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

2012
Interim Report

* For identification purpose only

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SPT Energy Group Inc.
Interim Report 2012

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang
(Chairman and Chief Executive Officer)
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

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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

Corporate Information

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

As to Hong Kong Law
Morrison & Foerster

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

Management Discussion and Analysis

BUSINESS OVERVIEW

During the first half year of 2012 (the "Current Period" or the "Reporting Period"), the Group (as defined below) recorded a revenue of Renminbi ("RMB") 590.3 million and net profit of RMB67.3 million from its operation, representing an increase of 44.5% and 45.2% respectively as compared with the comparative period of 2011.

As a leading non-state-owned integrated oilfield services provider in the People's Republic of China ("PRC"), the main businesses of SPT Energy Group Inc. (the "Company", together with its subsidiaries, the "Group") consist of three business segments, namely drilling services, well completion services and reservoir services, covering most of the turnkey and specialised services in the oilfield exploration and production, which led to a pioneering market position in natural gas exploration and development in PRC, especially in the high-end natural gas well completion market. During the first half year of 2012, all main businesses segments of the Group have shown significant annual growth in revenue and profits. Our leading position in the industry has been further strengthened.

With its over-a-decade of experiences in multinational operation, the Group has wide business coverage in the major oil and gas production regions around the world, such as PRC, Central Asia, North America, Southeast Asia and the Middle East. We are one of the few non-state-owned enterprises with the capability to engage in large-scale overseas oilfield services in PRC. In the first half year of 2012, our overseas and domestic businesses have achieved a rapid development. For the overseas market, the Group recorded a revenue of RMB403.3 million from main businesses in the first half year of 2012, which accounted for 68.3% of our total revenue and represented an annual growth of 41.1% as compared with the comparative period of 2011, thus maintaining our leading edges in scale. For the domestic market, the Group recorded a revenue of RMB187.1 million from main businesses during the first half year of 2012, which represented an increase of 52.5% as compared with the comparative period of 2011.

During the Reporting Period, the Group has further strengthened the introduction, research and development, and on-the-site application of some key technologies in oilfield exploration and development, such as reservoir geological research, drilling and well completion technologies, production enhancement technologies and advanced oil production technologies. As a result, these new technologies and products have been further applied and justified. As for unconventional gas with great potential, the technologies and products of our Group received further recognition. During the first half year of 2012, we have successfully completed the fracturing services operation for our second horizontal shale gas wells in Sichuan, PRC, and also successfully completed CBM turnkey drilling operations (煤層氣鑽井總包作業) for our second well in Indonesia. The substantial progress achieved in these two operations and services represented that our equipments and standards in services and technologies in the areas of unconventional natural gas exploration and development turned to be more and more mature to meet the demands from the rapid development of related business in the future.

REVENUE ANALYSIS

In the first half year of 2012, the analysis of each main business segment of our Group is as follows (with tables):

	For the six months ended 30 June		
	2012	2011	Growth Rate
	RMB'000	*RMB'000*	
	Unaudited	Audited	
Drilling services	**178,216**	128,707	38.5%
Well completion services	**179,400**	74,610	140.5%
Reservoir services	**232,717**	205,165	13.4%
Total	**590,333**	408,482	44.5%

RESERVOIR SERVICES SEGMENT

	For the six months ended 30 June		
Revenue	**2012**	2011	Growth Rate
	RMB'000	*RMB'000*	
	Unaudited	Audited	
PRC	**27,441**	14,764	85.9%
Overseas	**205,276**	190,401	7.8%
Total	**232,717**	205,165	13.4%

During the first half year of 2012, the Group recorded a revenue of RMB232.7 million in reservoir services segment, representing an increase of 13.4% as compared with the comparative period of 2011, while reservoir services in our overseas market recorded a revenue of RMB205.3 million. Our overseas reservoir services operations mainly in Kazakhstan, North America and Indonesia. During the Current Period, the Group successfully won a contract of a total amount of United States Dollar ("USD") 32.38 million for the provision of dynamic monitoring services for PetroKazhakstan Company in Kazakhstan with a term of 33 months, showing that our clients recognised the quality of our services and the capabilities of our Group. Our market position in Kazakhstan region has been therefore further enhanced. In respect of the domestic market, reservoir services recorded a revenue of RMB27.4 million for the first half year of 2012. Apart from the existing business, the Group successfully commenced turnkey business for oil and gas production device maintenance in the Tarim Oilfield during the Current Period. It is expected that such business will generate over RMB100 million income for the Group in the year of 2012 based on our preliminary valuation. The smooth commencement of such businesses further strengthened the system of our products and services, and at the same time, created a stable and continuous stream of revenue.

Management Discussion and Analysis

During the first half year of 2012, we have further enhanced our reservoir geological research. With our participation in the oilfield design and assessment in the early stage of exploration, we have laid a foundation for providing solutions for the latter stages of oilfield development. Currently, there are over 20 senior experts in our reservoir research centre. They are expertise in three major technologies, namely oilfield geology, geophysical and reservoir engineering. During the Reporting Period, our research centre has already provided more than five different oilfield geological research projects for Daqing Oilfield, Northeast Bureau of Sinopec and Jidong Oilfield. It is expected that these research projects would help attract more engineering technology services business.

WELL COMPLETION SERVICES SEGMENT

	For the six months ended 30 June		
Revenue	**2012**	2011	Growth Rate
	RMB'000	*RMB'000*	
	Unaudited	Audited	
PRC	**102,806**	41,481	147.8%
Overseas	**76,594**	33,129	131.2%
Total	**179,400**	74,610	140.5%

During the first half year of 2012, our well completion business has gained a substantial growth, with a revenue of RMB179.4 million, representing an increase of 140.5% as compared with the comparative period of 2011.

In the first half of year 2012, the Group recorded a revenue of RMB102.8 million in well completion services in the domestic market representing an annual growth of 147.8% as compared with the comparative period of 2011. Besides our stable leading position in high-end well completion services for gas wells in Tarim Oilfield, we have also achieved a revenue of RMB22.8 million in well completion services for gas storage project in Xinjiang oilfield, showing our leading edges in high-end well completion services for natural gas well. For the overseas market, our completion business grew rapidly in the first half year of 2012, with a revenue of RMB76.6 million, representing an increase of 131.2% as compared with the comparative period of 2011. While Central Asia market amounted to RMB30.3 million, it is anticipated that further development could be achieved in the second half year of 2012 in this region.

For acid fracturing services, apart from maintaining stable operation scale in conventional fracturing services in Kazakhstan, the Group also successfully completed fracturing services for its second shale gas horizontal well in Sichuan during the Reporting Period, PRC, demonstrating our technological capabilities in domestic shale gas exploration and development services. Following our rendition of fracturing services for three wells in Turpan-Hami Oilfield in 2011, we have, in the first half year of 2012, successfully completed services for five wells.

