued and outstanding following the completion of the Global Offering and Capitalisation Issue and assuming the Over-allotment Option is not exercised. The 1,335,000,000 Shares following the completion of the Global Offering and Capitalisation Issue, is calculated based on 100,000,000 Shares issued and outstanding as of the Latest Practicable Date, 900,000,000 Shares to be issued pursuant to the Capitalisation Issue and 335,000,000 Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering and Capitalisation Issue were completed on 1 January 2011.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted consolidated net tangible assets of our Company that is based on the audited consolidated net tangible assets of our Company attributable to its shareholders as of 30 June 2011 as shown in the Accountant's Report included in Appendix I to this prospectus, adjusted as described below. The unaudited pro forma adjusted consolidated 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 financial position of our Group as of or after the completion of this Global Offering.

	Unadjusted audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as of 30 June 2011[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma net tangible assets	Unaudited pro forma net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB[3]	HK$
Based on an Offer Price of HK$1.23 per Share	476,053	283,148	759,201	0.57	0.70
Based on an Offer Price of HK$1.63 per Share	476,053	392,411	868,464	0.65	0.80

Notes:

(1) The unadjusted audited consolidated net tangible assets attributable to the equity holders of the Company as of 30 June 2011 of RMB476.1 million is derived from the audited consolidated net assets of the Group attributable to the Shareholders of the Company of RMB476.7 million with adjustments for the intangible assets of RMB0.6 million, as set out in the Accountant's Report in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.23 and HK$1.63 per Share, after deducting underwriting fees and other expenses directly related to the Global Offering and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustment for the estimated net proceeds from the Global Offering as described in Note (2) and on the basis of 1,335,000,000 Shares expected to be in issue immediately after the Global Offering and Capitalisation Issue. No account has been taken of the Shares which may be allotted and issued upon the exercise of the Over-allotment Option.

DIVIDEND AND DIVIDEND POLICY

We currently do not have a fixed dividend policy. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata in accordance with the number of Shares they hold.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. During the Track Record Period, we did not pay any dividends. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

PROPERTY INTERESTS

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued our property interests as of 30 September 2011 and is of the opinion that the value of our property interests is an aggregate amount of RMB47.1 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV—"Property Valuation" to this prospectus.

Disclosure of the reconciliation of the aggregate amount of net book value of our Group's property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB'000
Net book value of property interests as of 30 June 2011 (audited)	47,688
Less: property interest not subject to valuation	(19,909)
Net book value of property interests as at 30 June subject to valuation	27,779
Add: Addition for the month ended 30 September 2011	—
Less: Depreciation and amortisation for the month ended 30 September 2011	(457)
Net book value as of 30 September 2011 (unaudited)	27,322
Add: Valuation surplus as of 30 September 2011	19,778
Valuation as of 30 September 2011 as per Appendix IV to this prospectus	47,100

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since 30 June 2011, the date as at which the latest audited financial statements of our Group were prepared.