SPT Energy Group Inc.
華油能源集團有限公司 *

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1251

2011
Annual Report

* For identification purpose only

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SPT Energy Group Inc.
Annual Report 2011

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang
Mr. Wu Dongfang
Mr. Liu Ruoyan

Independent Non-Executive Directors

Ms. Chen Chunhua
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

AUDIT COMMITTEE

Mr. Wu Kwok Keung Andrew *(Chairman)*
Ms. Chen Chunhua
Mr. Wan Kah Ming

REMUNERATION COMMITTEE

Ms. Chen Chunhua *(Chairman)*
Mr. Wang Guoqiang
Mr. Wu Kwok Keung Andrew

NOMINATION COMMITTEE

Mr. Wang Guoqiang *(Chairman)*
Ms. Chen Chunhua
Mr. Wu Kwok Keung Andrew

AUTHORISED REPRESENTATIVES

Mr. Wang Guoqiang
Ms. Mok Ming Wai

COMPANY SECRETARY

Ms. Mok Ming Wai *(FCIS, FCS)*

COMPANY WEBSITE

www.spt.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN PRC

7–8/F, Tower B
Desheng International Center
No. 83 Dewai Street
Xicheng District
Beijing 100088
The PRC

REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804, George Town
Grand Cayman KY1-1112
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
P.O. Box 1350
Grand Cayman KYI-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

As to Hong Kong Law
Morrison & Foerster

As to PRC law
Commerce & Finance Law Offices

As to the Cayman Islands law
Appleby

COMPLIANCE ADVISER

Haitong International Capital Limited

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
China Construction Bank
Huaxia Bank
CITIC Bank
Bank of Kunlun Company Limited
Bank of China

INVESTOR RELATIONS

iPR Ogilvy Ltd.

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

1251

DATE OF LISTING

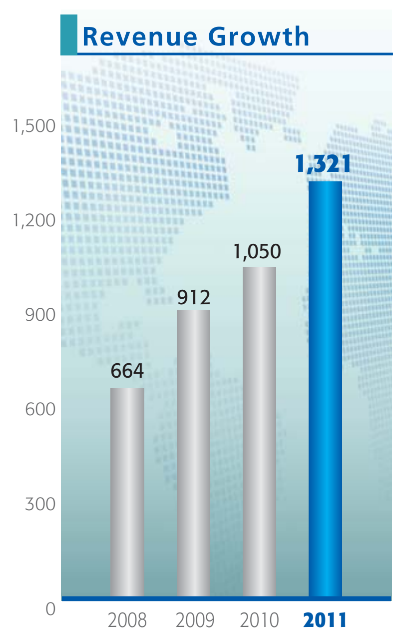
23 December 2011

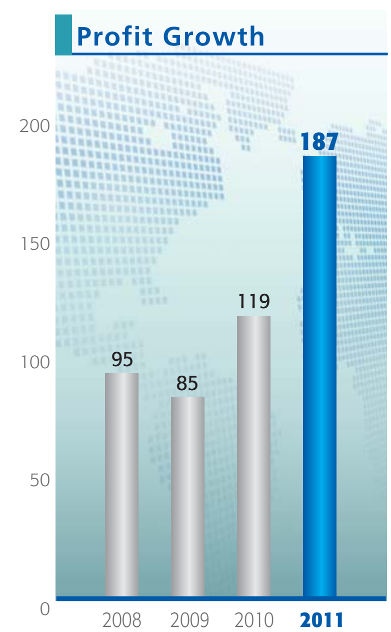
Financial Summary

The following financial information is extracted from the consolidated financial statements of the Group, which is prepared under the International Financial Reporting Standards:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Year ended for 31 December			
RMB'000	**2011**	2010	2009	2008
Revenue	**1,321,260**	1,050,432	911,526	663,872
Other (losses)/gains, net	**(7,760)**	4,206	(44,630)	18,169
Operating costs	**(1,037,851)**	(873,705)	(713,811)	(535,349)
Operating profit	**275,649**	180,933	153,085	146,692
Finance cost, net	**(13,999)**	(5,350)	(5,304)	(5,422)
Profit before income tax	**261,650**	175,583	147,781	141,270
Profit for the year	**186,583**	119,443	84,803	95,344
Attributable to:				
Equity owners of the Company	**181,806**	119,509	84,803	95,344
Non-controlling interests	**4,777**	(66)	—	—
Dividends proposed after balance sheet date	**13,350**	—	—	—

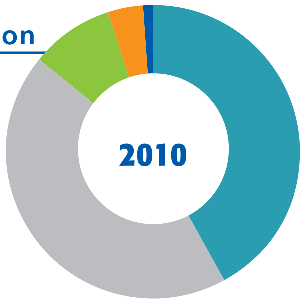




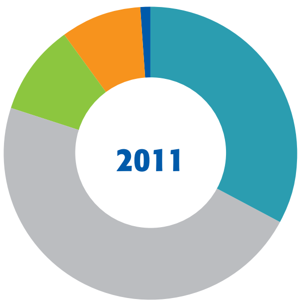
Financial Summary

Revenue by Region

- China: 441,847
- Kazakhstan: 462,137
- Canada: 91,375
- Singapore: 40,549
- Others: 14,524

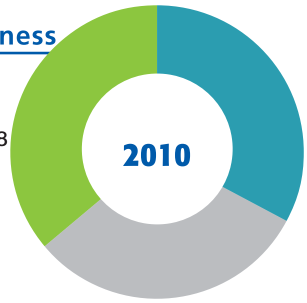


- China: 434,443
- Kazakhstan: 615,607
- Canada: 131,393
- Singapore: 113,507
- Others: 26,310

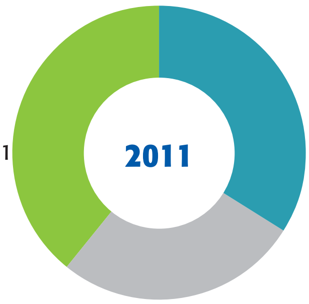


Revenue by Business

- Drilling: 343,822
- Well completion: 323,808
- Reservoir: 382,802



- Drilling: 450,798
- Well completion: 354,911
- Reservoir: 515,551



CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December			
RMB'000	**2011**	2010	2009	2008
Asset				
Non-current asset	**284,416**	236,175	184,427	173,965
Current asset	**1,184,351**	929,510	690,560	607,075
Total asset	**1,468,767**	1,165,685	874,987	781,040
Total equity	**903,789**	601,950	447,081	330,585
Liability				
Non-current liabilities	**16,700**	434	434	1,060
Current liabilities	**548,278**	563,301	427,472	449,395
Total liabilities	**564,978**	563,735	427,906	450,455
Total equity and liabilities	**1,468,767**	1,165,685	874,987	781,040
Net current assets	**636,073**	366,209	263,088	157,680
Total assets less current liabilities	**920,489**	602,384	447,515	331,645

Chairman's Statement

We are trying our best to become the first-class international energy service enterprise.

Wang Guoqiang
Executive Director and Chairman

On behalf of the board of directors (the "Board") of SPT Energy Group Inc. (the "Company" or "SPT Energy Group", together with its subsidiaries, the "Group"), I present the annual report of the Group for the year ended 31 December 2011 to each shareholder.

In 2011, the Group recorded a revenue of RMB1,321.3 million, and profits after tax of RMB186.6 million for the year, representing an increase of 25.8% and 56.2%, respectively, as compared to last year.

As the global economy is recovering, the price of international crude oil futures will continue to remain high and the investment in exploration and development by oil companies is still on the rise, the oilfield services industry remains promising.

As one of the leading Chinese non-state-owned providers of integrated oilfield services, SPT Energy Group always adheres to the service tenet of "providing integrated solutions and serving our customers", upholds the operation philosophy of "environmental protection priority, safety first, quality foremost, people-oriented", and is prepared to expedite its business scale into the global market, promote internationalization and greatly enhance its strengths in technology and management, all of these have led to remarkable operation results.

In 2011, in terms of technical capability building, the Group strengthened the reservoir geological research, which in turn promoted the development in the relevant services and technologies regarding drilling and well completion, production enhancement technology and oil production technology, and enhanced the capability in providing integrated solutions. Meanwhile, as for unconventional gas with great potential, such as shale gas and CBM, the Group actively adopted, researched and developed and applied advanced technologies of exploration and development. We successfully provided one well drilling fluid services and fracturing services operation for the first batch of horizontal shale gas wells of CNPC in Sichuan, and CBM turnkey drilling operations for one well in Indonesia, which marked that the Group has achieved a substantial progress in the exploration and development technologies of unconventional gas.

In 2011, in terms of market development, the Group strengthened its marketing team in both international and domestic markets, and enhanced the skills of marketing personnel. In addition to conventional markets, such as Central Asia and North America, which maintained continuous growth, in some new overseas markets such as Southeast Asia and the Middle East, we enhanced cooperations and technical communication with target customers and reached the cooperation intention for certain projects, which further expanded our overseas market. In China, the Group continues to maintain a leading market position in the high-end well completion services market in Tarim Oilfield, and we have also in other markets, such as Changqing and Sichuan, achieved significant progress a boom and strong momentum.

In 2011, in terms of strengthening internal management, the Group adjusted and improved the organization structure, duties and composition of specialized committees under the Board in order to maintain strict compliance with the requirements of the regulatory authorities and to clearly divide their functions and duties. During the year, specialized committees under the Board worked out a set of valuable proposals for the sustainable development of SPT Energy Group and the enhancement of corporate governance, which provided supports for the operations of the management team and facilitated the healthy development of the Group. In particular, the Board made fruitful efforts in the internationalization of our operation, corporate governance and social responsibilities.

On 23 December 2011, the shares of SPT Energy Group were officially listed on The Stock Exchange of Hong Kong Limited. Standing at a new starting point, the Group is facing new opportunities and challenges. Looking ahead, we firmly believe that as long as we are able to face up to risks, capture opportunities, properly assess situations for a steady growth, the Group can achieve a high-speed and sustainable development, which will bring more valuable returns and benefits to our investors.

We would like to express our heartfelt gratitude to our customers, partners and investors for their support and help. Meanwhile, we would also like to express sincere appreciation to more than 1,900 employees of the Group for their hard-work for serving worldwide customers. Looking ahead to 2012, let's work together closely and create a new glorious chapter.


川庆油气井测试

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2011, the Group recorded revenue of RMB1,321.3 million, representing an increase of 25.8% as compared to the year of 2010, and profits after tax of RMB186.6 million for the year, representing an increase of 56.2% as compared to the year of 2010.

As a leading Chinese non-state-owned integrated oilfield services provider, the Group is primarily engaged in three businesses segments, namely, drilling services, well completion services and reservoir services, covering the major aspects of oilfield exploration and production industry chain, and occupied a leading market position in China high-end gas well completion market. According to the analysis report of Spears and Associates, the Group owned 75% of the market share in the high-end well completion market in the Tarim Oilfield of China in 2010. In 2011, we continued to adhere to the principle of "providing integrated solutions and serving our customers", focus on strengthening our capability in the relevant services and upgrading technologies regarding the reservoir research, drilling and well completion, production enhancement and oil production, and made significant achievements in talent pool, technology upgrading and other aspects. In particular, the Group achieved a significant breakthrough in the core technologies of exploration and development of unconventional gas with great potential, such as shale gas and coal bed methane. In 2011, the Group successfully carried out drilling fluid services and fracturing services for the first batch of horizontal shale gas wells of China National Petroleum Corporation ("CNPC") in Sichuan, and Coalbed Methane ("CBM") turnkey drilling operations for one well in Indonesia, which marked that the Group has achieved a substantial progress in the exploration and development technologies of unconventional gas.

The Group is one of the few non-state-owned enterprises in providing large-scale overseas oilfield services in China and has over 10 years' experience of oilfield services in overseas markets with wide business coverage in major oil and gas production regions around the world such as China, Central Asia, North America, Southeast Asia and the Middle East. In 2011, the overseas and domestic markets of the Group have made great progress. In overseas markets, in 2011, the Group strengthened the marketing team in some new overseas markets in Southeast Asia and the Middle East, leading to a significant increase in the number and quality of marketing personnel, and reached the cooperation intention with certain potential target customers, which enabled our overseas market share to be further consolidated and enhanced. During the year, the revenue generated from foreign operations amounted RMB886.8 million, representing 67.1% of our total revenue. The income generated from overseas market increased by 45.7% as compared to the corresponding period last year, which continued to maintain its leading edges in scale. In domestic market, the operations in the Tarim Oilfield market remained stable, and the scale in other markets increased significantly as compared to that of 2010. Especially, the revenue generated from Changqing Market amounted to RMB56.0 million, representing an increase of 123.9% as compared to the corresponding period of 2010, and there still exists a huge potential for growth.

REVENUE ANALYSIS

In 2011, the analysis of each main business segment of our Group is as follows (with tables):

	2011 RMB'000	2010 RMB'000
Drilling	**450,798**	343,822
Well completion	**354,911**	323,808
Reservoir	**515,551**	382,802
Total	**1,321,260**	1,050,432

DRILLING SEGMENT

In 2011, the Group recorded revenue of RMB450.8 million from drilling, representing an increase of 31.1% as compared to the corresponding period last year. In the domestic market, we continued to maintain its leading advantage in high-end drilling services for gas wells (such as Fine-Managed Pressure Drilling, oil-base mud services) in Tarim Oilfield market and the Group successfully provided the shale gas drilling fluid technical services for a well in Sichuan Oilfield of CPNC, which indicated that we made another significant breakthrough in the exploration and development of shale gas in addition to the fracuring and acidising. This has enabled the Group to grasp more opportunities in such huge potential services market of unconventional natural gas. In the overseas markets, in 2011, the Group successfully completed CBM turnkey drilling operations (煤層氣鑽井總包作業) for a well in Indonesia, which served as a sound foundation for future rapid development of the Group in the field of unconventional gas in this region. In 2011, the Group achieved significant progress in drilling and well workover services in the market of Kazakhstan. As at the end of 2011, the Group had 17 well-drilling and repairing rigs under its actual control, and thus formed a scale operation of well drilling and workover business.

WELL COMPLETION SEGMENT

In 2011, the Group recorded revenue of RMB354.9 million from well completion, representing an increase of 9.6% as compared to the corresponding period last year. For well completion string services, in 2011, the Group continued to maintain its leading position of high-end oil and gas well completion services in Tarim Oilfield in West China; and the Group has also strengthened its business expansion efforts in some major gas fields in Changqing and Xichuan, etc., which resulted in a significant growth in

the operating results as compared to that of 2011. For our overseas markets, in 2011, to resolve the problem of poor production enhancement by conventional fracturing for deep wells in the market of Kazakhstan, the Group successfully completed the sectional reconstruction operations for five wells and maintained its leading edges of well completion operations in this region. For acid fracturing services, other than continuing to maintain a stable operation scale in regular fracturing services in Kazakhstan, the Group also achieved major breakthroughs in two regions in the country. Among others, the Group obtained a fracturing service contract in respect of the first batch of two shale gas horizontal wells of CNPC that was acquired through a successful tender in that year, and successfully completed the fracturing services for one well. This proved our technical capability of fracturing services in the field of domestic shale gas exploration and development technical services. In addition, the Group won a tender and completed the fracturing services for three wells in Turpan-Hami oilfield in the west of China. As a result, the oil production was enhanced and the quality of operation was highly recognised by oil companies. We expect to achieve a greater growth potential in 2012.