DRILLING SERVICES SEGMENT

Revenue	For the six months ended 30 June 2012 RMB'000 Unaudited	2011 RMB'000 Audited	Growth Rate
PRC	**56,806**	66,429	-14.5%
Overseas	**121,410**	62,278	94.9%
Total	**178,216**	128,707	38.5%

In the first half year of 2012, the Group recorded a revenue of RMB178.2 million from drilling services segment, representing an increase of 38.5% as compared with the comparative period of last year. In the domestic market, we continued to maintain its leading position in high-end drilling services for gas wells (such as the areas of Fine-Managed Pressure Drilling and oil-base drilling fluid services) in Tarim Oilfield market. Oil-base drilling fluid services with a novel drilling fluid material with huge development potential, has achieved scale operations in Tarim Oilfield during the first half year of 2012. During the Current Period, the Group once operated four wells at the same time, and recorded a revenue of RMB29 million. It is expected to record a revenue of over RMB0.1 billion for the year of 2012. The Group recorded an annual growth decline in the revenue from domestic drilling operations, mainly because Fine-Managed Pressure Drilling operations did not commence until the second half year due to the influence of work cycles of drilling operations. In the overseas market, the Group successfully completed CBM turnkey drilling operations (煤層氣鑽井總包作業) for the second well in Indonesia during the Current Period, which enhanced our strength in capturing further market share in the unconventional natural gas market in that region. During the same period, the assembly for the second set of special CBM drilling rig as invested by the Group has been substantially completed and the drilling rig is planned to be delivered to the Indonesian market in September 2012, for the Group's scale operations in exploratory and development services of unconventional natural gas in that market. In the first half year of 2012, there was a significant achievement in drilling and well workover business in the market of Kazakhstan, recording a revenue from operations of RMB94.3 million, representing an increase of 66.8% as compared to the corresponding period of last year. As of the end of the Reporting Period, the Group has utilized 20 well-drilling and work over rigs in Kazakhstan, and conducted different well-drilling and work over operations in six oilfields throughout three regions.

Market environment

For industrial environment, the external macro-environment is expected to remain relatively favorable. Although volatility still exists, the demand and supply of the global oil and gas is basically stable. With the long-term demand set out as well as the current condition of imbalance of supply and demand in certain markets, it is expected that oil companies will continue to increase the relevant investment in exploration and development which will create development opportunities for services companies.

Management Discussion and Analysis

From the microscopic perspective of industrial environment, following the in-depth global oil and gas exploration and development activity, the directions for the exploration and development of oilfields and the services model which are resulted from demand from customers keep evolving, the two characteristics set out below become more and more obvious, posing greater challenges to the servicing capability of technical services companies.

- Focus shifted to development of unconventional oil and gas resources. With a decline in global conventional oil and gas reserves and increasing difficulty in step-up production, the strategic importance of unconventional oil and gas resources increased, especially in PRC market. National Energy Administration of PRC officially issued a five-year plan (the "Five-year Plan") for the exploration of shale gas on 16 March 2012, symbolizing that the exploration of shale gas has been adopted as the national policy and the exploration has already started. According to such planning program, the production volume of domestic shale gas is expected to reach 6.5 billion cubic metres by 2015 and the planned production target is around 60 billion to 100 billion cubic metres by 2020. The second phase of tender for shale gas segment will be launched shortly. Since the reservoir forming and geological conditions of shale gas are quite different from that of conventional natural gas, exploring technology and service required are different, exploration technologies and products localization and reduction of the overall service cost remain a big challenge for all service companies.

- Customers show preference for comprehensive and integrated turnkey operation services. With the increasing difficulty and complexity of the exploration and development of the oilfields, the oil companies tend to choose a turnkey contract model (a single service company provides an integrated service package including geographical reservoir research, drilling, well completion, oil testing, and even production enhancement services) especially for the complicated and difficult well operations. This service model has been well accepted and adopted by an increasing number of customers. Such model sets a higher standard for a service company, therefore, the market of single products and the service companies will be further diminished.

Research and development ("R&D") and manufacturing

The oilfield technical service is a technology-intensive industry. With the increasing difficulty in oilfield exploration and development, the capability in developing and applying new technologies is the key for achieving long-term sustainable development and grasping market opportunities for the service companies.

During the Current Period, the Group has integrated all of the intra-group research and development strengths, and established its technology committee of the Group, deploying the Group's short and long-term planning in R&D and technical development, especially focusing on the research and development of tools and materials required for the exploration of shale gas and other unconventional gas, in which the well-drilling tools for directional wells independently developed and designed by the Group are expected to complete on-site testing by the end of 2012 and commenced its operation.

During the Current Period, the Group further accelerated the R&D and manufacturing of downhole tools. The operation of the first phase of the Group's R&D and manufacturing base in Singapore has commenced. The completion in construction of such centre will greatly enhance the Group's technological edge in respect of downhole operations and further facilitate reducing the production cost of the Group.

As of the end of the Current Period, the Group possesses a total of 30 approved patents. During the Reporting Period, the Group has newly applied for four patents and has 15 patents pending the approvals.

HUMAN RESOURCES

In the first half year of 2012, the Group has further optimized its internal organizational structure, reinforced the development and training of internal talents, and continued to attract high-caliber talents in management, engineering service and R&D at home and abroad, in order to establish stronger technical and service capabilities, and ensure the competitive edges of the Group. As of 30 June 2012, the Group had 3,039 employees. In the overseas market, the Group further carried the strategy of staff localization and optimized the international personnel structure. The rate of staff localization in non-PRC regions has exceeded 95%, ensuring the smooth run of our global business.

In order to attract and retain the crucial staff in key positions, the Group has implemented the share option scheme and granted options to some staff crucial for the Group's operations in the first quarter of 2012. Besides, the Group has further strengthened its compensation management system for staff, optimized the compensation structure and enhanced the incentive mechanism. Meanwhile, in order to meet the demand of business globalization, the Group will further develop and improve the compensation strategies for international staff in various countries and regions, to suit the needs of human resources management for different regions.

OUTLOOK

In the second half year of 2012 and for a fairly long time thereafter, the development of natural gas will still be one of the highlighted industries for investment in the market. With the endorsement of the Five-year Plan for shale gas in PRC and the commencement of the second round of tender for shale gas regions, shale-oil companies will further accelerate their exploration and development. Globally, Central Asia, the Middle East, Southeast Asia and other regions also rich in oil and gas resources will become the most popular regions in investment with the fastest growth. In face of the external circumstances, we will seize the opportunities and, at the same time, lay a sound foundation for our plans in 2013 with the following major aspects:

1. To further consolidate the fast growing businesses, and especially those with obvious growing momentum, such as well completion, drilling fluid services, workover, operation and maintenance of gas and oil production, we will, besides ensuring the quality of our service, reinforce our efforts in the expansion of new markets and securing new projects, so as to achieve a larger order scale.

2. To further expand our overseas market, especially the development of new markets, and to continue our vigorous expansion in the established markets in Southeast Asia and Middle East, aiming at exploring the competitive businesses of the Group in such markets and obtaining systematic operations.

3. To speed up our pace in research and development, facilitate the field application of the well-established products and increase the proportion of self-owned technologies and products, and reduce direct costs.

4. Further expand our product and service system, speed up the development of engineering services and construction business relate to oil and gas production and transportation device.

5. To tighten quality control and ensure the safeness and environment-friendliness of field operations, as well as to further optimize the quality control system of the Company and enhance our management standard, so as to provide a safe production process for the Group's oilfield customers.

As a result of foregoing, looking ahead for 2012, the Group is of the view that, together with the encouraging circumstances, our major customers will put greater efforts in oilfield exploration and development to accelerate the operation of exploration and materialize the proved oil and gas reserves, and will ensure a rising demand and supply in oil and gas. External operating factors and environment of the Group is optimistic. In the meantime, with our good results achieved in the first half year of 2012, the Group is geared up for even better performance in all business in the coming second half year.