RESERVOIR SEGMENT

In 2011, the Group recorded a revenue of RMB515.6 million from our reservoir segment, representing an increase of 34.7% over the corresponding period last year. The reservoir services in overseas market realized a revenue of RMB453.6 million. Our business of overseas reservoir services is mainly in Kazakhstan, North America and Indonesia. In 2011, apart from a rapid development of the dynamic monitoring and oil testing services, the newly expanded annual maintenance service for the compressors in Kazakhstan grew rapidly and recorded a revenue of RMB35.1 million for the year of 2011, which created another stable revenue source for such reservoir services. The reservoir services in domestic market realized a revenue of RMB62.0 million. The successful expansion of in-situ combustion business in Liaohe Oilfield accumulated valuable results and experience for the Group in respect of oil production technology for heavy oil wells. The Carbon Capture and Storage Permanent Monitoring Project of Shenhua Group achieved a goal of concurrently monitoring in four layers of one well, which proved a leading advantage of the Group in monitoring technology. To resolve the problems of downhole pressure depletion making the oil difficult to extract in the late stage of oil extraction, the Group developed a new technology of oil production, i.e. the negative pressure gas lift technology, and successfully applied such technology in an overseas oilfield. This new technology solved a major technical problem as it enables the old wells to constantly maintain a stable oil production in case the conventional gas lift technology fails to work. The Company believes such technology has a huge prospect for development.

The Group continued to strengthen its capability in the reservoir geological research in 2011. For the year ended 31 December 2011, the Group had a total of 20 senior experts of reservoir geological research, which enhanced the Group's capability for participating in early exploration, oilfield design and evaluation phases. This has strengthened the ability of the Group to provide more reasonable solutions for subsequent integrated services, and also further laid a strong foundation for the Company's strategy of providing integrated solutions by focusing on reservoir research.

MARKET AND INDUSTRY

For the purpose of 2012, the Group is of the view that the overall situation of the market remains active and favorable, with the following main features:

- The PRC government will further enforce the development of crude oil and gas. Following the goals of the 12th Five-Year Plan on National Economic and Social Development, during the 12th Five-Year period, China will increase efforts to explore and develop oil and natural gas resources, stabilize domestic oil production, promote the rapid growth of natural gas production, boost the development and utilization of non-conventional oil and natural gas resources, such as CBM, shale gas, etc. In particular, it will focus on exploring the oil and gas area of offshore, major oil and gas basins and new onshore oil and gas area adhering to the principle of "Stabilizing the East, Accelerating the West, Exploring the Offshore Areas and Expanding Overseas"; significantly improving the recovery rate of the oil and gas fields by utilizing advanced technologies; promoting the rapid growth of the natural gas industry; strengthening the cooperation with overseas oil and gas resources.

- Central Asia, the Middle East and Southeast Asia will still be the major oil and gas development areas. According to Spears and Associates, in 2010, the total estimated capital expenditure for the drilling services, well completion services, and reservoir services provided by the Group in its current markets (i.e. China, Central Asia, Southeast Asia, the Middle East and North America) amounted to US$99.5 billion. Furthermore, the onshore drilling services, well completion services and reservoir services in the markets in which the Group currently involved in are expected to grow at a compound annual growth rate of 6.7% from 2010 to 2020, and will reach US$191 billion in 2020.

- The exploration of non-conventional oil and gas resources attracts extensive attention. With a declining of the global conventional oil and gas reserves and increasing difficulty in reserves and production enhancement, the non-conventional oil and gas resources shows its increasingly important strategic position, and especially the exploration of shale gas will play an increasingly important position in China. China has affluent shale gas reserves. According to Developing Program on Shale Gas (2011–2015) (《頁岩氣發展規劃（2011–2015年)》) issued by the NDRC of China, the task during the 12th Five-Year Plan will be completing the preliminarily researching and evaluation on shale gas to have a initial knowledge of resources and locations of shale gas, selecting 30 to 50 prospect areas and 50 to 80 targeting areas; discovery of 600 billion cubic metres of shale gas abundance and 200 billion cubic metres of shale gas exploration abundance. It is expected that these will be to achieve 6.5 billion cubic metres of shale gas production during 2015.

- Demand for the integrated services: with the increasing difficulty and complexity of the exploration and development of the oil fields, the oil companies are inclined to choose a comprehensive and integrated turnkey operation services, and such outsourcing service mode requires that a service company is able to provide an integrated services ranging from the reservoir geographical research to drilling, well completion and the subsequent oil testing, even production enhancement services. Compared with the original contracting model,

such turnkey service model enables and ensures a clear division of responsibilities, effective control of the timing and the costs and better compatibility of the products and services. Especially for the complicated and difficult well operations, this model has been increasingly favored by the oil companies.

- The Chinese state-owned oil companies step up their expansion in the overseas markets. In China, demand for the crude oil and natural gas currently exceeds the production in the domestic market. Thus, the oil companies and Chinese government attach great importance to the overseas oil and gas resources reserves. At present, the three largest state-owned oil companies are actively seeking merger and acquisition opportunities in the overseas oil and gas resources sector, and such trend will continue for a long period of time in future. According to Spears and Associates, it is expected that the investment for overseas acquisitions conducted by CNPC will be at least US$60 billion over the next decade, and CNPC has invested over US$ 6.2 billion for the upstream and downstream assets in Australia, Canada, Singapore and Central Asia areas in the past ten years.

DEVELOPMENT STRATEGIES

As one of the leading Chinese integrated oilfield technology service providers, the Group has been focusing on both domestic market and overseas market and has been delivering integrated services in the market as its business development strategies. Currently, the Group is in leading position in the domestic market for gas well and high-end well completion while the overseas market layout is initially completed. In order to further enhance the Group's overall competitiveness and seize the various opportunities from the future industry development, the Group will continue to uphold and implement the following development strategies:

1. To continue to increase the efforts in expanding overseas business, especially strengthening the business expansion in Central Asia, Middle East, Southeast Asia and regions with rich oil and gas resources.

2. To further foster the relationship with clients and intensify service scope. Through its specific long term and in-depth research on reservoir geology, to give more support to the oilfield in early stage of assessment and in later stage of development and hence boost the overall development of the Group's integrated business. To further improve its own supply-chain system, seek and develop more alliance and partnership, strengthening the Group's capabilities for integrated services.

3. To enhance the technological ability of key projects. Targeting the market of shale gas and coal bed methane, to introduce and master the related drilling technology and well completion technique as well as preparing related technology reserves.

4. Based on the existing basis of strategic development, to increase its efforts in R&D so as to support the Group's subsequent technological development.

5. To explore appropriate acquisition opportunities and keep improving and enhancing the Company's products and services. Merger and acquisition can help the Group to shorten the time for developing and accumulating new technologies. The Group will conduct research and assessment so as to seek to acquire and merge with companies with special technology and products, and continue to improve and enhance the product and service portfolio.

R&D AND MANUFACTURING

The oilfield technical service a technology-intensive industry. Following the increasing difficulty in oilfield exploration and development, the capability in developing and applying new technologies is the key of achieving long-term sustainable development and grasping market opportunities for the service companies. According to its development plan, the Group will make great efforts in developing the R&D and manufacturing sector for the coming three to five years. In 2011, the Group's R&D expenses amounted to RMB20.5 million during the period. The Group has planned to spend RMB200 million in the coming three years for the construction of R&D and manufacturing centers in Tanggu, Tianjin City, China and Singapore, focusing on the research and development of related completion tools, downhole testing equipments, directional drilling tools as well as fracturing materials for oil and gas wells. Through these R&D efforts, the Group is able to:

1. promote the Group's technological advancement in several areas including drilling well, well completion, production capacity enhancement. With the wide application of horizontal well drilling and well fracturing technology in the process of oil and gas exploration and development, especially for shale gas, these core service technologies will have great development prospect.

2. significantly reduce the Group's principle business cost, optimize its cost structure through R&D and independent production, and hence increase the profitability. Currently, the Group's factories in Tanggu and Singapore are expected to commence on mass-production in this year.

HUMAN RESOURCES

The year of 2011 is crucial for the Group's human resources development. In order to maintain the Group's competitive edge as well as attract and retain high caliber professional expert and management talents, the Group increased its efforts in recruiting and training talents to expand its talent pool in particular having built up a team of senior management, high-end engineering and R&D technicians. A number of senior management and senior technicians, who have work experience with international renowned companies in providing oil and gas technical services, joined the Group in 2011. Their leading roles will be essential in the Group's future business growth.

Along the rapid growth of its international business, the Group made a great progress on staff localization in international business regions. The proportion of non-Chinese staff is increasing year by year, leading to remarkable achievement in intercultural management and globalization of human resources management. As at 31 December 2011, the total headcounts of the Group is 1,962. Among all staff, there are 1,015 Chinese staff and 947 overseas local staff.

The Group adopts a remuneration policy with a combination of employees' salaries, bonuses and allowances. The companies comprising the Group participate in various social welfare schemes in accordance with the legal requirements of the jurisdictions in which the companies operate, including pension and medical insurance, industrial injury insurance and other statutory welfare schemes. In order to attract, retain and train the talents, the Group will reinforce its efforts in motivating its employees in 2012 under the premise of reasonably controlling the total labor costs. Specially, for the purpose of attracting and retaining the crucial staff in key positions, the Group will duly implement the share option scheme and grant the options to some staff in 2012. In addition, the Group will further strengthen its trainings by providing the targeted technical and managerial trainings to its employees so as to accelerate the talents training and enhance the capacity construction of the talent team.

OUTLOOK

Looking ahead for 2012, the Group is of the view that the oil companies will put greater efforts in oilfield exploration and production to accelerate the rate of proved oil and gas reserves and to meet the increasing demand for oil and gas. The prospect of the overall industry is positive. Gas exploitation, including exploitation of unconventional gas, is still a popular area for the investment in the industry. Central Asia, the Middle East and Southeast Asia, which are the areas with rich in oil and gas, will be the popular regions with the fastest growth in investment.

- Our Group's products and services cover the main aspects of oil and gas exploration and production and can meet the demand of oil companies for the integrated turnkey service. In particular, as result of our proven track record in the high-end market in China, we have a competitive advantage in integrated oil and gas project in sophisticated geological conditions;

- As our Group has completed overseas market layout, other than the Central Asia markets which will maintain a strong growth, various markets in Southeast Asia and the Middle East are expected to develop rapidly in 2012 and realize the large-scale benefits.

- The exploration and development technical services of unconventional gas are expect to become a new driver for the business growth of the Company in 2012 and occupy an increasingly important strategic position in the subsequent development of the business. It will have a huge potential for development.

- Strong development in the R&D and production not only improve and upgrade the relevant products and services but also improve cost structure of the Group and further increase the profitability.

As discussed above, with the favorable external environment, the Group may achieve better results in 2012 and further promote such development trend in the coming three to five years.

FINANCIAL REVIEW

Revenue

The revenue of the Group in 2011 was RMB1,321.3 million, representing an increase of RMB270.8 million, or 25.8%, as compared with 2010. The increase in revenue of the Group was primarily due to the growth in oil reservoir and drilling businesses, which brought to the increase in oil reservoir and drilling segments of 34.7% and 31.1%, respectively, as compared with 2010.

Other (losses)/gains, net

We had net other losses of RMB7.8 million for the year ended 31 December 2011 while we had net other gains of RMB4.2 million for the year ended 31 December 2010. Our net other losses for the year ended 31 December 2011 were primarily due to the appreciation in value of USD-denominated payables of our Kazakhstan subsidiaries against KZT, and the depreciation of USD-denominated receivables of our PRC subsidiaries against RMB. Our net other gains for the year ended 31 December 2010 were primarily due to the depreciation in value of USD-denominated payables of our PRC subsidiaries against RMB.

Material costs

For the year ended 31 December 2011, material costs of the Group was RMB363.4 million, representing an increase of RMB98.5 million, or 37.2%, as compared with 2010. The increase was mainly due to the growth in oil reservoir and drilling businesses.

Employee benefit expenses

Our employee benefit expenses for the year ended 31 December 2011 was approximately RMB253.0 million, representing an increase of RMB44.0 million, or 21.1%, as compared with 2010. The increase was primarily due to the increase in the numbers of employees in line with the growth of our business and the increase of average salary of employees.

Operating lease expenses

Our operating lease expenses for the year ended 31 December 2011 was approximately RMB48.1 million, representing an increase of RMB11.7 million, or 32.0%, as compared with 2010. The increase was primarily due to an increase in the number of operating vehicles leased by us for providing oilfield services, particularly oil reservoir services and drilling services, as well as the increase in leased offices.

Transportation costs

For the year ended 31 December 2011, our transportation costs was approximately RMB66.3 million, representing an increase of RMB15.1 million, or 29.5%, as compared with 2010. The increase was primarily due to business growth of the Group.

Depreciation and amortisation

Our depreciation and amortisation expenses for the year ended 31 December 2011 was approximately RMB43.6 million, representing an increase of RMB12.0 million, or 38.1% as compared with 2010. The increase was primarily due to an increase in machinery and equipment used in oilfield services of the Group, particularly machinery and equipment required for drilling and oil reservoir services.

Technical service expenses

Our technical service expenses for the year ended 31 December 2011 was approximately RMB93.0 million, representing a decrease of RMB46.4 million, or 33.3%, as compared with 2010. The decrease was primarily due to the changes in our business structure, in particular the decrease in the number of outsource of subcontracting work.

Impairment loss of assets

Our impairment loss of assets for the year ended 31 December 2011 was approximately RMB9.3 million, which represents the impairment loss relating to a trade receivable due from a Kazakhstan customer of the Group.

Others

Other operating costs of our Group for the year ended 31 December 2011 increased from RMB141.3 million for the year ended 31 December 2010 to RMB161.3 million, representing an increase of RMB20.0 million, or 14.1%. The increase was primarily relating to the expenses arising from the initial global offering of the Company, partially offset by the decrease of entertainment expenses and travelling expenses.

Operating profit

As a result of the foregoing, our operating profit increased from RMB180.9 million for the year ended 31 December 2010 to approximately RMB275.6 million for the year ended 31 December 2011, representing a growth of RMB94.7 million, or 52.4%. Our operating profit margin (operating profit divided by revenue) for 2011 was 20.9%, presenting an increase of 3.7 percentages as compared with 17.2% for 2010.

Net finance costs

Our net finance costs for the year ended 31 December 2011 was approximately RMB14.0 million, representing an increase of RMB8.6 million, or 161.7%, from RMB5.4 million for the year ended 31 December 2010. The increase was mainly due to an increase in our bank borrowings.

Income tax expense

Our income tax expense for the year ended 31 December 2011 was approximately RMB75.1 million, representing an increase of about RMB18.9 million, or 33.7%, from RMB56.1 million for the year ended 31 December 2010. The Group's effective income tax rate (income tax expense/profit before income tax) of 2011 was 28.7%, representing a decrease of 3.3 percentages as compared with 32.0% of 2010. The decrease was primarily due to the fact that our Kazakhstan subsidiaries which are subject to 20% income tax rate contributed more profit in 2011 as compared to 2010, which lower the Group's effective tax rate.

Profit for the year

As a result of the foregoing, our profit for the year ended 31 December 2011 was approximately RMB186.6 million, representing an increase of RMB67.1 million, or 56.2%, from RMB119.4 million for the year ended 31 December 2010.

Profit attributable to the equity owners of the Company

In 2011, our profit attributable to the equity owners of the Company was approximately RMB181.8 million, representing an increase of RMB62.3 million, or 52.1%, as compared with the same period of 2010.

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 2011 and 2010, property, plant and equipment were approximately RMB214.6 million and RMB196.4 million, respectively. The increase in 2011 was primarily due to our business expansion, which led to the demand for more buildings, machinery and equipment.

Inventory

Our inventory balance increased from RMB211.1 million as at 31 December 2010 to RMB245.1 million as at 31 December 2011, representing an increase of RMB34.0 million, or 16.1%. The increase of inventory is in line with the growth of our business for which, we prepared in advance more inventories for our services that will be rendered in 2012.

Trade receivables

As at 31 December 2011, the net trade receivables was RMB577.1 million, representing an increase of RMB131.9 million as compared with 2010. The increase was primarily due to a substantial increase in revenue. The average turnover days of trade receivables in 2011 were 141 days, which was almost the same as that of 2010. (Note: Turnover days of trade receivables are equal to the sum of the balance of trade receivables at the beginning of the year and the balance of trade receivables at the end of the year divided by 2 and divided by the revenue and multiplied by 365 days per year).

Liquidity and capital resources

As at 31 December 2011, our cash and bank deposits were approximately RMB303.4 million (including restricted bank deposits of RMB2.0 million and cash and cash equivalents), representing an increase of RMB126.0 million as compared with the same period of 2010. The increase was primarily due to the Company's initial global offering in December of 2011.

As at 31 December 2011, our outstanding short-term bank borrowings and the current portion of long-term bank borrowings were RMB210.7 million, while our outstanding long-term borrowings were RMB9.1 million.

As at 31 December 2011, our gearing ratio was 24.3%, representing a decrease of 2.3 percentages as compared with the gearing ratio of 26.6% in year 2010. The decrease was mainly due to the offer of shares in the initial global offering. Gearing ratio is calculated as total borrowings divided by total equity. Total borrowings include borrowings and current portion of long-term borrowings as shown in the consolidated balance sheet.

Our equity attributable to the equity owners of the Company increased from approximately RMB602.0 million in 2010 to approximately RMB870.3 million in 2011. The increase was primarily due to the Company's initial global offering and profit of 2011.

Cash flow from operating activities

In 2011, cash inflows generated from operating activities were approximately RMB31.5 million, while the cash inflows in year 2010 were approximately RMB67.9 million, which was primarily due to increase in interest paid and income tax paid.

Cash flow from investing and financing activities

For the year ended 31 December 2011, we had net cash used in investing activities of approximately RMB84.6 million, which was primarily attributable to the RMB83.1 million used to purchase property, plant and equipment and RMB6.5 million used to obtain land use right, partially offset by the proceeds of RMB5.2 million from the disposal of property, plant and equipment.

For the year ended 31 December 2011, we had net cash generated from financing activities of approximately RMB190.7 million, which was mainly attributable to (i) RMB515.5 million of proceeds from borrowings, and (ii) RMB15.4 million of contribution to subsidiaries by their then equity owners, and (iii) RMB334.7 million of proceeds from the Company's initial global offering, partially offset by (a) RMB455.7 million in the repayment of borrowings, (b) RMB158.0 million for the consideration we paid to acquire certain subsidiaries, and (c) RMB61.2 million for payment of fees related to the initial global offering.

Foreign exchange risk

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

During the financial year, the Group 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.

Contractual Obligations

Our contractual commitment mainly includes the capital expenditure commitments and the repayments under operating lease arrangements. The capital expenditure commitments mainly represent land use rights, and our land use rights commitment in 2011 amounted RMB16.7 million. The operating leases mainly include the lease of offices, warehouses and equipments and, as at 31 December 2011, our commitment under operating leases was RMB53.4 million.

Contingent liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities or guarantees.

Off-balance sheet arrangements

As at 31 December 2011, the Group did not have any off-balance sheet arrangements.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 49, is an executive Director and the chief executive officer of our Company and the chairman of the Board and the founder of our Group who is responsible for the overall operation and management of our Group. Mr. Wang has over 27 years of experience in the petroleum industry. Prior to founding our Group, he served as an engineer of Huabei Petroleum Testing Company (華北石油測試公司), a subsidiary of CNPC, in charge of product design and research and development mainly relating to electromanometers and absorbers from July 1984 to August 1993. He obtained a diploma in field machinery from North China University of Petroleum Employees (華北石油職工大學) (currently known as Beijing Institute of Economic Management (北京經濟管理職業學院)) in July 1984. Mr. Wang also obtained an MBA degree from The National University of Singapore in April 2007.

Wu Dongfang (吳東方), aged 40, is an executive Director and a deputy general manager of our Company who is responsible for business development of our Group. Mr. Wu has over 20 years of experience in the petroleum industry. Prior to joining our Group in December 1993, Mr. Wu served as an assistant engineer of China Petroleum Huabei Oil Field Testing Company (中國石油華北油田測試公司) from March 1991 to November 1993. Mr. Wu obtained a bachelor's degree in electronic instrument and measuring technology from Xi'an Petroleum College (西安石油學院) of China in July 1991 and an EMBA degree from Tsinghua University (清華大學) of China in February 2006.

Liu Ruoyan (劉若岩), aged 64, is an executive Director and a deputy general manager of our Company who is responsible for marketing of well drilling and workover business and management of production and operation. Mr. Liu has approximately 38 years of experience in the petroleum industry. Prior to joining our Group in July 2008, Mr. Liu served as the general manager of Sino-Kazakhstan Greatwall Drilling Co., Ltd. (中哈長城鑽井有限公司), a subsidiary of CNPC, in charge of marketing and project operations management involving drilling and workover business in Kazakhstan from November 1999 to December 2006. From March 1984 to October 1999, he served as a team leader and well drilling engineer and the chief commander of Jidong Front Line and the deputy general manager and the general manager of No. 2 Well Drilling Company of North China Petroleum Administrative Bureau, a subsidiary of CNPC. From March 1974 to August 1984, Mr. Liu served as a technician of North China Petroleum Campaign Headquarters (華北石油會戰指揮部), a subsidiary of CNPC. From July 1972 to February 1974, he served as an assistant technician of the well drilling team of the Geophysical Prospecting Bureau of the Ministry of Fuel and Chemical Industry of the PRC (中華人民共和國燃料化學工業部). Mr. Liu obtained a diploma in petroleum management and engineering from Fushun Petroleum College (撫順石油學院) of China in July 1984. He also obtained a bachelor's degree in economic management from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) in December 1997.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chen Chunhua (**陳春花**), aged 48, was appointed as an independent non-executive Director of our Company on 1 December 2011. She has approximately 26 years of experience in academic education and practice in corporate operations and business management. Ms. Chen has served South China University of Technology (華南理工大學) since July 1986. Now she is a professor and a tutor of doctoral students in the Business Administration school. From March 2003 to December 2004, she served as the president of Shandong Liuhe Company Limited (山東六和集團有限公司) in charge of overall operations and development. Ms. Chen is currently an independent non-executive director of each of Welling Holding Limited (formally known as Hualing Holdings Limited), a listed company on the Main Board (stock code: 382), Merchant Funds Management Co., Ltd. (招商基金管理公司) and Foshan Shunde Rural Commercial Bank Company Limited (順德農村商業銀行有限公司). Ms. Chen obtained a bachelor's degree of engineering in radio technology from South China Institute of Technology (華南工學院) in June 1986. She obtained a master's degree in business administration from The National University of Singapore in May 2000. Ms. Chen became a post-doctoral candidate in the Business Administration School of Nanjing University (南京大學) in September 2005.

Wu Kwok Keung Andrew (**胡國強**), aged 58, was appointed as an independent non-executive Director of our Company on 1 December 2011. Mr. Wu had served Ernst & Young for over 32 years before retiring from the firm in January 2010. He served as the managing partner of the Beijing office from 1997 to 2000, the Quality & Risk Management Leader of the China firm of Ernst & Young in 2004 and 2005, managing partner of Assurance and Advisory Business Services ("AABS") for Greater China from 2005 to 2008, and the Far East Area managing partner of AABS in 2006 and 2007. Mr. Wu became a member of the management committee of the China firm in 2005. He was the regional managing partner of Hong Kong and Macau from July 2008 to December 2009. Mr. Wu graduated from the University of Hong Kong with a bachelor's degree in science in 1974. He is a fellow of the Association of Chartered Certified Accountants, United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants.

Wan, Kah Ming (**溫嘉明**), aged 41, was appointed as an independent non-executive Director of our Company on 1 December 2011. He has over 17 years of experience in legal practice focusing on China inbound and outbound investment, finance, mergers and acquisitions and restructuring. Mr. Wan has been the Chief Counsel of Leung & Wan Solicitors since October 2001. He has also been the Executive Chairman of Boen Capital Ltd. (邦溫資本有限公司), Boen Resources Ltd. (邦溫資源有限公司) and Boen Land Ltd. (邦問建地有限公司) since May 2006, December 2007 and June 2008, respectively. Mr. Wan served as a Consultant of Chan & Chiu Solicitors (陳彼得趙國榮律師行) from January 1998 to September 2001 and an Assistant Solicitor of S.H. Chan & Co. (陳淑雄律師行) from June 1994 to December 1997. Mr. Wan was admitted as a Solicitor to the High Court of Hong Kong in 1996 and to the Supreme Court of Wales in 2000. He is the member of The Law Society of Hong Kong and The Chartered Institute of Arbitrators. Mr. Wan has been a China-Appointed Attesting Officer by the Ministry of Justice, PRC (中國司法部委託公證人) since April 2009. He is currently one of the Conveners of the China Committee of the Hong Kong General Chamber of Commerce, a Director of the China International Council for the Promotion of Multinational Corporations (中國國際跨國公司促進會), a member of the International Institute for Strategic Studies (國際戰略研究所) and a Director of the China Industrial Overseas Development & Planning Association (中國產業海外規劃和發展協會). Mr. Wan received his bachelor's degree in laws and postgraduate certificate in laws from the University of Hong Kong in 1993 and 1994, respectively.

SENIOR MANAGEMENT

Shen Yi (**沈翼**), aged 57, is a deputy general manager of our Company. Ms Shen joined us in September 2001. She is primarily responsible for financial management. Ms. Shen has approximately 38 years of experience in finance. She was a lecturer at Central University of Finance and Economics (中央財經大學) in China from July 1974 to September 2001. Ms. Shen obtained her certificates of Chinese certified public accountant and Chinese certified tax agent in June and December 1999, respectively. She also became a member of The China Certified Tax Agents Association (中國註冊稅務師協會). Ms. Shen obtained her bachelor's degree in economics from Central University of Finance and Economics (中央財經大學) in July 1983.

Sun Siu Kong (**孫小鋼**), aged 54, is the chief financial officer of our Company. Mr. Sun joined us in March 2008. He is primarily responsible for the financing and restructuring of our Group. Mr. Sun has approximately 26 years of experience in investment, corporate finance and corporate management. He worked in China Investment Corporation (中國投資有限責任公司) from November 2007 to February 2008. Mr. Sun served as the assistant to the chairman and the general manager of the Beijing subsidiary of China International Fund (中國國際基金) from February 2006 to November 2007. He served in various positions in China Scientific International Trust and Investment Company (中國科技國際信託投資有限責任公司) responsible for asset operations, financial management, industrial assets and corporate finance from May 1993 to February 2006. Mr. Sun established Microstep, Inc. in August 1991, and worked at Microstep, Inc. from August 1991 to January 1993. He served as an intern in the New York office of Debevoise & Plimpton LLP from June 1986 to June 1988. Mr. Sun obtained his bachelor's degree in political economics from Beijing Economic College (北京經濟學院) in the PRC in June 1983. He studied at Financial Research Institute of the People's Bank of China (中國人民銀行總行金融研究所) in international finance from September 1983 to April 1986. He also obtained his master's degree in U.S. economic law from the Law School of New York University in February 1988.

Rion, Roger Dale, aged 61, is a deputy general manager of our Company. Mr. Rion joined us in April 2010. He is primarily responsible for our well completion business. Mr. Rion has over 30 years of experience in the petroleum industry. Prior to joining us, he served as the Global Product Manager, Regional sales manager — Europe & Africa, Global Account Manager, working with Shell International Petroleum Maatschappij ("SIPM"), Global marketing manager — Completions and Global Direct Sales Manager, Director of the Global Direct Sales Headquarters and the General Manager of the Beijing branch office of Halliburton International, Inc. He was also a core member of the strategic management team. Mr. Rion was granted the patent for the safety system of submersible pump by the Patent and Trademark Office of the U.S. in December 1986. Mr. Rion obtained his bachelor's degree in science from McNeese State University, Lake Charles, Louisiana in December 1972. He completed the courses of advancement of technology marketing program of the Technical Marketing Society of America in 1988. Mr. Rion completed the courses of the Halliburton Strategic Marketing Program from the College of Business Administration of Texas A&M University in October 1993. He completed the courses of the senior management development program of the Halliburton Energy Research Center in 2002.

Wang Jinbo (**王金波**), aged 37, is a deputy general manager of our Company. Mr. Wang Jinbo joined us in November 2004. He is primarily responsible for marketing and business development. Mr. Wang Jinbo has over 14 years of experience in corporate management. He worked at the exchange centre of Xinjiang subsidiary of China Unicom Telecommunications Corporation Ltd. (中國聯合網絡通信股份有限公司新疆附屬公司) from 1998 to 2000. He served as a deputy manager, a manager and the manager of the major client department of China Unicom Telecommunications Corporation Ltd. (中國聯合網絡通信股份有限公司) from 2000 to 2004. Mr. Wang Jinbo obtained his bachelor's degree in communication engineering from Northern Jiaotong University (中國北方交通大學) (currently known as Beijing Jiaotong University (北京交通大學)) in China in July 1998. He obtained his master's degree in management from BI Norwegian School of Management in August 2005.

Zhao Feng (**趙峰**), aged 46, is a deputy general manager of our Company. Mr. Zhao joined us in January 1999. He is primarily responsible for business development and management in Northern America and Singapore. He has approximately 26 years of experience in the petroleum industry. Mr. Zhao served as a reservoir engineer in Shell Canada Ltd. from May to August 1998. He served as a reservoir research engineer in the Langfang Branch of Research Institute of Petroleum Exploration and Development China National Petroleum Corporation (中國石油天然氣總公司石油勘探開發研究院廊坊分院) from August 1986 to October 1995. Mr. Zhao obtained his bachelor's degree in petroleum engineering from Southwest Petroleum Institute (西南石油學院) in China in July 1986. He obtained his master's degree in chemical and petroleum engineering from The University of Calgary, Canada in November 2002. Mr. Zhao obtained his master's degree in business administration from the Fuqua School of Business of Duke University in the U.S. in December 2009.

Wang Fan (**王璠**), aged 41, is a deputy general manager of our Company. Mr. Wang joined us in December 2004. He is primarily responsible for operation and management of our subsidiaries in East China. Mr. Wang Fan has over 20 years of experience in marketing and management. Prior to joining our Group, he served as a deputy general manager in Changchun Aohua Group Company of Jilin Province (吉林省長春市澳華集團公司) from July 1997 to November 2004. Mr. Wang Fan served as the manager of the marketing department in Canada Sunwing Energy Co., Ltd. (加拿大皇朝能源有限公司) from April 1996 to June 1997. He served as an account manager in Beijing Inter Tech Computer Co., Ltd. (北京英特泰克計算機有限公司) from November 1993 to March 1996. Mr. Wang served as the manager of the technology department at Beijing Wanda Computer Development Co., Ltd. (北京萬達計算機開發公司) from October 1992 to October 1993. Mr. Wang Fan obtained his diploma in marketing from Shanxi Electronic Information Specialised Institute (陝西電子信息專修學院) in China in July 1997.