FINANCIAL REVIEW

Revenue

The revenue of the Group for the first half year of 2012 was approximately RMB590.3 million, representing an increase of approximately RMB181.8 million, or approximately 44.5%, as compared with approximately RMB408.5 million in the comparative period of 2011. The increase in the revenue of the Group was primarily due to the business growth of the Group, especially the substantial growth in well completion.

Other losses, net

For the first half year of 2012, net other losses of the Group was approximately RMB0.4 million. It was primarily due to the appreciation in value of USD-denominated payables of our PRC and Kazakhstan subsidiaries against RMB and Kazakhstani Tenge ("KZT").

Material costs

For the first half year of 2012, material costs of the Group was approximately RMB130.1 million, representing an increase of approximately RMB31.2 million, or 31.5%, as compared with approximately RMB98.9 million in the comparative period of 2011. The increase was mainly due to the increase in consumption of materials driven by business growth.

Employee benefit expenses

Our employee benefit expenses for the first half year of 2012 was approximately RMB153.2 million, representing an increase of approximately RMB61.4 million, or 66.9%, as compared with approximately RMB91.8 million in the comparative period of 2011. The increase was primarily due to the increase in the numbers of staff and average wages.

Operating lease expenses

Our operating lease expenses for the first half year of 2012 was approximately RMB29.7 million, representing an increase of approximately RMB11.5 million, or 63.2%, as compared with RMB18.2 million in the comparative period of 2011. The increase was primarily due to the business growth of the Group.

Transportation costs

For the first half year of 2012, our transportation costs was approximately RMB33.3 million, representing an increase of approximately RMB8.8 million, or 35.9%, as compared with RMB24.5 million in the comparative period of 2011. The increase was primarily due to the production business growth of the Group.

Depreciation and amortisation

Our depreciation and amortisation expenses for the first half year of 2012 was approximately RMB29.3 million, representing an increase of approximately RMB10.3 million, or 54.2%, as compared with approximately RMB19.0 million in the comparative period of 2011. The increase was primarily due to the increase in the fixed assets.

Technical service expenses

Our technical service expenses for the first half year of 2012 was approximately RMB43.7 million, representing an increase of approximately RMB11.1 million, or 34.0%, as compared with approximately RMB32.6 million in the comparative period of 2011. The increase was primarily due to the increase in related technical services driven by the substantial growth in drilling and well completion.

Impairment loss of assets

Our impairment loss of assets for the first half year of 2012 was approximately RMB3.7 million, primarily due to the provision for bad debt relating to receivables that the Group expected to be uncollectible.

Others

Other operating costs of our Group for the first half year of 2012 increased from approximately RMB48.7 million for the comparative period of 2011 to approximately RMB62.9 million, representing an increase of approximately RMB14.2 million, or 29.2%. The increase was primarily relating to the increase in administrative expenses arising from expansion in business and number of staff.

Operating profit

As a result of the foregoing, our operating profit increased from approximately RMB68.6 million for the comparative period of 2011 to approximately RMB104.1 million for the first half year of 2012, representing an increase of approximately RMB35.5 million, or 51.7%.

Finance costs, net

Our net finance cost for the six months ended 30 June 2012 was approximately RMB7.5 million, representing an increase of RMB4.0 million, or 114.3%, from RMB3.5 million for the comparative period of 2011. The increase was mainly due to the increase of our borrowings in the period.

Income tax expense

Our income tax expense for the first half year of 2012 was approximately RMB29.2 million, representing an increase of about RMB10.5 million, or 56.1%, as compared with approximately RMB18.7 million for the comparative period of 2011. The Group's effective income tax rate (income tax expense/profit before income tax) for the first half year of 2012 was 30.2%, whereas the effective income tax rate of the comparative period of 2011 was 28.8%. The increase was primarily due to the increase in withholding tax related to unremitted earnings of certain subsidiaries of the Group.

Profit for the Current Period

As a result of the foregoing, the net profit for the first half year of 2012 was approximately RMB67.3 million, representing an increase of approximately RMB20.9 million, or 45.0%, from approximately RMB46.4 million for the comparative period of 2011.

Profit attributable to the equity owners of the Company

For the first half year of 2012, the profit attributable to the equity owners of the Company was approximately RMB65.8 million, representing an increase of approximately RMB18.6 million, or 39.4 %, from approximately RMB47.2 million for the comparative period of 2011.

Property, plant and equipment

As at 30 June 2012, property, plant and equipment were approximately RMB237.3 million, representing an increase of approximately RMB22.7 million, or 10.6%, as compared with approximately RMB214.6 million at 31 December 2011. The increase was mainly due to the purchase of equipment and acquisition of certain subsidiary which also brings the Group certain equipments.

Inventory

Our inventory balance as at 30 June 2012 was approximately RMB356.7 million, representing an increase of approximately RMB111.6 million, or 45.5%, as compared with approximately RMB245.1 million at 31 December 2011. The increase of inventory was primarily due to the expansion of the Group's business.

Trade receivables and payables

As at 30 June 2012, our net trade receivables was approximately RMB639.2 million, representing an increase of approximately RMB62.1 million, or 10.8%, as compared with approximately RMB577.1 million at 31 December 2011. The increase was primarily due to the increase in revenue.

As at 30 June 2012, our net trade payables was approximately RMB229.2 million (including non-current trade payables of RMB9.9 million and current trade payables of RMB219.3 million), representing an increase of approximately RMB29.3 million, or 14.7%, as compared with approximately RMB199.9 million at 31 December 2011. It was mainly due to the expansion in purchase amount.

Liquidity and capital resources

As at 30 June 2012, our cash and bank deposits were approximately RMB109.2 million (including restricted bank deposits of RMB6.2 million and cash and cash equivalents), representing a decrease of RMB194.2 million, or 64.0%, as compared with RMB303.4 million at 31 December 2011. The decrease was primarily due to the utilisation of cash by the Group in operating costs and capital expenditure.

As at 30 June 2012, our outstanding short-term bank borrowings and the current portion of long-term bank borrowings were RMB221.7 million, while our outstanding long-term borrowings were RMB11.8 million.

As at 30 June 2012, our gearing ratio was 24.1%, representing a decrease of 0.2% as compared with 24.3% at 31 December 2011. The decrease was mainly due to the increase in the Group's equity. Gearing ratio is calculated as total borrowings divided by total equity. Total borrowings include long-term borrowings, short-term borrowings and current portion of long-term borrowings.

As at 30 June 2012, our equity attributable to the equity owners of the Group was approximately RMB928.7 million, representing an increase of RMB58.4 million, or 6.7%, as compared with RMB870.3 million at 31 December 2011.

Cash flow from operating activities

For the first half year of 2012, our net cash used in operating activities was approximately RMB150.2 million, representing an increase of RMB132.7 million as compared with the net cash used of approximately RMB17.5 million in the comparative period of 2011. It was primarily due to the increasing need for cash driven by the continuing expansion of the Group's business and relatively longer billing cycle arising from fast-growing new markets and business.

Management Discussion and Analysis

Cash flow used in investing and generated from/(used in) financing activities

For the first half year of 2012, the Group had cash flows used in investing activities of approximately RMB63.3 million. It mainly included RMB39.5 million used in acquiring property, plant and equipment and RMB17.4 million used in acquiring land use rights and RMB6.8 million used in acquiring subsidiaries.

For the first half year of 2012, the net cash flows generated from financing activities was approximately RMB14.9 million, which was primarily due to the increase of borrowings.