Deng Qi, Charles (**鄧其**), aged 58, is a deputy general manager of our Company. Mr. Deng joined us in February 2011. He is primarily responsible for mergers and acquisitions. Mr. Deng has approximately 29 years of experience in banking, corporate finance, securities and business management. Prior to joining our Group, he served as the managing director of Starcapital Corporation (斯凱（北京）投資諮詢有限公司) from 2005 to 2010, the vice president of Beijing Enterprises Holdings Limited from 2001 to 2005, the general manager of China Securities (International) Limited (華夏證券（國際）有限公司) from 1996 to 2000, and an executive director of Yoshiya International Corporation, Limited (慶屋國際有限公司) from 1994 to 1996. Mr. Deng also worked at ING Bank from 1992 to 1994, Indosuez Asia Limited (惠嘉融資亞洲有限公司) from 1990 to 1992, and CITIC Group (中國中信集團公司) from 1984 to 1990. He graduated from Beijing Foreign Studies University (北京外國語大學) in July 1977 and obtained a post graduate degree in management from University of Lausanne, Switzerland in October 1983.

Directors' and Senior Management's Biographies

Kee Yong Wah (**紀永華**), aged 52, is a deputy general manager of our Company. Mr. Kee joined us in May 2011. He is primarily responsible for business development and management in new markets and integrated management of new and existing markets. Mr. Kee has more than 28 years of experience in the petroleum and gas industry. Prior to joining our Group, he served as the China general manager in Smith International Inc. from March 2010 to November 2010. Mr. Kee served in various positions (including global national account manager and senior business development manager) of Halliburton International Inc. from August 1984 to March 2010. He was also the key professional introducing dual-trip multi-zone and single-trip multi-zone sand control technology system into the development of Bohai Bay Oilfield in China. Mr. Kee completed various Halliburton technical courses including Halliburton Business Leadership Development Program and Halliburton Financial Leadership for Non-Financial Leaders Program of Mays Business School of Texas A&M University in February 2005 and August 2007, respectively.

Ong Cheng Suah Darry (**王清山**), aged 52, is a deputy general manager of our Company. Mr. Ong Cheng Suah Darry joined us in May 2011. He is primarily responsible is Technology and Manufacture of Downhole Completion Equipment. Mr. Ong Cheng Suah Darry has over 30 years of experience in Oil Gas industry. Prior to joining our Group, he served as a Vice President of Zhejiang WeiQiXin Petroleum Machinery Co. Ltd. (浙江惟其信石油機械有限公司) from February 2010 to March 2011. Mr. Ong Cheng Suah Darry served as the Regional Manager of Smith International Inc. in Beijing, China from August 2007 to February 2010. He served in various positions (including Customer Service Coordinator, Senior Technical Tool specialist, Sales Manager, Operations Manager and Business Development Manager) of Baker Hughes Inc. from June 1980 to July 2007. He obtained the Singapore-Cambridge General Certificate of Education in December 1977. Mr. Ong Cheng Suah Darry obtained a certificate in Purchasing and Store management from the Chartered Institute of Purchasing & Supply in Stamford, Lincolnshire, U.K. in January 1985. Mr. Ong Cheng Suah Darry also obtained a certificate in Business Code of Conduct & FCPA from Baker Hughes Legal Resources University in June 2002.

Jin Shumao (**金樹茂**), aged 62, is a deputy general manager of our Company. Mr. Jin joined us in February 2012. He is primarily responsible for assisting the general manager to develop and maintain the strategic customer relationship, as well as expand and facilitate the strategic business and programs. Mr. Jin has over 35 years of experience in the petroleum and gas industry. Prior to joining our Group, he served as Schlumberger China NOCs Global Account Director, Schlumberger China NOC Global Account Vice President, and Schlumberger China Vice President (斯倫貝謝中國公司) from 2002 to 2011. Mr. Jin worked at Halliburton USA (哈里伯頓美國公司) and Halliburton China (哈里伯頓中國公司) from 1989 to 2022, served as Director of Executive Business Development for Emerging Markets, Global Account General Manager for China NOCs, and Business President for Halliburton China. Mr. Jin worked at CNOOC (中海油) from 1982 to 1988, then worked at CNPC–Sinopec (中石油 — 中石化) from 1971 to 1982. Mr. Jin obtained his bachelor's degree in Petroleum Mechanical Engineering form Northeast Petroleum University (東北石油大學) and MBA from the University of Oklahoma (奧克拉哈馬州立大學), and study PhD program of Finance Economy in China Social Science Academy (中國社科院).

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

REORGANIZATION AND GLOBAL OFFERING

The 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 "Companies Law"). The Company underwent a reorganization in preparation for the listing of its shares on the Main Board of the Hong Kong Stock Exchange. Details of the reorganization are set out in the section headed "History, Reorganization and Group Structure" in the Company's prospectus dated 14 December 2011 (the "Prospectus"). The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 December 2011 (the "Listing").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group's operations are substantially conducted through its subsidiaries in the PRC, Kazakhstan and Canada. The Group is principally engaged in the provision of integrated oilfield services. Analysis of the principal activities of the Group during the year ended 31 December 2011 is set out in the note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 46 of this annual report.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of HKD0.012335 (RMB0.01) per share for the year ended 31 December 2011 (2010: Nil) to the shareholders. The final dividend will be payable before the end of July 2012 and is subject to the approval of shareholders of the Company at the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last four financial years are set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$372.4 million, which are intended to be applied in the manner consistent with that in the Prospectus. That is, approximately 35% of the net proceeds for purchase of manufacturing equipment for the oilfield services lines, approximately 20% for acquisition of selected companies in the oilfield services or related businesses to expand or supplement the existing service portfolio, approximately 20% to repay outstanding bank loans, approximately 15% to enhance our research and development capabilities and approximately 10% for additional working capital purpose.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the Group's five largest suppliers accounted for 33.1% (2010: 51.2%) of the Group's total purchases.

For the year ended 31 December 2011, the Group's sales to its five largest customers accounted for 61.4% (2010: 65.1%) of the Group's total sales.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2011 are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 13 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on page 49 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB545.9 million (as at 31 December 2010: RMB276.9 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2011 are set out in note 16 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2011 and up to the date of this report were:

Executive Directors:

Mr. Wang Guoqiang *(Chairman and Chief Executive Officer)*	(appointed on 12 June 2008)
Mr. Wu Dongfang	(appointed on 12 June 2008)
Mr. Liu Ruoyan	(appointed on 1 December 2011)

Independent non-executive Directors:

Ms. Chen Chunhua	(appointed on 1 December 2011)
Mr. Wu Kwok Keung Andrew	(appointed on 1 December 2011)
Mr. Wan Kah Ming	(appointed on 1 December 2011)

In accordance with article 108 of the articles of association of the Company, Mr. Wang Guoqiang and Mr. Wu Dongfang will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting of the Company.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 20 to 24 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent from the date of appointment to 31 December 2011.

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from the date of Listing. Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing from the date of Listing.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2011.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2011.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices.

The Company has adopted a share option scheme as incentive to eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the directors and five highest paid individuals are set out in notes 26 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Nature of interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Mr. Wang Guoqiang (note 1)	Beneficiary of trusts	775,084,000 (L)	58.1%
Mr. Wu Dongfang (note 2)	Beneficiary of trusts	775,084,000 (L)	58.1%

Notes:

1. Mr. Wang Guoqiang and his family members are the beneficiaries of Truepath Trust, a discretionary trust established by Mr. Wang Guoqiang, and therefore he is deemed to be interested in 487,012,000 shares of the Company held by Red Velvet Holdings Limited via Truepath Limited. Mr. Wang Guoqiang is also deemed to be interested the shares held by Mr. Wu Dongfang as they are parties acting in concert.
2. (i) Mr. Wu Dongfang and his family members are the beneficiaries of Widescope Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 135,872,000 shares of the Company held by Elegant Eagle Investments Limited via Widescope Holdings Limited. (ii) Mr. Wu and six members of the Company's senior management are the beneficiaries of True Harmony Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 152,200,000 shares of the Company held by Magic Flute Holdings Limited via True Harmony Limited. (iii) Mr. Wu Dongfang is also deemed to be interested the shares held by Mr. Wang Guoqiang as they are parties acting in concert.
3. "L" denotes long position.

Save as disclosed above, as at 31 December 2011, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, no time during the year ended 31 December 2011 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Widescope Holdings Limited	Beneficial owner	135,872,000 (L)	10.20%
Elegant Eagle Investments Limited (note 1)	Interest of controlled corporation	135,872,000 (L)	10.20%
True Harmony Limited	Beneficial owner	152,200,000 (L)	11.40%
Best Harvest Far East Limited (note 2)	Interest of controlled corporation	152,200,000 (L)	11.40%
Magic Flute Holdings Limited (note 3)	Interest of controlled corporation	152,200,000 (L)	11.40%
Truepath Limited	Beneficial owner	487,012,000 (L)	36.50%
Red Velvet Holdings Limited (note 4)	Interest of controlled corporation	487,012,000 (L)	36.50%
Jumbo Wind Limited	Beneficial owner	108,000,000 (L)	8.10%
Starshine Investments Limited (note 5)	Interest of controlled corporation	108,000,000 (L)	8.10%
Credit Suisse Trust Limited (note 6)	Trustee	883,084,000 (L)	66.15%
Mr. Wang Jinbo (note 7)	Beneficiary of a trust	108,000,000 (L)	8.10%

Notes:

1. Widescope Holdings Limited is wholly-owned by Elegant Eagle Investments Limited and therefore is deemed to be interested in 135,872,000 shares of the Company.
2. True Harmony Limited is owned as to 73.3% by Best Harvest Far East Limited and therefore is deemed to be interested in 152,200,000 shares of the Company.
3. Best Harvest Far East Limited is wholly-owned by Magic Flute Holdings Limited and therefore is deemed to be interested in 152,200,000 shares of the Company.
4. Truepath Limited is wholly-owned by Red Velvet Holdings Limited and therefore is deemed to be interested in 487,012,000 shares of the Company.
5. Jumbo Wind Limited is wholly-owned by Starshine Investments Limited and therefore is deemed to be interested in 108,000,000 shares of the Company.
6. Credit Suisse Trust Limited is the trustee of the Widescope Trust, The True Harmony Trust, the Truepath Trust, the Jumbo Wind Trust and the Windsorland Trust which are discretionary trusts holding the shares in the Company on trust for True Harmony Limited, Elegant Eagle Investments Limited, Magic Flute Holdings Limited, Red Velvet Holdings Limited, Starshine Investments Limited and Tarkin Investments Limited, respectively. Therefore, Credit Suisse Trust Limited is deemed to be interested in shares of the Company held by True Harmony Limited, Widescope Holdings Limited, Truepath Limited and Starshine Investments Limited.
7. Mr. Wang Jinbo and his family members are the beneficiaries of Jumbo Wind Trust and therefore he is deemed to be interested in 108,000,000 shares held by Jumbo Wind Limited.
8. "L" denotes long position.

Save as disclosed above, and as at 31 December 2011, the directors of the Company were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the date of Listing to 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

NON-COMPETITION UNDERTAKING

As disclosed in the Prospectus, each of Mr. Wang Guoqiang, Truepath Limited, Red Velvet Holdings Limited, Mr. Wu Dongfang, True Harmony Limited, Best Harvest Far East Limited, Magic Flute Holdings Limited, Widescope Holdings limited and Elegant Eagle Investments Limited (the "Controlling Shareholders") has executed a deed of non-competition through which they have irrevocably and unconditionally warranted and undertaken to the Company not to, whether directly or indirectly or as principal or agent, and whether on its/his/her own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company), (i) carry on, engage, participate or hold any right or interest in or render any services to or provide any financial support to or otherwise be involved in the provision of integrated oilfield services or any

other business which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with any business that may be carried on by any members of the Group of the Company from time to time whether as a shareholder, director, officer, partner, agent, lender, employee, consultant or otherwise and whether for profit, reward or otherwise; or (ii) take any action which interfere with or disrupt or may interfere with or disrupt the Group Business, including but not limited to, solicitation of any of the customers, suppliers or employees of any member of the Group of the Company.

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this annual report during the period from the date of Listing to 31 December 2011.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2011, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

During the period from the date of Listing to 31 December 2011, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 1 December 2011.

1. Purpose

The purpose of the Share Option Scheme is to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group.

2. Participants

The Board are authorised, at their absolute discretion and subject to the terms of the Share Option Scheme, to grant options to subscribe the shares of the Company to, inter alia, any Directors or any employees (full-time and part-time) of the Company or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

3. Total number of Shares available for issue under the Share Option Scheme

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the issued share capital of the Company as at the date of Listing (i.e. a total of 133,500,000 shares).

4. Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

5. Period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

6. Minimum period for which an option must be held before it can be exercised

The Board may in its absolute discretion set a minimum period for which an option must be held and performance targets that must be achieved before an option can be exercised.

7. Time of acceptance and the amount payable on acceptance of the option

An offer for the grant of options must be accepted within 8 days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

8. Basis of determining the subscription price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

9. Life of the Share Option Scheme

The Share Option Scheme became unconditional on the date of Listing and shall be valid and effective for a period of ten years commencing on 1 December 2011, subject to the early termination provisions contained in the Share Option Scheme.

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme does not exceed 10% of the shares in issue on the date of Listing. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

As at 31 December 2011, no option under the Share Option Scheme has been granted by the Company.

CHARITABLE DONATIONS

During the year ended 31 December 2011, the Group made no charitable and other donations.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 32 to the audited consolidated financial statements in this annual report.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the period from the date of Listing to 31 December 2011.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 34 to 40 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this report.

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 December 2011.

PricewaterhouseCoopers shall retire in the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Wang Guoqiang
Chairman

Hong Kong, 28 March 2012

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2011.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Save for the deviation disclosed in this report, the Company has complied with the code provisions as set out in the CG Code since 23 December 2011 (the "Listing Date") and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All directors of the Company (the "Directors") shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify the Group's Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

The Board currently comprises three executive Directors, namely Mr. Wang Guoqiang, Mr. Wu Dongfang and Mr. Liu Ruoyan, and three independent non-executive Directors, namely Ms. Chen Chunhua, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming. The biographies of the Directors are set out under the section headed "Directors' and Senior Management's Biographies" of this annual report.

Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organization structure of the Company, Mr. Wang Guoqiang is our Chairman of the Board and the Chief Executive Officer. With extensive experience in the petroleum industry, the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals. The Board currently comprises three executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Appointment and Re-Election of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from the Listing Date, which is terminable by not less than three months' notice in writing.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing from the Listing Date, which is terminable by not less than three months' notice in writing.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the articles of association of the Company (the "Articles"), all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Induction and Continuing Development of Directors

Each newly appointed Director shall receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors will be continuously updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Briefing and professional development for directors will be arranged where necessary.

Board Meetings

The Company will adopt the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the board meetings and committee meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

Since the Listing Date and up to the date of this annual report, two board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wang Guoqiang	2/2
Mr. Wu Dongfang	2/2
Mr. Liu Ruoyan	2/2
Ms. Chen Chunhua	2/2
Mr. Wu Kwok Keung Andrew	2/2
Mr. Wan Kah Ming	2/2

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rule as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code since the Listing Date and up to the date of this annual report.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee currently comprises three members, namely Mr. Wang Guoqiang (appointed as a member and the chairman of the Nomination Committee on 28 March 2012), Ms. Chen Chunhua and Mr. Wu Kwok Keung Andrew, the majority of them are independent non-executive Directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes
- To identify suitable candidates for appointment as directors
- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors
- To assess the independence of independent non-executive directors

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

Since the Listing Date and up to the date of this annual report, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wu Dongfang (ceased to be a member of the Nomination Committee on 28 March 2012)	**1/1**
Ms. Chen Chunhua	**1/1**
Mr. Wu Kwok Keung Andrew	**1/1**

The Nomination Committee assessed the independence of independent non-executive Directors and considered the re-appointment of the retired Directors.

Remuneration Committee

The Remuneration Committee comprises three members, namely Ms. Chen Chunhua (appointed as the chairman of the Remuneration Committee on 28 March 2012), Mr. Wang Guoqiang and Mr. Wu Kwok Keung Andrew, the majority of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for formulating such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

Since the Listing Date and up to the date of this annual report, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Chen Chunhua	**1/1**
Mr. Wang Guoqiang	**1/1**
Mr. Wu Kwok Keung Andrew	**1/1**

The Remuneration Committee discussed and reviewed the remuneration policy for directors and senior management of the Company.

Audit Committee

The Audit Committee comprises all the three independent non-executive Directors namely, Mr. Wu Kwok Keung Andrew (chairman), Ms. Chen Chunhua and Mr. Wan Kah Ming. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditor before submission to the Board

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures

Since the Listing Date and up to the date of this annual report, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Chen Chunhua	1/2
Mr. Wu Kwok Keung Andrew	2/2
Mr. Wan Kah Ming	2/2

The Audit Committee reviewed the annual results and annual report of the Company and its subsidiaries for the year ended 31 December 2011, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditor.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2011 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

The Board has conducted a review of the effectiveness of the internal control system of the Company and considered the internal control system to be effective and adequate.

AUDITOR'S REMUNERATION

Annual audit fees of the Group for the year ended 31 December 2011 payable to the external auditor are approximately RMB2 million. The Company incurred approximately RMB6 million in 2011 for services provided by external auditor in connection with the Initial Public Offering of the Company's shares.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

To promote effective communication, the Company maintains a website at www.spt.cn, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

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To the shareholders of SPT Energy Group Inc.
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of SPT Energy Group Inc. ("the Company") and its subsidiaries (together, the "Group") set out on pages 43 to 108, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2012

Consolidated Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**214,625**	196,433
Intangible assets	7	**229**	760
Deferred income tax assets	19	**42,071**	31,826
Prepayments and other receivables	11	**27,491**	7,156
		284,416	236,175
Current assets			
Inventories	9	**245,089**	211,065
Trade receivables	10	**577,067**	445,142
Prepayments and other receivables	11	**58,824**	95,888
Restricted bank deposits	12	**2,031**	10,694
Cash and cash equivalents	12	**301,340**	166,721
		1,184,351	929,510
Total assets		**1,468,767**	1,165,685
EQUITY			
Equity attributable to the Company's equity owners			
Ordinary share	13	**849**	68
Share premium	14	**275,455**	—
Other reserves	15	**159,349**	313,330
Currency translation differences		**(33,596)**	(15,228)
Retained earnings			
— Proposed final dividend	25	**13,350**	—
— Others		**454,862**	303,837
		870,269	602,007
Non-controlling interests		**33,520**	(57)
Total equity		**903,789**	601,950

Consolidated Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-Current liabilities			
Borrowings	16	**9,071**	—
Deferred income tax liabilities	19	**7,629**	434
		16,700	434
Current liabilities			
Borrowings	16	**210,101**	159,975
Trade payables	17	**199,929**	269,210
Accruals and other payables	18	**96,084**	61,114
Current income tax liabilities		**41,516**	73,002
Current portion of long-term borrowings	16	**648**	—
		548,278	563,301
Total liabilities		**564,978**	563,735
Total equity and liabilities		**1,468,767**	1,165,685
Net current assets		**636,073**	366,209
Total assets less current liabilities		**920,489**	602,384

The notes on page 51 to 108 are an integral part of these financial statements.

The financial statements on page 43 to 108 were approved by the Board of Directors on 28 March 2012 and were signed on its behalf.

Wang Guoqiang
Director

Wu Dongfang
Director

Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	8	**425,625**	276,286
Current assets			
Prepayments and other receivables	11	**7**	7,837
Cash and cash equivalents	12	**147,320**	1,666
		147,327	9,503
Total assets		**572,952**	285,789
EQUITY			
Ordinary shares	13	**849**	68
Share premium	14	**275,455**	—
Other reserves	15	**276,899**	276,899
Currency translation differences		**(160)**	—
Retained earnings		**(6,302)**	(2)
Total equity		**546,741**	276,965
LIABILITIES			
Current liabilities			
Accruals and other payables	18	**26,211**	8,824
Total liabilities		**26,211**	8,824
Total equity and liabilities		**572,952**	285,789
Net current assets		**121,116**	679
Total assets less current liabilities		**546,741**	276,965

The notes on page 51 to 108 are an integral part of these financial statements.

The financial statements on page 43 to 108 were approved by the Board of Directors on 28 March 2012 and were signed on its behalf.

Wang Guoqiang
Director

Wu Dongfang
Director

Consolidated Income Statement

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue		**1,321,260**	1,050,432
Other (losses)/gains, net	20	**(7,760)**	4,206
Operating costs			
Material costs		**(363,390)**	(264,852)
Employee benefit expenses	21	**(252,958)**	(208,952)
Operating lease expenses		**(48,056)**	(36,400)
Transportation costs		**(66,327)**	(51,228)
Depreciation and amortisation		**(43,551)**	(31,542)
Technical service expenses		**(93,005)**	(139,410)
Impairment loss of assets		**(9,263)**	—
Others		**(161,301)**	(141,321)
		(1,037,851)	(873,705)
Operating profit	22	**275,649**	180,933
Finance income	23	**536**	339
Finance costs	23	**(14,535)**	(5,689)
Finance costs, net		**(13,999)**	(5,350)
Profit before income tax		**261,650**	175,583
Income tax expense	24	**(75,067)**	(56,140)
Profit for the year		**186,583**	119,443
Attributable to:			
Equity owners of the Company		**181,806**	119,509
Non-controlling interests		**4,777**	(66)
		186,583	119,443
Dividends proposed after balance sheet date	25	**13,350**	—
Basic and diluted earnings per share for the profit attributable to the equity owners of the Company	27	**0.18**	0.12

The notes on page 51 to 108 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Profit for the year		**186,583**	119,443
Other comprehensive income:			
Currency translation differences		**(18,299)**	(9,409)
Total comprehensive income for the year		**168,284**	110,034
Attributable to:			
Equity owners of the Company		**163,438**	110,094
Non-controlling interests		**4,846**	(60)
		168,284	110,034

The notes on page 51 to 108 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Equity attributable to owners of the Company							
	Note	Ordinary shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2010		68	—	63,937	(43,534)	426,610	447,081	—	447,081
Comprehensive income									
Profit for the year		—	—	—	—	119,509	119,509	(66)	119,443
Currency translation differences		—	—	—	(9,415)	—	(9,415)	6	(9,409)
Total comprehensive income		—	—	—	(9,415)	119,509	110,094	(60)	110,034
Transactions with owners									
Contribution to subsidiaries by their then equity owners		—	—	8,000	—	—	8,000	3	8,003
Share-based payments	21	—	—	31,000	—	—	31,000	—	31,000
Consideration paid to their then equity owners for acquisition of subsidiaries under common control		—	—	(9,939)	—	—	(9,939)	—	(9,939)
Transfer to statutory reserves		—	—	7,433	—	(7,433)	—	—	—
Capital reserves arising from waived payables due to equity owners	15	—	—	212,899	—	—	212,899	—	212,899
Deemed distribution to the equity owners	28(c)	—	—	—	37,721	(234,849)	(197,128)	—	(197,128)
Total transactions with owners		—	—	249,393	37,721	(242,282)	44,832	3	44,835
Balance as at 31 December 2010		68	—	313,330	(15,228)	303,837	602,007	(57)	601,950

Consolidated Statement of Changes in Equity

	Note	Equity attributable to owners of the Company							
		Ordinary shares	Share premium	Other reserves	Currency translation differences	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2011		68	—	313,330	(15,228)	303,837	602,007	(57)	601,950
Comprehensive income									
Profit for the year		—	—	—	—	181,806	181,806	4,777	186,583
Currency translation differences		—	—	—	(18,368)	—	(18,368)	69	(18,299)
Total comprehensive income		—	—	—	(18,368)	181,806	163,438	4,846	168,284
Transactions with owners									
Contribution to subsidiaries by their then equity owners		—	—	—	—	—	—	15,357	15,357
Deemed distribution to Controlling Shareholders	15	—	—	(3,866)	—	(9,508)	(13,374)	13,374	—
Transfer to statutory reserves	15	—	—	7,923	—	(7,923)	—	—	—
Consideration paid to their then equity owners for acquisition of subsidiaries under common control	15	—	—	(158,038)	—	—	(158,038)	—	(158,038)
Issuance of ordinary shares for Global Offering, net	13&14	212	276,024	—	—	—	276,236	—	276,236
Capitalisation issue	13&14	569	(569)	—	—	—	—	—	—
Total transactions with owners		781	275,455	(153,981)	—	(17,431)	104,824	28,731	133,555
Balance as at 31 December 2011		849	275,455	159,349	(33,596)	468,212	870,269	33,520	903,789

The notes on page 51 to 108 are an integral part of these consolidated financial statements.

Consolidate Cash Flow Statement

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Net cash inflows from operations	28(a)	**151,387**	141,289
Interest paid		**(10,226)**	(4,225)
Interest received		**262**	339
Income tax paid		**(109,970)**	(69,545)
Net cash generated from operating activities		**31,453**	67,858
Cash flows from investing activities			
Purchases of property, plant and equipment		**(83,126)**	(98,532)
Proceeds from disposal of property, plant and equipment		**5,175**	10,828
Advance for purchase of land use right		**(6,500)**	—
Purchase of intangible assets		**(153)**	(804)
Net cash used in investing activities		**(84,604)**	(88,508)
Cash flows from financing activities			
Proceeds from borrowings		**515,496**	214,516
Repayments of borrowings		**(455,652)**	(114,541)
Net cash outflow arising from deemed distribution to the equity owners		**—**	(15,248)
Contribution to subsidiaries by their then equity owners		**15,357**	8,003
Consideration paid to their then equity owners for acquisition of subsidiaries under common control		**(158,038)**	(9,939)
Proceeds from Global Offering		**334,749**	—
Payment of fees relating to Global Offering		**(61,207)**	—
Net cash generated from financing activities		**190,705**	82,791
Net increase in cash and cash equivalents		**137,554**	62,141
Cash and cash equivalents, at beginning of the year		**166,721**	106,512
Exchange loss on cash and cash equivalents		**(2,935)**	(1,932)
Cash and cash equivalents at end of the year		**301,340**	166,721

The notes on page 51 to 108 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION AND GROUP REORGANISATION

SPT Energy Group Inc. (the "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 address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY-1112, Cayman Islands. The Company had its primary listing on the Stock Exchange of Hong Kong Limited on 23 December 2011 through a global offering ("Global Offering").

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in provision of oilfield services including drilling, well completion, reservoir, with ancillary activities in trading and manufacturing of oilfield services related products (the "Oilfield Services Business") mainly in the People's Republic of China (the "PRC"), Republic of Kazakhstan ("Kazakhstan") and Canada. The ultimate controlling party of the Group is Mr. 王國強 (Mr. Wang Guoqiang) and Mr. 吳東方 (Mr. Wu Dongfang) (collectively referred to as the "Controlling Shareholders").

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation"), the Oilfield Services Business was carried out by the subsidiaries now comprising the Group and other operating companies that were all controlled by the Controlling Shareholders. During the year ended 31 December 2010, certain of the operating companies were excluded from the Group ("the Excluded Entities") and were not transferred to the Company because the Excluded Entities have ceased their business on 31 December 2010 and became inactive. The operating activities of these companies have been fully taken over by other subsidiaries now comprising the Group. The Group's Reorganisation was completed on 14 February 2011 and the Company became the holding Company of the Group from 14 February 2011.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 28 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.1 Basis of preparation (continued)

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 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 the year ended 31 December 2010 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 sheet of the Group as at 31 December 2010 has 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.

For the purpose of reflecting all of the businesses under the common control of the Controlling Shareholders that formed an integral part of the Group's businesses and operations, the assets, liabilities and operation results of the Excluded Entities were reflected in the consolidated financial statements up to 31 December 2010, the effective date when the Excluded Entities ceased their operations in the Oilfield Services Business.

2.1.2 Changes in accounting policy and disclosures

New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

The Group's and parent entity's assessment of the impact of these new and amended standards is set out below.

- IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 Changes in accounting policy and disclosures (continued)

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

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

2.2 Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

In the separate financial statement, investments in subsidiaries are accounted for at cost less impairment (Note 2.7). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquired over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, vice presidents and directors of the Company that makes strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is United States Dollar ("USD") and the consolidated financial statements are presented in RMB which is the Group's presentation currency. The reporting currency differs from Company's functional currency as management rely on management accounts prepared in RMB for review of historical performance and decision making.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "Finance income or cost". All other foreign exchange gains and losses are presented in the income statement within "Other (losses)/gains — net."

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(iii) Group companies (continued)

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 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 the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each financial year.

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 (Note 2.7).

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.

2.6 Intangible assets

Intangible assets comprised acquired computer software licenses which are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

2.7 Impairment of subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group's financial assets include only loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as "cash and cash equivalents", "restricted bank deposits", "trade receivable" and "other receivables" in the balance sheet. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (continued)

Impairment of loans and receivables

The Group assesses at the end of each reporting date whether there is objective evidence that a loan and receivable is impaired. Loans and receivables are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan and receivable's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.9 Inventories

Inventories primarily consist of materials for use in the provision of oilfield services and finished goods used for sales. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the applicable variable selling expenses.

2.10 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment amounts (Note 2.8).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 Ordinary shares

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

2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting date.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Current and deferred income tax (continued)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee benefits

(a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group. Employees of entities located in countries other than PRC are covered by other defined-contribution pension plans sponsored by respective government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Employee benefits (continued)

(b) *Housing benefits*

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits

(c) *Share-based compensation*

Certain eligible employees of the Group received equity-settled share-based compensation granted by the Controlling Shareholders in 2009 and 2010, in the form of the shares of the Company as part of compensation for their services to the Group. These shares have no vesting conditions and vested immediately.

The fair value of the shares granted at the grant date would be recognised in income statement as employee benefit expenses. The fair value of the shares granted is determined based on valuation technique as the shares granted were not traded on an active market.

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

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

The grant by the Company of its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2.17 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 the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Revenue recognition (continued)

The Group recognises 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 the Group's 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. The Group bases its 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

The Group provides well drilling services, well completion services and reservoir services to its customers. These services are provided on each well according to contracts with customers. The contract terms generally range from a few days to a month. 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 assumed.

(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.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Operating lease

(i) Operating lease as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments made under operating leases (net of any incentives received from the lesser) are charged to the income statement on a straight-line basis over the period of the lease.