Foreign exchange risk

The Group mainly operates in PRC, Kazakhstan, Singapore and Canada with most of the transactions denominated and settled in USD, RMB, KZT, Singapore dollar and Canadian dollar, respectively. 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.

For the first half year of 2012, 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.

Capital structure

The capital of the Company comprises only ordinary shares. As at 30 June 2012, the total number of ordinary shares of the Company in issue was 1,335,000,000 shares (31 December 2011: 1,335,000,000 shares). The total equity attributable to owners of the Company amounted to approximately RMB928,728,000 (31 December 2011: RMB870,269,000).

On 7 August 2012, the Company and certain subscribers entered into a subscription agreement, pursuant to which, on 20 August 2012, the Company issued to certain independent third party convertible bonds in an aggregate principal amount of USD15,000,000. The proceeds from convertible bonds will be used as the Group's general working capital.

Significant investment held

As at 30 June 2012, the Group did not hold any significant investment.

Material acquisitions and disposals of subsidiaries and associates

As of the Current Period, the Group did not have any material acquisition and disposal of subsidiaries and associates.

Assets pledged

As at 30 June 2012, the Group had pledged part of its trade receivables and non-current prepayment for operating lease to secure the Group's borrowings. The carrying values of the assets pledged are as follows:

	As at 30 June 2012 *RMB'000* **Unaudited**	As at 31 December 2011 *RMB'000* Audited
Trade receivables	**130,351**	179,276
Non-current prepayment for operating lease	**18,017**	18,472
	148,368	197,748

Contingent liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities.

Off-balance sheet arrangements

As at 30 June 2012, the Group did not have any off-balance sheet arrangements.

Contractual obligations

Our contractual commitment mainly includes the capital expenditure commitments and the repayments under operating lease commitments. The capital expenditure commitments mainly represent acquisition of property, plant and equipment. The property, plant and equipment commitments as at 30 June 2012 were RMB5.4 million. The operating lease commitments mainly include the lease of offices, warehouses and equipments. As at 30 June 2012, our operating lease commitments was RMB34.9 million.

Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As of the Current Period, the Company has complied with all the applicable code provisions of the Code of Corporate Governance Practices (from 1 January 2012 to 31 March 2012) and Corporate Governance Code (from 1 April 2012 to 30 June 2012) (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the following provision.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Under the existing organizational structure, Mr. Wang Guoqiang is the chairman of the board of directors (the "Board") and chief executive officer of the Company. The Board believes that Mr. Wang Guoqiang's extensive experience in the oil industry is beneficial to the business prospects and management of the Group. The board and the senior management, which comprises experienced and high calibre individuals, can ensure the balance of power and authority. The Board currently comprises three executive directors (including Mr. Wang Guoqiang) and three independent non-executive directors and therefore has a fairly strong independence element in its composition.

The code provision A.6.4 of the CG Code stipulates that the Company should formulate written guidelines for dealings in its securities by the relevant employees. As a part of good corporate governance, at a Board meeting held on 28 August 2012, the Board has formally adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in Appendix 10 of the Listing Rules — Model code for Securities Transactions by Directors of Listed Issuers (the "Model Code") for the compliance by the relevant employees of the Company in respect of their dealings in the Company's securities. The Company has committed to upholding a high standard of corporate governance and meet the requirements of the CG Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry with all Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the six months ended 30 June 2012.

REVIEW OF INTERIM RESULTS

The audit committee has jointly reviewed the accounting policies and practices adopted by the Group and the unaudited interim results for the six months ended 30 June 2012 of the Group with the management and the auditors of the Company.

PURCHASE, SALE OR REDEMPTION OF ANY OF THE COMPANY'S LISTED SECURITIES

During the Current Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

During the Current Period, there was no changes to information which are required to be disclosed and has been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules.

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

As at 30 June 2012, 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 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%
Ms. Chen Chunhua (note 3)	Beneficial owner	1,000,000 (L)	0.07%
Mr. Liu Ruoyan (note 3)	Beneficial owner	1,300,000 (L)	0.10%
Mr. Wan Kah Ming (note 3)	Beneficial owner	1,000,000 (L)	0.07%
Mr. Wu Kwok Keung Andrew (note 3)	Beneficial owner	1,000,000 (L)	0.07%

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 in 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 in the shares held by Mr. Wang Guoqiang as they are parties acting in concert.
3. Ms. Chen Chunhua, Mr. Liu Ruoyan, Mr. Wan Kah Ming and Mr. Wu Kwok Keung Andrew hold share options in respect of these shares. Details of the share options are set out below in the section headed "Share Option Scheme".
4. "L" denotes long position.

Other Information

Save as disclosed above, as at 30 June 2012, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES

As at 30 June 2012, 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 30 June 2012, 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.

SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 1 December 2011 (the "Share Option Scheme"), the Board may at their discretion and subject to the terms of the Share Option Scheme, grant options to subscribe for shares in 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.

Other Information

Movements of the share options under the Share Option Scheme during the six months ended 30 June 2012 are as follows:

Grantee	Outstanding as at 1 January 2012	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 30 June 2012	Date of Grant	Date of expiry	Exercise price per share	Exercise/ Vesting period
		Number of share options								
Directors										
Mr. Liu Ruoyan	—	1,300,000 (note 1)	—	—	—	1,300,000	29/03/2012	28/03/2022	HK$1.360	1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
Ms. Chen Chunhua	—	1,000,000 (note 1)	—	—	—	1,000,000	29/03/2012	28/03/2022	HK$1.360	1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
Mr. Wan Kah Ming	—	1,000,000 (note 1)	—	—	—	1,000,000	29/03/2012	28/03/2022	HK$1.360	1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
Mr. Wu Kwok Leung Andrew	—	1,000,000 (note 1)	—	—	—	1,000,000	29/03/2012	28/03/2022	HK$1.360	1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
Employees (in aggregate)	—	26,500,000 (note 2)	—	—	1,200,000	25,300,000	20/02/2012	19/02/2022	HK$1.292	1/3 of which are exercisable from 20/02/2013 to 19/02/2022; 1/3 of which are exercisable from 20/02/2014 to 19/02/2022; and remaining 1/3 are exercisable from 20/02/2015 to 19/02/2022.
	—	3,000,000 (note 1)	—	—	—	3,000,000	29/03/2012	28/03/2022	HK$1.360	1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
Total	**—**	**33,800,000**	**—**	**—**	**1,200,000**	**32,600,000**				

Notes:

1. The closing price of the shares immediately before the date on which the share options granted on 29 March 2012 was HK$1.33.
2. The closing price of the shares immediately before the date on which the share options granted on 20 February 2012 was HK$1.27.

Using the Binominal Valuation model, the fair value of 33,800,000 share options granted on 20 February 2012 and 29 March 2012 was approximately RMB15.97 million for the period under review. The significant inputs into the model were share price as at the grant date, exercise price, volatility ranging from 61.34% to 61.56%, dividend yield ranging from 1.835% to 1.869%, an expected option life of 10 years and on normal risk-free interest rate ranging from 1.247% to 1.351%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over a historical period with duration similar to the option life. The vesting period is between one year to three years. The value of the share options is subject to a number of assumptions and with regard to the limitation of model. Therefore, the value may be subjective and difficult to determine.

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the six months ended 30 June 2012 under the Share Option Scheme.

INTERIM DIVIDEND

The Board proposed no interim dividend for the Current Period (for the six months ended 30 June 2011: nil) to the shareholders.