(ii) Operating lease as a lesser

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting the profit or loss attributable to equity owners of the Company accordingly for related amounts. The effect of potentially dilutive ordinary shares are included only if they are dilutive.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan and Canada with most of the transactions denominated and settled in RMB, Kazakhstan Tenge ("KZT") and Canadian Dollar ("CAD") respectively. Certain sales to and purchases from overseas are denominated in USD. Foreign exchange risk also arises from certain bank deposits denominated in foreign currencies. The Group is exposed to foreign currency exchange risk primarily with respect to USD.

During the financial year, the Group has not used any financial instrument to hedge the foreign exchange risk.

During the financial year, if RMB, KZT and CAD had weakened/strengthened by 5% against the USD with all other variables held constant, profit before income tax for the financial year would have changed mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and cash equivalent, trade receivables, payables and foreign exchange losses/gains on translation of USD denominated borrowings.

Profit before income tax increase/(decrease) during the Financial year:

	2011 **RMB'000**	2010 RMB'000
RMB against USD		
— Weakened 5%	**4,523**	(508)
— Strengthened 5%	**(4,523)**	508
KZT against USD		
— Weakened 5%	**(8,353)**	(4,346)
— Strengthened 5%	**8,353**	4,346
CAD against USD		
— Weakened 5%	**(312)**	(524)
— Strengthened 5%	**312**	524

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

Other than cash and cash equivalents, the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's short-term borrowings were obtained at fixed rates and expose the Group to fair value interest rate risk, while the long-term borrowings were obtained at floating rate and expose the Group to cash flow interest rate risk.

(b) Credit risk

Credit risk is managed on group basis. The carrying amounts of bank deposits, trade receivables and other receivables except prepayments included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has concentrations of credit risk. Petro China Company Limited ("Petro China"), a PRC state owned enterprise with high credit rating, along with its related entities, represented approximately 82.7% and 87.1% of the revenue of the Group for the years ended 31 December 2011 and 2010 respectively. The Group has policies in place to ensure that services are rendered or sales of products are made to customers with an appropriate credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

As at 31 December 2011 and 2010, cash and cash equivalents and restricted cash, were deposited in the major financial institutions in the PRC, Kazakhstan, Canada, Hong Kong and Singapore, which the directors of the Company believe are of good credit quality. The table below shows the bank deposit balances as at 31 December 2011 and 2010:

	2011	2010
	RMB'000	RMB'000
PRC		
— State owned listed banks	**16,259**	91,372
— Other listed banks	**210,053**	26,292
	226,312	117,664
Kazakhstan government owned banks	**36,909**	33,605
Singapore listed banks	**20,689**	8,264
Canada listed banks	**13,060**	11,439
Other listed banks	**3,676**	4,522
Others	**2,725**	1,921
Total	**303,371**	177,415

The Group's credit sales are only made to customers with appropriate credit history or owned or managed by the Group's several major customers who have no default history. Most of the credit period is six months.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flow and financing cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2011				
Borrowings	**219,729**	**925**	**2,775**	**8,748**
Trade payables	**199,929**	**—**	**—**	**—**
Accruals and other payables	**27,420**	**—**	**—**	**—**
As at 31 December 2010				
Borrowings	164,238	—	—	—
Trade payables	269,210	—	—	—
Accruals and other payables	10,266	—	—	—

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost or capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio and normally maintain gearing ratio below 50%. This ratio is calculated as total borrowings divided by total equity. Total borrowings include 'borrowings' and 'current portion of long-term borrowings' as shown in the consolidated balance sheet.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (continued)

The gearing ratios as at 31 December 2011 and 2010 are as follows:

	2011 RMB'000	2010 RMB'000
Total borrowings	**219,820**	159,975
Total equity	**903,789**	601,950
Gearing ratio	**24.3%**	26.6%

3.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and other receivables; and financial liabilities including trade and other payables and borrowings, approximate their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Impairment of trade and other receivables

The Group's management makes provision for doubtful debts based on the assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. 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.

(c) Impairment of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realised. The identification of write-downs requires the use of judgements 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 which estimate has been changed.

5. SEGMENT INFORMATION

The CODM has been identified as the Chief Executive Officer, vice presidents and directors of the Company who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on these financial statements.

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services, which is the basis by which the CODM makes decisions about resources to be allocated to the segments and assesses their performance.

They are so managed according to different nature of products and services. Most of these entities engaged in just single business, except a few entities deal with diversified operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

The CODM assesses performance of three reportable segments: drilling, well completion and reservoir. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

5. SEGMENT INFORMATION (CONTINUED)

(a) Revenue

Revenue recognised during the years ended 31 December 2011 and 2010 are as follows:

	2011 RMB'000	2010 RMB'000
Drilling	450,798	343,822
Well completion	354,911	323,808
Reservoir	515,551	382,802
	1,321,260	1,050,432

The measurement of profit or loss and assets of the operating segments are the same as those described in the summary of significant accounting policies. The CODM evaluates the performance of the reportable segments based on profit or loss before income tax expense, depreciation and amortisation, interest income and finance costs ('EBITDA').

Revenue amounting to RMB1,093,253,000 (2010: RMB914,681,000) are derived from Petro China and its related entities. These revenue are attributable to drilling, well completion and reservoir segments.

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

The segment information for the years ended 31 December 2011 and 2010 are as follows:

	Drilling RMB'000	Well completion RMB'000	Reservoir RMB'000	Total RMB'000
Year ended 31 December 2011				
Revenue from external customers	**450,798**	**354,911**	**515,551**	**1,321,260**
EBITDA	**111,335**	**101,170**	**187,426**	**399,931**
Depreciation and amortisation	**(17,720)**	**(12,540)**	**(13,291)**	**(43,551)**
Income tax expense	**(26,858)**	**(25,428)**	**(49,959)**	**(102,245)**
Total assets	**308,510**	**399,241**	**325,358**	**1,033,109**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**53,907**	**2,138**	**16,436**	**72,481**
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
Depreciation and amortisation	(11,419)	(10,837)	(9,286)	(31,542)
Income tax expense	(23,735)	(12,718)	(35,965)	(72,418)
Total assets	278,430	308,856	292,130	879,416
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	30,410	28,640	33,858	92,908

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

A reconciliation of EBITDA to total profit before income tax is provided as follows:

	2011 RMB'000	2010 RMB'000
EBITDA for reportable segments	**399,931**	298,022
Unallocated expenses		
— Share-based payments	**—**	(31,000)
— Other (losses)/gains,net	**(7,760)**	4,206
— Unallocated overhead expenses	**(72,971)**	(58,753)
	(80,731)	(85,547)
	319,200	212,475
Depreciation and amortisation	**(43,551)**	(31,542)
Finance costs	**(14,535)**	(5,689)
Finance income	**536**	339
Profit before tax	**261,650**	175,583

The amounts provided to the CODM with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	2011 RMB'000	2010 RMB'000
Segment assets for reportable segments	**1,033,109**	879,416
Unallocated assets		
— Deferred income tax assets	**42,071**	31,826
— Unallocated inventories	**26,067**	20,519
— Unallocated prepayment and other receivables	**64,149**	56,509
— Restricted bank deposits	**2,031**	10,694
— Cash and cash equivalents	**301,340**	166,721
	435,658	286,269
Total assets per balance sheet	**1,468,767**	1,165,685

(c) Geographical segment

The following table shows revenue by geographical segment according to the country of domicile (location of its main operation) of entities in the Group:

	2011 RMB'000	2010 RMB'000
Kazakhstan	**615,607**	462,137
PRC	**434,443**	441,847
Canada	**131,393**	91,375
Singapore	**113,507**	40,549
Others	**26,310**	14,524
	1,321,260	1,050,432

5. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment (continued)

The following table shows the non-current assets other than deferred tax assets by geographical segment according to the country of domicile of the respective entities in the Group:

	2011	2010
	RMB'000	RMB'000
Kazakhstan	**116,180**	109,039
PRC	**79,824**	75,050
Canada	**11,772**	13,474
Singapore	**18,982**	525
Others	**15,587**	6,261
	242,345	204,349

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and others RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2010						
Opening net book value	34,570	76,608	13,082	20,390	5,415	150,065
Additions	1,672	63,275	14,263	12,517	377	92,104
Transfer in/(out)	—	215	—	—	(215)	—
Depreciation charge	(2,623)	(16,666)	(4,677)	(7,467)	—	(31,433)
Disposals	—	(11,285)	(268)	(928)	—	(12,481)
Exchange differences	(179)	(1,444)	(127)	(72)	—	(1,822)
Closing net book value	33,440	110,703	22,273	24,440	5,577	196,433
At 31 December 2010						
Cost	40,727	162,621	43,394	48,465	5,577	300,784
Accumulated depreciation	(7,287)	(51,918)	(21,121)	(24,025)	—	(104,351)
Net book value	33,440	110,703	22,273	24,440	5,577	196,433
Year ended 31 December 2011						
Opening net book value	**33,440**	**110,703**	**22,273**	**24,440**	**5,577**	**196,433**
Additions	**12,897**	**47,110**	**3,750**	**8,408**	**163**	**72,328**
Transfer in/(out)	**5,577**	**—**	**—**	**—**	**(5,577)**	**—**
Depreciation charge	**(3,874)**	**(27,255)**	**(5,215)**	**(7,099)**	**—**	**(43,443)**
Disposals	**—**	**(3,912)**	**(113)**	**(1,185)**	**—**	**(5,210)**
Exchange differences	**(584)**	**(4,123)**	**(649)**	**(127)**	**—**	**(5,483)**
Closing net book value	**47,456**	**122,523**	**20,046**	**24,437**	**163**	**214,625**
At 31 December 2011						
Cost	**58,377**	**196,103**	**45,472**	**54,377**	**163**	**354,492**
Accumulated depreciation	**(10,921)**	**(73,580)**	**(25,426)**	**(29,940)**	**—**	**(139,867)**
Net book value	**47,456**	**122,523**	**20,046**	**24,437**	**163**	**214,625**

7. INTANGIBLE ASSETS

Intangible assets represent computer software and details are as follows:

	RMB'000
Year ended 31 December 2010	
Opening net book value	118
Additions	804
Amortisation charge	(162)
Closing net book value	760
At 31 December 2010	
Cost	2,567
Accumulated amortisation	(1,807)
Net book value	760
Year ended 31 December 2011	
Opening net book value	**760**
Additions	**153**
Amortisation charge	**(108)**
Disposals	**(576)**
Closing net book value	**229**
At 31 December 2011	
Cost	**2,076**
Accumulated amortisation	**(1,847)**
Net book value	**229**

8. INTERESTS IN SUBSIDIARIES

	2011 RMB'000	2010 RMB'000
Investment in subsidiaries(a)	**64,877**	64,877
Loans to subsidiaries (b)	**360,748**	211,409
	425,625	276,286

Note

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2011:

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Interest held
北京華油油氣技術開發有限公司 (Sinopetroleum Technology Inc.)	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	95%
北京華油先鋒石油裝備技術有限公司 (Pioneer Sinopetroleum Equipment Inc.)	PRC, Limited liability entity	Manufacturing, PRC	RMB10,000,000	95%
北京華油油氣工程科技有限公司 (Sinopetroleum Engineering Technology Co., Ltd.)	PRC, Limited liability entity	Trading, PRC	RMB15,600,000	90.3%
廊坊華油能源石油設備有限公司 (Langfang SPT Energy Limited)	PRC, Limited liability entity	Trading, PRC	USD1,000,000	100%
諾斯石油工具（天津）有限公司 (North Resource Oil Tools Limited)	PRC, Limited liability entity	Manufacturing, PRC	USD1,000,000	96.5%
新疆華油油氣工程有限公司 (Petrotech (Xinjiang) Engineering Co., Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB43,220,000	95%
M-Tech service Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT87,200	100%
CNEC Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT150,000	100%
FD Services Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT110,000	100%
Pioneer Petrotech Services Inc.	Canada, Limited liability entity	Manufacturing, Canada	CAD15	100%

8. INTERESTS IN SUBSIDIARIES (CONTINUED)

Note (continued)

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2011: (continued)

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Interest held
Enecal Canada Corporation	Canada, Limited liability entity	Trading, Canada	CAD86	100%
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%
SPT Oil Field Service Inc. Limited	Hong Kong, Limited liability entity	Trading, Hong Kong	HKD100,000	100%
DFW Oil Mechanical Services LLC	Uzbekistan, Limited liability entity	Oil field services, Uzbekistan	USD10,000	100%
PT. Enecal Indonesia	Indonesia, Limited liability entity	Oil field services, Indonesia	USD1,000,000	100%
Enecal PTE. Limited	Singapore, Limited liability entity	Trading, Singapore	SGD3,550,000*	63.2%
OS Services (Kazakhstan) Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
新疆華油能源工程服務有限公司 (Xinjiang SPT Engineering Service Co., Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	95%
德威興業（北京）油氣技術服務有限公司 (De Wei Oil & Gas technologies Services Co., Ltd.)	PRC, Limited liability entity	Oil field services and trading, PRC	RMB10,000,000	70%
NE TKM Hyzmat Limited	Turkmenistan, Limited liability entity	Oil field services, Turkmenistan	Manats142,500	100%
Dowell LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT500,000	70%
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
HY Oil Technology Service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%

* The issued share capital includes preferred shares amounting to SGD3,200,000 (RMB16,302,000) (2010: SGD200,000 (RMB945,000)) contributed by the Controlling Shareholders and the other two shareholders (the Controlling Shareholders and the other two shareholders together, the "Preference Shareholders"). The Preference Shareholders have neither dividends rights (unless the distributable profits of Enecal Pte. Limited available for distribution as dividends for the financial year in question exceed SGD10 billion) nor voting rights (save and except for matters specifically set out in the Singapore Companies Act principally (i) any resolution which varies the rights attached to the preference shares; or (ii) any resolution for the winding up of the company). Hence, the Group consolidated 100% profit of Enecal Pte Limited while the amount received for the preferred shares are reflected as "Non-controlling interests".

(b) Loans to subsidiaries reflect part of the Company's net investment in subsidiaries. These loans to subsidiaries are non-trade related, unsecured, interest-free and have no fixed terms of repayment.

9. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	**233,613**	218,980
Work-in-progress	**40,243**	15,688
Finished goods	**14,077**	34,933
	287,933	269,601
Less: Provision for impairment of raw materials	**(42,844)**	(58,536)
	245,089	211,065

The cost of inventories recognised as expense and included in 'material costs' amounted to approximately RMB363,390,000 (2010: RMB264,852,000).

During the year ended 31 December 2011, the provision for impairment of raw materials amounted to RMB15,692,000 (2010: nil) was written off against the original value of these raw materials to reflect the disposal of these impaired raw materials.

10. TRADE RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**586,341**	445,789
Less: impairment of trade receivables (a)	**(9,274)**	(647)
Trade receivables — net	**577,067**	445,142

Notes

(a) Movements of impairment of trade receivables are as follows:

	2011 RMB'000	2010 RMB'000
As at 1 January	**(647)**	(647)
Add: provision for impairment of trade receivables	**(8,796)**	—
Less: reversal of impairment of trade receivables	**169**	—
As at 31 December	**(9,274)**	(647)

10. TRADE RECEIVABLES (CONTINUED)

Notes (continued)

(b) Trade receivables of approximately RMB21,047,000 (2010: RMB21,656,000) was past due but not impaired. These receivables relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011 RMB'000	2010 RMB'000
Up to 1 year	**15,688**	20,265
1 to 2 years	**5,291**	780
2 to 3 years	**—**	611
Over 3 years	**68**	—
	21,047	21,656

(c) Ageing analysis of gross trade receivables as at 31 December 2011 and 2010 is as follows:

	2011 RMB'000	2010 RMB'000
Up to 6 months	**554,184**	423,486
6 months–1 year	**12,233**	20,142
1–2 years	**19,378**	245
2–3 years	**—**	1,314
Over 3 years	**546**	602
Trade receivables, gross	**586,341**	445,789
Less: Impairment of trade receivables	**(9,274)**	(647)
Trade receivables, net	**577,067**	445,142

(d) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2011 Equivalent in RMB'000	2010 Equivalent in RMB'000
RMB	**273,792**	274,719
KZT	**187,892**	102,048
USD	**109,963**	59,772
CAD	**5,420**	8,603
	577,067	445,142

10. TRADE RECEIVABLES (CONTINUED)

Notes (continued)

(e) Trade receivables are financial assets classified under "loan and receivables". The fair values of trade receivable approximated their carrying values.