By order of the Board
Wang Guoqiang
Chairman

Hong Kong, 28 August 2012

Interim Condensed Consolidated Balance Sheet

	Note	**30 June 2012 *RMB'000* Unaudited**	31 December 2011 *RMB'000* Audited
ASSETS			
Non-current assets			
Property, plant and equipment	8	**237,276**	214,625
Land use right	8	**23,930**	—
Goodwill	7	**781**	—
Intangible assets	8	**168**	229
Deferred income tax assets	17	**55,614**	42,071
Prepayments and other receivables	11	**21,780**	27,491
		339,549	284,416
Current assets			
Inventories	9	**356,720**	245,089
Trade receivables	10	**639,240**	577,067
Prepayments and other receivables	11	**106,033**	58,824
Restricted bank deposits		**6,241**	2,031
Cash and cash equivalents		**102,935**	301,340
		1,211,169	1,184,351
Total assets		**1,550,718**	1,468,767
EQUITY			
Equity attributable to the Company's equity owners			
Ordinary share	12	**849**	849
Share premium		**275,455**	275,455
Other reserves	13	**162,307**	159,349
Currency translation differences		**(30,564)**	(33,596)
Retained earnings			
— Proposed final dividend	21	**—**	13,350
— Others		**520,681**	454,862
		928,728	870,269
Non-controlling interests		**40,614**	33,520
Total equity		**969,342**	903,789

Interim Condensed Consolidated Balance Sheet

	Note	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
LIABILITIES			
Non-Current liabilities			
Borrowings	14	11,809	9,071
Deferred income tax liabilities	17	12,935	7,629
Trade payables	15	9,896	—
		34,640	16,700
Current liabilities			
Borrowings	14	220,081	210,101
Trade payables	15	219,292	199,929
Accruals and other payables	16	78,081	96,084
Current income tax liabilities		27,669	41,516
Current portion of long-term borrowings	14	1,613	648
		546,736	548,278
Total liabilities		581,376	564,978
Total equity and liabilities		1,550,718	1,468,767
Net current assets		664,433	636,073
Total assets less current liabilities		1,003,982	920,489

The notes on page 29 to 52 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Income Statement

	Note	Six months ended 30 June 2012 RMB'000 Unaudited	2011 RMB'000 Audited
Revenue		**590,333**	408,482
Other losses, net		**(423)**	(4,964)
Operating costs			
Material costs		**(130,107)**	(98,898)
Employee benefit expenses	18	**(153,245)**	(91,784)
Operating lease expenses		**(29,695)**	(18,241)
Transportation costs		**(33,276)**	(24,508)
Depreciation and amortisation		**(29,278)**	(18,981)
Technical service expenses		**(43,709)**	(32,596)
Impairment loss of assets		**(3,650)**	(1,283)
Others		**(62,866)**	(48,675)
		(485,826)	(334,966)
Operating profit	19	**104,084**	68,552
Finance income		**1,353**	152
Finance costs		**(8,885)**	(3,681)
Finance costs, net		**(7,532)**	(3,529)
Profit before income tax		**96,552**	65,023
Income tax expense	20	**(29,225)**	(18,663)
Profit for the period		**67,327**	46,360
Profit attributable to:			
Equity owners of the Company		**65,819**	47,241
Non-controlling interests		**1,508**	(881)
		67,327	46,360
Earnings per share for the profit attributable to the equity owners of the Company			
Basic and diluted earnings per share	22	**0.049**	0.047

The notes on page 29 to 52 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Six months ended 30 June 2012 RMB'000 Unaudited	2011 RMB'000 Audited
Profit for the period		**67,327**	46,360
Other comprehensive income:			
Currency translation differences		**3,034**	(1,123)
Total comprehensive income for the period		**70,361**	45,237
Total comprehensive income for the period attributable to:			
Equity owners of the Company		**68,851**	46,102
Non-controlling interests		**1,510**	(865)
		70,361	45,237

The notes on page 29 to 52 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

		Unaudited							
		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 at 1 January 2012		849	275,455	159,349	(33,596)	468,212	870,269	33,520	903,789
Comprehensive income									
Profit for the period		—	—	—	—	65,819	65,819	1,508	67,327
Currency translation differences		—	—	—	3,032	—	3,032	2	3,034
Total comprehensive income		—	—	—	3,032	65,819	68,851	1,510	70,361
Transactions with owners									
2011 final dividend declared in June 2012	21	—	—	—	—	(13,350)	(13,350)	—	(13,350)
Share-based payments	13	—	—	2,958	—	—	2,958	—	2,958
Acquisition of certain subsidiary	7	—	—	—	—	—	—	5,584	5,584
Total transactions with owners		—	—	2,958	—	(13,350)	(10,392)	5,584	(4,808)
Balance at 30 June 2012		849	275,455	162,307	(30,564)	520,681	928,728	40,614	969,342

Interim Condensed Consolidated Statement of Changes in Equity

		Audited							
		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 at 1 January 2011		68	—	313,330	(15,228)	303,837	602,007	(57)	601,950
Comprehensive income									
Profit for the period		—	—	—	—	47,241	47,241	(881)	46,360
Currency translation differences		—	—	—	(1,139)	—	(1,139)	16	(1,123)
Total comprehensive income		—	—	—	(1,139)	47,241	46,102	(865)	45,237
Transactions with owners									
Contribution to subsidiaries by their then equity owners		—	—	—	—	—	—	15,357	15,357
Deemed distribution to Controlling Shareholders		—	—	(3,866)	—	(9,508)	(13,374)	13,374	—
Consideration paid to their then equity owners for acquisition of subsidiaries under common control		—	—	(158,038)	—	—	(158,038)	—	(158,038)
Total transactions with owners		—	—	(161,904)	—	(9,508)	(171,412)	28,731	(142,681)
Balance at 30 June 2011		68	—	151,426	(16,367)	341,570	476,697	27,809	504,506

The notes on page 29 to 52 form an integral part of this interim consolidated financial information.

Interim Condensed Consolidated Cash Flow Statement

	Note	Six months ended 30 June 2012 RMB'000 Unaudited	 2011 RMB'000 Audited
Cash flows from operating activities			
Net cash (outflows)/inflows from operations		**(90,126)**	64,808
Interest paid		**(8,016)**	(4,008)
Interest received		**119**	152
Income tax paid		**(52,156)**	(78,493)
Net cash used in operating activities		**(150,179)**	(17,541)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(39,495)**	(53,052)
Proceeds from disposal of property, plant and equipment		**360**	4,833
Purchase or advance for purchase of land use right		**(17,427)**	(6,500)
Purchase of intangible assets		**—**	(57)
Acquisition of certain subsidiary, net of cash acquired	7	**(6,754)**	—
Net cash used in investing activities		**(63,316)**	(54,776)
Cash flows from financing activities			
Proceeds from borrowings		**107,569**	258,506
Repayments of borrowings		**(92,652)**	(126,265)
Contribution to subsidiaries by their then equity owners		**—**	15,357
Consideration to their then equity owners for acquisition of subsidiaries under common control		**—**	(158,038)
Net cash generated from/(used in) financing activities		**14,917**	(10,440)
Net decrease in cash and cash equivalents		**(198,578)**	(82,757)
Cash and cash equivalents, at beginning of the period		**301,340**	166,721
Exchange gains/(losses) on cash and cash equivalents		**173**	(718)
Cash and cash equivalents at end of the period		**102,935**	83,246

The notes on page 29 to 52 form an integral part of this interim consolidated financial information.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

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 on 23 December 2011 through a 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 ("PRC"), Republic of Kazakhstan ("Kazakhstan"), Singapore 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 "Controlling Shareholders").

This interim condensed consolidated financial information is presented in Renminbi ("RMB"), unless otherwise stated. This interim condensed consolidated financial information was approved for issue on 28 August 2012.

2. BASIS OF PREPARATION

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

3. ACCOUNTING POLICIES

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

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have any material impact on the Group.

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

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is in the process of assessing IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

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

4. ESTIMATES

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

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

5. FINANCIAL RISK MANAGEMENT

5.1 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.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in the risk management department since year end or in any risk management policies.

5.2 Liquidity risk

Compared to year end 2011, there was no material change in the contractual undiscounted cash outflows for financial liabilities. The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated primarily from operating and financing activities.

5.3 Credit risk

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 74.3% and 82.3% of the revenue of the Group for the six months ended 30 June 2012 and 2011 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.

5.4 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.

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION

The chief operating decision-maker ("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 this financial information.

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.

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"). Information provided to the CODM is measured in a manner consistent with that in the financial statements.

(a) Revenue

Revenue recognised during the six months ended 30 June 2012 and 2011 is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Drilling	**178,216**	128,707
Well completion	**179,400**	74,610
Reservoir	**232,717**	205,165
	590,333	408,482

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

(i) The segment information on EBITDA for the six months ended 30 June 2012 and 2011 is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
EBITDA		
Drilling	**46,080**	34,147
Well completion	**45,960**	9,814
Reservoir	**82,977**	77,871
	175,017	121,832

(ii) The segment information on total assets as at the respective balance sheet date is as follow:

	30 June	31 December
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Total assets		
Drilling	**314,860**	308,510
Well completion	**544,055**	399,241
Reservoir	**424,509**	325,358
	1,283,424	1,033,109

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
EBITDA for reportable segments	**175,017**	121,832
Unallocated expenses		
— Share-based payments (Note 18)	**(2,958)**	—
— Other losses, net	**(423)**	(4,964)
— Unallocated overhead expenses	**(38,274)**	(29,335)
	(41,655)	(34,299)
	133,362	87,533
Depreciation and amortisation	**(29,278)**	(18,981)
Finance costs	**(8,885)**	(3,681)
Finance income	**1,353**	152
Profit before tax	**96,552**	65,023

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

(iv) 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 assets.

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

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Segment assets for reportable segments	**1,283,424**	1,033,109
Unallocated assets		
— Deferred income tax assets	**55,614**	42,071
— Unallocated inventories	**31,529**	26,067
— Unallocated prepayments and other receivables	**70,975**	64,149
— Restricted bank deposits	**6,241**	2,031
— Cash and cash equivalents	**102,935**	301,340
	267,294	435,658
Total assets per balance sheet	**1,550,718**	1,468,767

(c) Geographical segment

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

	Six months ended 30 June	
	2012 RMB'000 Unaudited	2011 RMB'000 Audited
Kazakhstan	**272,228**	218,309
PRC	**187,053**	122,674
Canada	**50,971**	38,719
Singapore	**62,005**	17,917
Others	**18,076**	10,863
	590,333	408,482

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment (continued)

(ii) 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:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Kazakhstan	**118,813**	116,180
PRC	**99,814**	79,824
Canada	**10,658**	11,772
Singapore	**40,495**	18,982
Others	**14,155**	15,587
	283,935	242,345

7. BUSINESS COMBINATIONS

On 27 June 2012, the Group acquired 60% of the ordinary shares in AWP Precision Engineering Pte. Ltd. ("AWP"), a company that is engaged in engineering works for a consideration of Singapore Dollar ("SGD") 1,800,000 (equivalent to RMB9,157,000). The acquisition is expected to increase the Group's market share and reduce cost through economies of scale. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill of RMB781,000 arises from the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include expected synergies through combining a highly skilled workforce and obtaining economies of scale.

The following table summarises the consideration paid for AWP Precision Engineering Pte. Ltd. and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	RMB'000
Purchase consideration — cash paid	9,157

(Amounts expressed in thousands of RMB unless otherwise stated)

7. BUSINESS COMBINATIONS (CONTINUED)

Recognised amounts of identifiable assets acquired and liabilities assumed

	Provisional fair value *RMB'000* Unaudited
Cash and cash equivalents	2,403
Prepayments and other receivables	1,021
Trade receivables	8,796
Inventories	872
Property, plant and equipment	12,875
Trade payables	(9,076)
Accruals and other payables	(1,851)
Deferred income tax liabilities	(1,080)
Total identifiable net assets	13,960
Non-controlling interest	(5,584)
Goodwill	781
	9,157
Acquisition-related costs (included in other expenses in the condensed consolidated income statement for the six months ended 30 June 2012)	55
Outflow of cash to acquire business, net of cash acquired	
— cash consideration	9,157
— cash and cash equivalents in subsidiary acquired	(2,403)
Cash outflow on acquisition	**6,754**

(Amounts expressed in thousands of RMB unless otherwise stated)

7. BUSINESS COMBINATIONS (CONTINUED)

(a) Acquired trade receivables

The fair value of trade receivables is RMB8,796,000. The gross contractual amount for trade receivables is RMB9,430,000, of which RMB634,000 is expected to be uncollectible.

(b) Non controlling interest

The non-controlling interest is measured at the proportion of acquired net assets shared by the non-controlling interest.

(c) Revenue and profit contribution

As the acquisition date is very close to the period end, the acquired business contributed neither revenue nor net profit to the Group for the six months ended 30 June 2012. If the acquisition had occurred on 1 January 2012, the consolidated revenue for the six months ended 30 June 2012 would have increased by RMB17,000,000 while the consolidated profit for the six months ended 30 June 2012 would have decreased by RMB212,000.

8. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHT AND INTANGIBLE ASSETS

	Property, plant and equipment *RMB'000*	Land use right *RMB'000*	Intangible assets *RMB'000*
Six months ended 30 June 2012 (unaudited)			
Net book value			
Opening amount as at 1 January 2012	**214,625**	**—**	**229**
Acquisition of certain subsidiary (Note 7)	**12,875**	**—**	**—**
Additions	**40,141**	**24,131**	**—**
Depreciation and amortisation	**(29,220)**	**(201)**	**(58)**
Disposals	**(359)**	**—**	**(3)**
Exchange differences	**(786)**	**—**	**—**
Closing amount as at 30 June 2012	**237,276**	**23,930**	**168**
Six months ended 30 June 2011 (audited)			
Net book value			
Opening amount as at 1 January 2011	196,433	—	760
Additions	46,907	—	57
Depreciation and amortisation	(18,855)	—	(173)
Disposals	(5,679)	—	—
Exchange differences	(1,615)	—	—
Closing amount as at 30 June 2011	217,191	—	644

(Amounts expressed in thousands of RMB unless otherwise stated)

9. INVENTORIES

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Raw materials	**279,479**	233,613
Work-in-progress	**91,334**	40,243
Finished goods	**28,751**	14,077
	399,564	287,933
Less: Provision for impairment of raw materials	**(42,844)**	(42,844)
	356,720	245,089

10. TRADE RECEIVABLES

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade receivables	**650,485**	586,341
Less: provision for impairment of trade receivables	**(11,245)**	(9,274)
Trade receivables — net	**639,240**	577,067

(Amounts expressed in thousands of RMB unless otherwise stated)

10. TRADE RECEIVABLES (CONTINUED)

(a) The Group's trade receivables are with credit term of six months, except for retention money amounting to approximately RMB2,969,000 (31 December 2011: RMB5,283,000). As at 30 June 2012, trade receivables amounting to RMB125,096,000 were past due but not impaired (31 December 2011: RMB21,047,000). These receivables relate to a number of independent customers for whom there is no recent history of default. Ageing analysis of gross trade receivables as at the respective balance sheet date is as follows:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Up to 6 months	**511,175**	554,184
6 months–1 year	**120,576**	12,233
1–2 years	**16,911**	19,378
2–3 years	**1,345**	—
Over 3 years	**478**	546
Trade receivables, gross	**650,485**	586,341
Less: provision for impairment of trade receivables	**(11,245)**	(9,274)
Trade receivables, net	**639,240**	577,067

(b) Trade receivables amounting to RMB130,351,000 (31 December 2011: RMB179,276,000) have been pledged for the Group's borrowings (Note 14).