(f) Most of the trade receivables are with credit terms of six months, except for retention money amounting to approximately RMB5,283,000 (2010: RMB2,830,000).

(g) Trade receivables of RMB179,276,000 (2010: RMB144,429,000) have been pledged for the Group's borrowings (Note 16).

11. PREPAYMENT AND OTHER RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000
Current		
Advances to suppliers (Non-financial assets)	**30,997**	46,535
Amounts due from related parties (Note 31)	**—**	22,339
Other receivables	**28,462**	27,014
Less: impairment of other receivables	**(635)**	—
Total financial assets	**27,827**	49,353
	58,824	95,888
Non-Current		
Advances to suppliers (Non-financial assets)	**9,019**	7,156
Prepayment for operating lease (Non-financial assets)	**18,472**	—
	27,491	7,156
Total	**86,315**	103,044

11. PREPAYMENT AND OTHER RECEIVABLES (CONTINUED)

Group (continued)

(a) Ageing analysis of prepayments and other receivables at the respective balance sheet dates is as follows:

	2011 RMB'000	2010 RMB'000
Up to 6 months	**70,321**	64,867
6 months–1 year	**12,321**	20,066
1–2 years	**2,990**	6,011
2–3 years	**697**	10,813
Over 3 years	**621**	1,287
Other receivables, gross	**86,950**	103,044
Less: impairment of other receivables	**(635)**	—
Other receivables, net	**86,315**	103,044

(b) The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	2011 Equivalent in RMB'000	2010 Equivalent in RMB'000
RMB	**36,230**	48,377
USD	**14,907**	35,534
Singapore Dollar ('SGD')	**18,501**	1,662
KZT	**16,118**	17,196
Others	**559**	275
	86,315	103,044

(c) Other receivables and amounts due from related parties are financial assets classified under "loan and receivables". The fair values of other receivables and amounts due from related parties approximated their carrying values due to their short maturity.

11. PREPAYMENT AND OTHER RECEIVABLES (CONTINUED)

Group (continued)

(d) Movement in impairment of other receivables is as follows:

	2011 RMB'000	2010 RMB'000
As at 1 January	**—**	—
Add: provision for impairment of other receivables	**(635)**	—
As at 31 December	**(635)**	—

(e) As at 31 December 2011, non-current prepayments amounting to RMB18,472,000 (2010: nil) has been pledged for the Group's borrowings (Note 16).

Company

	2011 RMB'000	2010 RMB'000
Current		
Advances to suppliers (Non-financial assets)	**—**	7,769
Amounts due from inter-companies	**—**	61
Other receivables	**7**	7
Total financial assets	**7**	68
Total	**7**	7,837

12. CASH AND CASH EQUIVALENTS

Group

	2011 RMB'000	2010 RMB'000
Restricted bank deposits (a)	**2,031**	10,694
Cash and cash equivalents		
— Cash on hand	**909**	729
— Deposits in bank	**300,431**	165,992
	301,340	166,721
	303,371	177,415

Notes

(a) Restricted bank deposits are deposits held as securities for issuance of bank letter of credit.

(b) Bank deposits and cash and cash equivalents which are financial assets classified as "loan and receivables" are denominated in the following currencies:

	2011 Equivalent in RMB'000	2010 Equivalent in RMB'000
RMB	**33,775**	99,191
USD	**33,852**	37,411
CAD	**3,528**	4,114
KZT	**34,351**	34,130
Hong Kong Dollar ("HKD")	**187,075**	74
SGD	**9,431**	1,247
Others	**1,359**	1,248
	303,371	177,415

12. CASH AND CASH EQUIVALENTS (CONTINUED)

Company

The Company's bank deposit amounting to RMB147,320,000 (2010: RMB1,666,000) is financial assets classified as "loan and receivables" and denominated in the following currencies:

	2011 Equivalent in RMB'000	2010 Equivalent in RMB'000
USD	**857**	1,666
HKD	**146,463**	—
	147,320	1,666

13. ORDINARY SHARES

	Number of share (Thousands)	Nominal value RMB'000
Authorised:		
Ordinary shares of US$0.0001 each as at 31 December 2010	500,000	345
Add: new approved authorised share capital (a)	1,500,000	950
Ordinary shares of US$0.0001 each as at 31 December 2011	**2,000,000**	**1,295**

Notes

(a) On 1 December 2011, the shareholders of the Company approved to increase the authorised share capital of the Company from US$50,000 divided into 500,000,000 shares of par value US$0.0001 each to US$200,000 divided into 2,000,000,000 shares of par value US$0.0001 each, which rank in pari passu in all respect with shares as at date of the resolution.

13. ORDINARY SHARES (CONTINUED)

	Number of share (Thousands)	Nominal value RMB'000
Issued:		
As at 31 December 2010	100,000	68
Add: Capitalisation issue (a)	900,000	569
Issuance of ordinary shares for Global Offering (b)	335,000	212
As at 31 December 2011	**1,335,000**	**849**

Notes

(a) On 23 December 2011, 900,000,000 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of RMB0.00063 (USD0.0001) each to the shareholders whose name appear on the register of members of the Company in proportion to their then existing shareholdings in the Company, by capitalisation of RMB569,000 (USD90,000) from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the Stock Exchange.

(b) On 23 December 2011, the Company issued 335,000,000 ordinary shares at HK $1.23 per share as the result of the Global Offering.

14. SHARE PREMIUM

	2011 RMB'000	2010 RMB'000
As at 1 January	**—**	—
Issuance of ordinary shares for Global Offering	**334,537**	—
Capitalisation issue	**(569)**	—
Share issue costs	**(58,513)**	
As at 31 December	**275,455**	—

15. OTHER RESERVES

Group

	2011 RMB'000	2010 RMB'000
Merger reserves (a)	**(148,895)**	11,868
Share-based payments (b)	**64,000**	64,000
Statutory reserves (c)	**31,345**	24,563
Capital reserves (d)	**212,899**	212,899
	159,349	313,330

Company

	2011 RMB'000	2010 RMB'000
Share-based payments (b)	**64,000**	64,000
Capital reserves (d)	**212,899**	212,899
	276,899	276,899

Notes

(a) Merger reserves

	RMB'000
As at 31 December 2010	11,868
Less: Consideration paid to their then equity owners for acquisition of subsidiaries under common control	(158,038)
Deemed distribution to the equity owners	(2,725)
As at 31 December 2011	**(148,895)**

The Company was incorporated during the year ended 31 December 2008 and the Reorganisation was completed on 14 February 2011 (Note 1). For the purpose of the consolidated financial statements, the merger reserve in the consolidated balance sheets as at 31 December 2011 and 2010 primarily represents: (1) the aggregate of consideration paid/payable for the acquisitions of subsidiaries under common control upon the Reorganisation; and (2) the combined share capital of the companies now comprising the Group before the Reorganisation, after elimination of investments in subsidiaries.

15. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) *Share-based payments*

Certain eligible employees of the Group received equity-settled share-based compensation granted by the Controlling Shareholders, in the form of the shares of the Company as part of their compensations for services rendered to the Group. These shares were transferred with no vesting conditions and vested immediately.

In December 2010, 2,560,000 ordinary shares or 2.56% of the then total share capital of the Company was transferred by the Controlling Shareholders to certain new and existing employees of the Company.

The fair value of the shares transferred was determined by using their market value. The market value was determined using the DCF. The DCF used the weighted average cost of capital ranging from 11.69% to 18.84% as discount rate of the expected cash flow. The DCF value was further discounted for the lack of marketability and control by 13.9% and 20%.

(c) *Statutory reserves*

Subsidiaries incorporated in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When balance of such reserve fund reaches 50% of each entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of share capital after such usage. For the years ended 31 December 2011 and 2010, 10% of statutory net profit of each entity was appropriated to this reserve. This reserve is non-distributable.

	RMB'000
As at 31 December 2010	24,563
Add: Appropriation	7,923
Less: Deemed distribution to the Controlling Shareholders	(1,141)
As at 31 December 2011	**31,345**

(d) *Capital reserves*

Pursuant to the Reorganisation as mentioned in Note 1, on 31 December 2010, the Company, the Excluded Entities, the Controlling Shareholders and certain subsidiaries of the Group (the "Payable Subsidiaries") entered into a debt restructuring agreement (the "Debt Restructuring Agreement"). Under the Debt Restructuring Agreement, the Company agreed to take over certain payables amounting to approximately RMB211,409,000 originally due by the Payable Subsidiaries to the Excluded Entities. The Controlling Shareholders received a nominal consideration of USD1 to take over from the Company such payables of RMB211,409,000 due to the Excluded Entities and as well as payable by the Company to the Excluded Entities of RMB1,490,000. In this connection, "capital reserve" of RMB212,899,000 is recorded by the Company.

16. BORROWINGS

	2011 RMB'000	2010 RMB'000
Long-term bank borrowings		
— Secured	**9,071**	—
Short-term bank borrowings		
— Unsecured	**118,000**	80,000
— Secured	**92,101**	79,975
	210,101	159,975
Current portion of long-term bank borrowings		
— Secured	**648**	—
	219,820	159,975

(a) Long-term secured bank borrowings mature until 2026 and bear floating interest rate with repricing period of 3 months and the effective interest rate in 2011 is 2.85% (2010: nil). Short-term bank borrowings mature in 1 year and bear interest rate ranging from 6.06% to 7.87% annually during the year ended 31 December 2011 (2010: 5.31% to 6.12%).

(b) The collaterals of the Group's secured bank borrowings are as follows:

	2011 RMB'000	2010 RMB'000
Certain subsidiaries and certain trade receivables *	**92,101**	79,975
The Company and certain prepayments **	**9,719**	—
	101,820	79,975

* As at 31 December 2011, the Group's bank borrowings amounting to RMB92,101,000 (2010: RMB79,975,000) are secured by certain subsidiaries and certain of the Group's receivables amounting to RMB179,276,000 (2010: RMB144,429,000 and personal guarantees provided by the Controlling Shareholders of the Company) (Note 10).

** As of the date of this report, long-term bank borrowings amounting to RMB9,719,000 (comprising long-term bank borrowings amounting to RMB9,071,000 and its current portion amounting to RMB648,000 reflected in the consolidated financial statement as at 31 December 2011) are secured by the Company and certain of the Group's long-term prepayments amounting to RMB18,472,000 (Note 11). This corporate guarantee provided by the Company is to replace the joint guarantees provided by the Controlling Shareholders of the Company and Mr. 趙峰 (Mr. Zhao Feng), the general manager of the subsidiary of the Group, prior to the Global Offering of the Company.

16. BORROWINGS (CONTINUED)

(c) The short-term bank borrowings of the Group are wholly repayable within 1 year, while the long-term bank borrowings will be evenly repaid on a monthly basis during the maturity period of 15 years. The Group's borrowings were repayable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year	**210,749**	159,975
Between 1 and 2 years	**648**	—
Between 2 and 5 years	**1,944**	—
Over 5 years	**6,479**	—
	219,820	159,975

(d) As at 31 December 2011, the Group's long-term borrowings of RMB9,719,000, with contractual interest repricing period of 3 months, is exposed to interest rate changes (2010: nil).

(e) The carrying amounts of the Group's long-term bank borrowings and short-term bank borrowings approximate their fair value.

(f) The Group has the following undrawn bank borrowing facilities:

	2011 RMB'000	2010 RMB'000
Fixed rates		
— Expiring less than one year	**3,568**	25
Floating rates		
— Expiring less than one year	**4,868**	—
	8,436	25

(g) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2011 RMB'000	2010 RMB'000
RMB	**191,180**	159,975
USD	**18,921**	—
SGD	**9,719**	—
	219,820	159,975

17. TRADE PAYABLES

(a) Ageing analysis of trade payables at the respective balance sheet dates is as follows:

	2011 **RMB'000**	2010 RMB'000
Up to 6 months	**133,589**	245,239
6 months to 1 year	**29,901**	9,989
1–2 years	**29,895**	3,413
2–3 years	**2,187**	10,483
Over 3 years	**4,357**	86
	199,929	269,210

(b) As at 31 December 2011, the Group had no trade payables due to related parties (2010: RMB72,245,000) (Note 31 (3)).

(c) As at 31 December 2011 and 2010 the fair value of trade payables approximated their carrying value due to their short maturity period.

(d) The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2011 **Equivalent** **in RMB'000**	2010 Equivalent in RMB'000
RMB	**106,090**	109,796
USD	**34,443**	107,351
CAD	**2,703**	2,239
KZT	**55,185**	49,260
Others	**1,508**	564
	199,929	269,210

18. ACCRUALS AND OTHER PAYABLES

Group

	2011 RMB'000	2010 RMB'000
Amounts due to related parties (Note 31)	—	883
Interest payable	684	789
Others	26,736	8,594
Total financial liabilities	27,420	10,266
Customer deposits and receipts in advance	1,318	2,333
Payroll and welfare payable	30,561	9,492
Taxes other than income taxes payable	36,785	39,023
Total non-financial liabilities	68,664	50,848
	96,084	61,114

(a) Ageing analysis of accrual and other payables at the respective balance sheet dates is as follows:

	2011 RMB'000	2010 RMB'000
Less than 1 year	92,928	59,645
1–2 years	2,999	1,445
2–3 years	133	24
Over 3 years	24	—
	96,084	61,114

(b) As at 31 December 2011, the Group had no accruals and other payables due to related parties (2010: RMB883,000).

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

18. ACCRUALS AND OTHER PAYABLES (CONTINUED)

Group (continued)

(d) The carrying amounts of the Group's accrual and other payables are denominated in the following currencies:

	2011 Equivalent in RMB'000	2010 Equivalent in RMB'000
RMB	**70,756**	40,276
USD	**5,978**	6,065
CAD	**4,074**	370
KZT	**13,903**	12,371
Others	**1,373**	2,032
	96,084	61,114

Company

	2011 RMB'000	2010 RMB'000
Amounts due to related parties	**—**	877
Amounts due to subsidiaries	**14,177**	7,947
Others	**12,034**	—
Total financial liabilities	**26,211**	8,824

19. DEFERRED TAXATION

	2011 RMB'000	2010 RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after 12 months	**22,560**	21,776
Deferred tax assets to be recovered within 12 months	**19,511**	10,050
	42,071	31,826
Deferred tax liabilities:		
Deferred tax liabilities to be settled after 12 months	**(7,629)**	(434)
	34,442	31,392

The gross movement on the deferred income tax account is as follows:

	2011 RMB'000	2010 RMB'000
As at 1 January	**31,392**	31,978
Income statement credit/(charge) (Note 24)	**3,417**	(461)
Currency translation difference	**(367)**	(125)
As at 31 December	**34,442**	31,392

19. DEFERRED TAXATION (CONTINUED)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration offsetting of balances within the same tax jurisdiction, is as follows:

Deferred Tax Assets

	Tax losses RMB'000	Impairment of assets RMB'000	Unrealised profit* RMB'000	Future deductible expenses RMB'000	Total RMB'000
As at 31 December 2010	226	14,634	13,615	3,351	31,826
Income statement credit/(charge)	1,103	(2,123)	9,291	2,341	10,612
Currency translation difference	—	—	(367)	—	(367)
As at 31 December 2011	**1,329**	**12,511**	**22,539**	**5,692**	**42,071**

* Deferred income tax assets of unrealised profit mainly attributed to the unrealised profit on intra-group transfer of property, plant and equipment and inventories.

Deferred Tax Liabilities

	Accelerated tax depreciation RMB'000	Withholding tax of the unremitted earnings of certain subsidiaries* RMB'000	Others RMB'000	Total RMB'000
As at 31 December 2010	434	—	—	434
Charged to income statement	694	6,382	119	7,195
As at 31 December 2011	**1,128**	**6,382**	**119**	**7,629**

* As at 31 December 2011, the Group recognised deferred tax liabilities for unremitted earnings of certain subsidiaries as these subsidiaries are expected to distribute dividends for profit earned subsequent from 1 July 2011.

19. DEFERRED TAXATION (CONTINUED)

Details of unrecognised deferred tax are as follows:

(a) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB6,568,000 as at 31 December 2011 (2010: RMB3,947,000), in respect of losses amounting to RMB35,363,000 (2010: RMB21,411,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2012 and 2016.

(b) As at 31 December 2011, the Group did not recognise deferred tax liabilities of RMB22,120,000 (2010: RMB18,871,000) on withholding tax relating to profits of certain subsidiaries earned prior to 1 July 2011 as it considered the unremitted earnings of RMB442,392,000 (2010: RMB377,412,000) will be retained in the respective subsidiaries for their future investment and expansion activities.

20. OTHER (LOSSES)/GAINS, NET

	2011 **RMB'000**	2010 RMB'000
Net foreign exchange (losses)/gains	**(7,635)**	4,704
Others	**(125)**	(498)
	(7,760)	4,206

21. EMPLOYEE BENEFITS EXPENSES

	2011 **RMB'000**	2010 RMB'000
Wages, salaries and allowances	**220,218**	151,144
Housing benefits	**6,799**	4,950
Pension costs	**20,615**	16,187
Share-based payments (Note 15)	**—**	31,000
Welfare and other expenses	**5,326**	5,671
	252,958	208,952

22. EXPENSE BY NATURE AND PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Operating profit is arrived at after charging the following:

	2011 RMB'000	2010 RMB'000
Losses on disposal of property, plant and equipment	35	1,653
Losses on disposal of intangible assets	576	—
Sales tax and surcharges	7,380	9,517
Depreciation	43,443	31,380
Share issue costs	22,122	—
Amortisation of intangible assets	108	162
Auditor's remuneration	2,000	2,063

For the year ended 31 December 2011, the Company recorded a loss of RMB6,300,000 (2010: RMB2,000).

23. FINANCE COSTS, NET

	2011 RMB'000	2010 RMB'000
Finance income:		
— Interest income on short-term bank deposits	262	339
— Net foreign exchange gains on financing activities	274	—
Finance income	536	339
Interest expense:		
— Bank borrowings	(10,120)	(4,928)
— Bank charges	(4,415)	(761)
Total finance costs	(14,535)	(5,689)
Net finance costs	(13,999)	(5,350)

24. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current taxation	**78,484**	55,679
Deferred taxation	**(3,417)**	461
Income tax expense	**75,067**	56,140

a. The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

b. Subsidiaries established in Netherlands and Luxemburg are subject to Netherland and Luxemburg profit tax at a rate of 20% and 30% respectively.

c. Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%.

d. The subsidiary established in Singapore is subject to an incentive tax rate at 10%.

e. PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in Mainland China for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. During the financial year, the applicable EIT rate for the subsidiaries of the Group is 25%.

f. The corporate income tax rate for subsidiaries established in Kazakhstan is 20%. Income tax is charged on all business income generated in Kazakhstan with relief for tax deductible expenses.

g. The corporate income tax rate for subsidiaries established in Canada is 29%.

24. INCOME TAX EXPENSE (CONTINUED)

The income tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2011 RMB'000	2010 RMB'000
Profit before income tax	**261,650**	175,583
Tax calculated at respective entities statutory tax rates	**59,219**	41,410
Preferential tax rates and tax exemption on the income of certain subsidiaries	**—**	(406)
Expenses not deductible for taxation purposes	**6,929**	12,512
Losses not recognised as deferred tax assets	**2,621**	1,595
Withholding tax of the unremitted earnings of certain subsidiaries	**6,298**	—
Withholding tax paid in foreign jurisdiction not deductible against local tax	**—**	1,029
Income tax expense	**75,067**	56,140

25. DIVIDENDS

No dividend has been paid or declared by the Company during the financial year (2010: nil).

A dividend in respect of the year ended 31 December 2011 of HKD0.012335 (RMB0.01) per share, amounting to a total dividend of approximately HKD16,467,000 (RMB13,350,000), is to be proposed at the next annual general meeting. The financial statements do not reflect this dividend payable. The Group's subsidiaries will declare sufficient dividends to the Company to enable the Company to pay dividends to its shareholders to be proposed at the annual general meeting.

26. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Director's emoluments

Director's emoluments for the years ended 31 December 2011 and 2010 are set out as follows:

	2011 RMB'000	2010 RMB'000
Basic salaries and allowances	1,860	1,489
Discretionary bonuses	438	710
Retirement benefits and others	105	105
	2,403	2,304

No directors have waived or agreed to waive any emoluments during the financial year.

Director's emoluments are set out below:

	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary Bonus RMB'000	Retirement benefits and others RMB'000	Total RMB'000
Year ended 31 December 2010					
Executive Directors					
Mr. 王國強 (Mr. Wang Guoqiang)	—	587	230	52	869
Mr. 吳東方 (Mr. Wu Dongfang)	—	587	230	53	870
Mr. 劉若岩 (Mr. Liu Ruoyan)	—	315	250	—	565
	—	1,489	710	105	2,304
Year ended 31 December 2011					
Executive Directors					
Mr. 王國強 (Mr. Wang Guoqiang)	—	759	230	52	1,041
Mr. 吳東方 (Mr. Wu Dongfang)	—	759	—	53	812
Mr. 劉若岩 (Mr. Liu Ruoyan)	—	324	208	—	532
Independent Non-Executive Directors					
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	—	6	—	—	6
Ms. 陳春花 (Ms. Chen Chunhua)	—	6	—	—	6
Mr. 温嘉明 (Mr. Wan Kah Ming)	—	6	—	—	6
	—	1,860	438	105	2,403

26. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2011 did not include any directors.

The emoluments payable to the five highest paid individuals for the years ended 31 December 2011 and 2010 are as follows:

	2011 RMB'000	2010 RMB'000
Basic salaries and allowances	11,274	5,008
Discretionary bonuses	4,014	1,947
Share-based payments (Note 15)	—	31,000
Retirement benefits and others	10	132
	15,298	38,087

The emoluments fell within the following bands:

	2011	2010
Emolument band		
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,662,000 to RMB2,077,000)	3	—
HK$4,000,001 to HK$4,500,000 (equivalent to RMB3,323,000 to RMB3,739,000)	1	—
HK$4,500,001 to HK$5,000,000 (equivalent to RMB3,739,000 to RMB4,154,000)	—	3
HK$7,000,001 to HK$7,500,000 (equivalent to RMB5,816,000 to RMB6,231,000)	1	—
HK$11,500,001 to HK$12,000,000 (equivalent to RMB9,554,000 to RMB9,970,000)	—	1
HK$17,500,001 to HK$18,000,000 (equivalent to RMB14,539,000 to RMB14,954,000)	—	1
	5	5

26. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals (continued)

During the financial year, no director or other member of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office. During the year ended 31 December 2010, one of the five highest paid individuals received an emolument of RMB7,922,000 as an inducement upon joining the Group.

27. EARNINGS PER SHARE

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

	2011 **RMB'000**	2010 RMB'000
Profit attributable to equity owners of the Company	**181,806**	119,509
Weighted average number of ordinary shares in issue (thousands)	**1,008,260**	1,000,000
Basic earnings per share (RMB per share)	**0.18**	0.12

As the Company had no dilutive instruments for the years ended 31 December 2011 and 2010, the diluted earnings per share is the same as basic earnings per share.

The earnings per share as presented above is calculated using the weighted average number of ordinary shares in issue for each of the years ended 31 December 2011 and 2010.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash flow from operations

Reconciliation of profit for the year to net cash inflows generated from operations:

	2011 RMB'000	2010 RMB'000
Profit before income tax	**261,650**	175,583
Adjustments for:		
Property, plant and equipment		
— depreciation charge (Note 22)	**43,443**	31,380
— net loss on disposals (Note 22)	**35**	1,653
Intangible assets		
— amortisation (Note 7)	**108**	162
— net loss on disposals (Note 22)	**576**	—
Provision for impairment of assets	**9,262**	—
Share issue costs (Note 22)	**22,122**	—
Net foreign exchange loss/(gain) (Note 20 and 23)	**7,361**	(4,704)
Interest income (Note 23)	**(262)**	(339)
Interest expenses on borrowing (Note 23)	**10,120**	4,928
Share-based payments	**—**	31,000
Changes in working capital:		
Inventories	**(34,024)**	(17,202)
Trade receivables	**(140,552)**	(184,735)
Prepayments and other receivables	**15,203**	(70,935)
Trade payables	**(55,848)**	162,228
Accruals and other payables	**3,530**	10,509
Restricted bank deposits	**8,663**	1,761
Net cash inflows from operations	**151,387**	141,289

(b) In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2011 RMB'000	2010 RMB'000
Net carrying value (Note 6)	**5,210**	12,481
Loss on disposal of property, plant and equipment (Note 22)	**(35)**	(1,653)
Proceeds from disposal of property, plant and equipment	**5,175**	10,828

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

(c) Net cash out flow arising from deemed distribution to the equity owners

Pursuant to the Reorganisation mentioned in Note 1, the assets and liabilities of the Excluded Entities totaling approximately RMB197,128,000 are reflected and accounted for as a deemed distribution to the equity owners at 31 December 2010. The net cash outflow arising from deemed distribution to the equity owners is RMB15,248,000.

29. CONTINGENCIES

As at 31 December 2011 and 2010, the Group did not have any significant contingent liabilities.

30. COMMITMENT

(a) Capital commitments

Capital expenditure contracted for at the end of the financial year but not incurred is as below:

	2011 RMB'000	2010 RMB'000
Property, plant and equipment	—	4,636
Land use right	16,670	—
	16,670	4,636

(b) Operating lease commitments — where the Group is the lessee:

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

	2011 RMB'000	2010 RMB'000
No later than 1 year	25,184	11,126
Later than 1 year and no later than 5 years	28,259	24,754
	53,443	35,880

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

(1) The following companies and persons are related parties of the Group and have transactions with the Group during the financial year:

(i) Controlling Shareholders

Mr. 王國強 (Mr. Wang Guoqiang) and
Mr. 吳東方 (Mr. Wu Dongfang)

(ii) Other shareholders

Ms. 沈翼 (Ms. Shen Yi) and
Mr. 趙峰 (Mr. Zhao Feng)

(iii) Company controlled by certain shareholders

北京宏輝安達科技有限公司 (Beijing Honghuianda Technology Ltd.)*
Sinopetroleum International Limited**

* 北京宏輝安達科技有限公司(Beijing Honghuianda Technology Ltd.) is a company controlled by Mr. 吳東方 (Mr. Wu Dongfang), one of the Group's Controlling Shareholders.

** Sinopetroleum International Limited is one of the aforementioned Excluded Entities (Note 1) which was excluded from the consolidated financial statements of the Group on 31 December 2010 pursuant to the Reorganisation and therefore identified as the related party company of the Group upon the completion of the Reorganisation.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(2) Transactions with related parties

Same as disclosed elsewhere in this report, during the financial year, the following transactions were carried out with related parties:

(a) Advances made to the related parties

	2011 RMB'000	2010 RMB'000
Mr. 王國強 (Mr. Wang Guoqiang)	—	5,798
Mr. 吳東方 (Mr. Wu Dongfang)	—	7,859
Ms. 沈翼 (Ms. Shen Yi)	—	4,028
北京宏輝安達科技有限公司 (Beijing Honghuianda Technology Ltd.)	—	4
	—	17,689

(b) Advances/Loans obtained from the related parties

	2011 RMB'000	2010 RMB'000
Mr. 王國強 (Mr. Wang Guoqiang)	37,087	4,370
Mr. 吳東方 (Mr. Wu Dongfang)	30,913	3,637
Mr. 趙峰 (Mr. Zhao Feng)	—	3
Sinopetroleum International Limited	66,017	—
	134,017	8,010

(c) Personal guarantee provided for the Group's bank borrowings

As at 31 December 2011 and 2010, Mr. 王國強 (Mr. Wang Guoqiang) and Mr. 吳東方 (Mr. Wu Dongfang), the Controlling Shareholders of the Company, provided joint personal guarantee for the long-term borrowings amounting to RMB9,719,000 and the Group's short-term borrowings amounting to RMB79,975,000, respectively (Note 16). The personal guarantee for the long-term borrowings as at 31 December 2011, a transitional arrangement prior to the listing of the Company, has been replaced by the corporate guarantee of the Company as at the date of this report.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(2) Transactions with related parties (continued)

(d) Indemnity provided by Controlling Shareholders

The Controlling Shareholders have provided indemnity in favour of the Company for any claims prior to Reorganisation against the Company for any losses, liabilities and cost arising from claims by third parties including tax authorities.

(3) Balances with related parties

	2011 RMB'000	2010 RMB'000
Trade payables		
Sinopetroleum International Limited	—	72,245
Amounts due from related parties		
Mr. 王國強 (Mr. Wang Guoqiang)	—	10,180
Mr. 吳東方 (Mr. Wu Dongfang)	—	8,148
Ms. 沈翼 (Ms. Shen Yi)	—	4
Mr. 趙峰 (Mr. Zhao Feng)	—	3
北京宏輝安達科技有限公司 (Beijing Honghuianda Technology Ltd.)	—	4,004
	—	22,339
Amounts due to related parties		
Mr. 王國強 (Mr. Wang Guoqiang)	—	453
Mr. 吳東方 (Mr. Wu Dongfang)	—	430
	—	883

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Key management compensation

Key management includes executive directors and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2011	2010
	RMB'000	RMB'000
Basic salaries and allowances	**15,233**	8,299
Discretionary bonuses	**5,162**	3,000
Share-based payments	**—**	20,102
Other benefits including pension	**222**	251
	20,617	31,652

32. SUBSEQUENT EVENTS

Pursuant to the share option scheme adopted on 1 December 2011, the Company announced on 20 February 2012 that it granted a total of 26,500,000 share options to 86 employees to subscribe for a total of 26,500,000 ordinary shares of US$0.0001 each of the Company at an exercise price set at the market share price plus 1% on that date of HK$1.292 (share price: HK$1.280) per share within 10 years. The share options will be evenly vested over 3 years from the first anniversary of the grant date conditional upon the granted employees will fulfill certain vesting conditions.

SPT Energy Group Inc.
華油能源集團有限公司*