(Amounts expressed in thousands of RMB unless otherwise stated)

11. PREPAYMENT AND OTHER RECEIVABLES

	30 June 2012 ***RMB'000*** **Unaudited**	31 December 2011 *RMB'000* Audited
Current		
Advances to suppliers (Non-financial assets)	**52,263**	30,997
Other receivables	**56,084**	28,462
Less: provision for impairment of other receivables	**(2,314)**	(635)
Total financial assets	**53,770**	27,827
	106,033	58,824
Non-current		
Advances to suppliers (Non-financial assets)	**3,763**	9,019
Prepayment for operating lease (Non-financial assets)	**18,017**	18,472
	21,780	27,491
Total	**127,813**	86,315

(a) As at 30 June 2012, non-current prepayments amounting to RMB18,017,000 (31 December 2011: RMB18,472,000) has been pledged for the Group's borrowings (Note 14).

12. ORDINARY SHARES

	Number of share (Thousands)	**Nominal value** ***RMB'000***
Authorised:		
Ordinary shares of US$0.0001 each as at 30 June 2012 and 31 December 2011	2,000,000	1,295
Issued:		
As at 30 June 2012 and 31 December 2011	1,335,000	849

(Amounts expressed in thousands of RMB unless otherwise stated)

13. OTHER RESERVES

	30 June 2012 *RMB'000* Unaudited	31 December 2011 *RMB'000* Audited
Merger reserves	**(148,895)**	(148,895)
Share-based payments (a)	**66,958**	64,000
Statutory reserves	**31,345**	31,345
Capital reserves	**212,899**	212,899
	162,307	159,349

(a) Pursuant to the share option scheme, the Company granted on 20 February 2012 a total of 26,500,000 share options to 86 employees to subscribe for 26,500,000 ordinary shares of US$0.0001 each at an exercise price of Hong Kong dollars ("HKD") 1.292. On 29 March 2012, another 7,300,000 share options were granted by the Company to 4 directors and 1 senior management member of the Company to subscribe for 7,300,000 ordinary shares of US$0.0001 each at an exercise price of HKD1.36. These share options will be evenly vested over 3 years from the first anniversary of the grant date and exercisable within 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the numbers of outstanding share options and their related weighted average exercise prices are as follow:

	Six months ended 30 June			
	2012		2011	
	Weighted average exercise price per share options HKD	**Share options (Thousands) Unaudited**	Weighted average exercise price per share options HKD	Share options (Thousands) Audited
As at 1 January	**—**	**—**	—	—
Granted	**1.31**	**33,800**	—	—
Forfeited	**1.31**	**(1,200)**	—	—
As at 30 June 2012	**1.31**	**32,600**	—	—

As at 30 June 2012, no outstanding share options were exercisable.

(Amounts expressed in thousands of RMB unless otherwise stated)

13. OTHER RESERVES (CONTINUED)

(a) (continued)

As at 30 June 2012, outstanding share options have the following expiry date and exercise price:

	Exercise price (HKD per share)	Share options (Thousands)
19 February 2022	1.292	25,300
28 March 2022	1.36	7,300

The total expense recognised in the income statement for share options granted was RMB2,958,000 (Note 18). The fair value of share options granted during the six months ended 30 June 2012 using the Binominal valuation model was RMB15,970,000. The significant inputs used in the valuation are as below:

	Share options granted on	
	20 February 2012	**29 March 2012**
Share price at the grant date (HKD)	**1.28**	**1.36**
Volatility*	**61.34%**	**61.56%**
Dividend yield	**1.869%**	**1.835%**
Vesting period	**Over a period of three years from the first anniversary of grant date**	**Over a period of three years from the first anniversary of grant date**
Annual risk-free interest	**1.351%**	**1.247%**

* The expected volatility was determined with reference to the historical volatilities of comparable companies.

(Amounts expressed in thousands of RMB unless otherwise stated)

14. BORROWINGS

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Long-term bank borrowings		
— Secured	**11,809**	9,071
Short-term borrowings		
— Unsecured bank borrowings	**8,000**	118,000
— Unsecured thrid-party borrowings	**18,993**	—
— Secured bank borrowings	**193,088**	92,101
	220,081	210,101
Current portion of long-term bank borrowings		
— Secured	**1,613**	648
	233,503	219,820

(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 for the six months ended 30 June 2012 is 3.12% (30 June 2011: nil). Short-term bank borrowings mature in 1 year and bear interest rate ranging from 6.56% to 8.52% annually during the six months ended 30 June 2012 (30 June 2011: 5.31% to 7.57%). Short-term unsecured third-party borrowings mature in 1 year and bear no interest rate.

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

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Corporate guarantees and certain trade receivables*	**193,088**	92,101
Corporate guarantee and certain prepayments**	**13,422**	9,719
	206,510	101,820

* As at 30 June 2012, the Group's bank borrowings amounting to RMB193,088,000 (31 December 2011: RMB92,101,000) are secured by certain subsidiaries' corporate guarantees and certain of the Group's receivables amounting to RMB130,351,000 (31 December 2011: RMB179,276,000) (Note 10).

** As at 30 June 2012, long-term bank borrowings amounting to RMB13,422,000 (comprising long-term bank borrowings amounting to RMB11,809,000 and its current portion amounting to RMB1,613,000) (31 December 2011: RMB9,719,000 comprising long-term bank borrowings amounting to RMB9,071,000 and its current portion amounting to RMB648,000) are secured by the Company's corporate guarantee and certain of the Group's long-term prepayments amounting to RMB18,017,000 (31 December 2011: long-term prepayments amounting to RMB18,472,000 and personal guarantees provided by the Controlling Shareholders of the Company and Mr. 趙峰 (Mr. Zhao Feng), the general manager of the subsidiary of the Company) (Note 11).

(Amounts expressed in thousands of RMB unless otherwise stated)

14. BORROWINGS (CONTINUED)

(c) The short-term 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 ranging from 4 years to 15 years. The Group's borrowings are repayable as follows:

	30 June 2012 ***RMB'000*** **Unaudited**	31 December 2011 *RMB'000* Audited
Within 1 year	**221,694**	210,749
Between 1 and 2 years	**1,613**	648
Between 2 and 5 years	**3,877**	1,944
Over 5 years	**6,319**	6,479
	233,503	219,820

(d) As at 30 June 2012, the Group's long-term borrowings of RMB13,422,000 (31 December 2011: RMB9,719,000), with contractual interest repricing period of 3 months, is exposed to interest rate changes.

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

	30 June 2012 ***RMB'000*** **Unaudited**	31 December 2011 *RMB'000* Audited
Fixed rates		
— Expiring less than one year	**—**	3,568
Floating rates		
— Expiring less than one year	**1,124**	4,868
	1,124	8,436

(Amounts expressed in thousands of RMB unless otherwise stated)

15. TRADE PAYABLES

	30 June 2012 ***RMB'000*** **Unaudited**	31 December 2011 *RMB'000* Audited
Current	**219,292**	199,929
Non-current	**9,896**	—
	229,188	199,929

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

	30 June 2012 ***RMB'000*** **Unaudited**	31 December 2011 *RMB'000* Audited
Up to 6 months	**155,116**	133,589
6 months to 1 year	**37,961**	29,901
1–2 years	**30,962**	29,895
2–3 years	**3,966**	2,187
Over 3 years	**1,183**	4,357
	229,188	199,929

(Amounts expressed in thousands of RMB unless otherwise stated)

16. ACCRUALS AND OTHER PAYABLES

	30 June 2012 ***RMB'000*** **Unaudited**	31 December 2011 *RMB'000* Audited
Dividend payable	**13,350**	—
Interest payable	**—**	684
Others	**20,128**	26,736
Total financial liabilities	**33,478**	27,420
Customer deposits and receipts in advance	**1,035**	1,318
Payroll and welfare payable	**19,049**	30,561
Taxes other than income taxes payable	**24,519**	36,785
Total non-financial liabilities	**44,603**	68,664
	78,081	96,084

(Amounts expressed in thousands of RMB unless otherwise stated)

17. DEFERRED TAXATION

The movement in deferred income tax assets and liabilities during the six months ended 2012 and 2011, without taking into consideration offsetting the balances with the same tax jurisdiction, is as follow:

Deferred Tax Assets

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Opening balance at 1 January	**42,071**	31,826
Credit to income statement (Note 20)	**13,755**	7,790
Currency translation difference	**(212)**	(185)
Closing balance at 30 June	**55,614**	39,431

Deferred Tax Liabilities

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Opening balance at 1 January	**7,629**	434
Acquisition of certain subsidiary (Note 7)	**1,080**	—
Charge/(credit) to income statement (Note 20)	**4,226**	(378)
Closing balance at 30 June	**12,935**	56

18. EMPLOYEE BENEFITS EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Wages, salaries and allowances	**125,886**	75,953
Housing benefits	**4,135**	3,096
Pension costs	**15,474**	11,042
Share-based payments (Note 13)	**2,958**	—
Welfare and other expenses	**4,792**	1,693
	153,245	91,784

(Amounts expressed in thousands of RMB unless otherwise stated)

19. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
(Gains)/Losses on disposal of property, plant and equipment	**(76)**	846
Sales tax and surcharges	**294**	902
Depreciation	**29,220**	18,808
Amortisation of intangible assets	**58**	173
Auditor's remuneration	**1,500**	1,277

20. INCOME TAX EXPENSE

The Group operates mainly in PRC, Kazakhstan, Singapore and Canada. During the six months ended 30 June 2012, the Company expected the profit before tax in these countries was subject to the income tax rate of 25%, 20%, 10% and 29% respectively.

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Current taxation		
— PRC	**17,550**	5,757
— Kazakhstan	**15,814**	18,503
— Others	**5,390**	2,571
Deferred taxation	**(9,529)**	(8,168)
Income tax expense	**29,225**	18,663

(Amounts expressed in thousands of RMB unless otherwise stated)

21. DIVIDEND

The annual general meeting held on 5 June 2012 approved the Company to pay a final dividend for the year ended 31 December 2011 of HKD0.012335 (RMB0.01) per ordinary share, amounting to HKD16,467,000 (RMB13,350,000). As at 30 June 2012, the dividend has not been paid.

The directors of the Company proposed no dividend for the six months ended 30 June 2012 (for the six months ended 30 June 2011: nil).

22. EARNINGS PER SHARE

(a) Basic 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 period.

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Profit attributable to equity owners of the Company	**65,819**	47,241
Weighted average number of ordinary shares in issue (thousands)	**1,335,000**	1,000,000
Basic earnings per share (RMB per share)	**0.049**	0.047

(b) Diluted earnings per share

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. As at 30 June 2012, the only dilutive factor of the Company was the outstanding share options. For the purpose of calculating diluted earnings per share, the Company assumed the outstanding share options had been exercised upon the grant dates of the options. Meanwhile, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from the date of grant to 30 June 2012) based on the monetary value of the subscription rights attached to outstanding share options, which are deducted from the total number of outstanding share options to determine the number of diluted shares deemed to be issued at no consideration.

No adjustments for assumed conversion of share options for the six months ended 30 June 2012 was made because the exercise price was higher than the average market share price during the six months ended 30 June 2012. Hence, there were no dilutive ordinary shares and the diluted earnings per share equal the basic earnings per share.

(Amounts expressed in thousands of RMB unless otherwise stated)

23. CONTINGENCIES

As at 30 June 2012 and 31 December 2011, the Group did not have any significant contingent liabilities.

24. COMMITMENT

(a) Capital commitments

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

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Property, plant and equipment	**5,397**	—
Land use right	**—**	16,670
	5,397	16,670

(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:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	Unaudited	Audited
No later than 1 year	**11,692**	25,184
Later than 1 year and no later than 5 years	**23,187**	28,259
	34,879	53,443

(Amounts expressed in thousands of RMB unless otherwise stated)

25. 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 period:

(i) *Controlling Shareholders*

Mr. Wang Guoqiang and
Mr. Wu Dongfang

(ii) Sinopetroleum International Limited, a company controlled by the Controlling Shareholders.

(2) Transactions with related parties

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

(a) *Loans obtained from the related parties*

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Mr. 王國強 (Mr. Wang Guoqiang)	—	37,087
Mr. 吳東方 (Mr. Wu Dongfang)	—	30,913
Sinopetroleum International Limited	—	66,017
	—	134,017

(Amounts expressed in thousands of RMB unless otherwise stated)

25. RELATED PARTY TRANSACTIONS (CONTINUED)

(2) Transactions with related parties (continued)

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

As at 31 December 2011, Mr. Wang Guoqiang and Mr. Wu Dongfang, the Controlling Shareholders of the Company, provided joint personal guarantee for the long-term borrowings amounting to RMB9,719,000 (Note 14(b)). 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 provided by the Company as at 30 June 2012.

(c) 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) 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:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	Unaudited	Audited
Basic salaries and allowances	**9,242**	6,198
Discretionary bonuses	**—**	230
Share-based payments	**630**	—
Other benefits including pension	**108**	106
	9,980	6,534

26. SUBSEQUENT EVENTS

On 7 August 2012, the Company and certain subscribers entered into a subscription agreement pursuant to which the Company agreed to issue and the subscribers agreed to subscribe for at the full face value the 3 percent annually, unsecured and non-redeemable convertible bonds in the aggregate principal amount of US Dollar 15,000,000. The convertible bonds will be due the third anniversary of the issue date, and the convertible bonds not yet converted will become due and payable at a 100% of the principal amount. The subscribers has the right to convert the convertible bonds into conversion shares with the conversion price of HKD 1.65 per conversion share (subject to adjustment) at any time commencing from the end of six-month period from the issue date up to the period of five business days ending on the maturity date.

SPT Energy Group Inc.
華油能源集團有限公司*