

Petro-king

TERMBRAY PETRO-KING OILFIELD SERVICES LIMITED

添利百勤油田服務有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code : 2178

GLOBAL OFFERING



Sole Global Coordinator and Sole Sponsor



Joint Bookrunners and Joint Lead Managers



IMPORTANT

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

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	250,000,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	25,000,000 Shares (subject to adjustment)
Number of International Placing Shares	:	225,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$3.39 per Offer Share (payable in full in Hong Kong dollars on application plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% and subject to refund)
Nominal value	:	Nil
Stock code	:	2178

Sole Global Coordinator and Sole Sponsor



Joint Bookrunners and Joint Lead Managers



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

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The information contained herein does not constitute an offer of securities for sale in the United States. Securities may not be offered or sold in the United States unless they are registered under applicable law or are exempt from registration under the US Securities Act. The securities mentioned herein have not been, and will not be, registered under the US Securities Act. No public offering of securities will be made in the United States.

The Offer Price is expected to be determined by agreement among the Company and the Joint Bookrunners (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Wednesday, 27 February 2013, or such later time as may be agreed by the Company and the Joint Bookrunners (on behalf of the Underwriters), but in any event not later than Tuesday, 5 March 2013.

The Offer Price will not be more than HK\$3.39 per Offer Share and is currently expected to be not less than HK\$2.78 per Offer Share. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$3.39 per Offer Share, unless otherwise announced, together with a brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$3.39.

The Sole Global Coordinator, on behalf of the Underwriters, may after consultation with the Joint Bookrunners, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the Company's consent, reduce the number of Hong Kong Offer Shares that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. The Joint Bookrunners, on behalf of the Underwriters, may also based on the level of interest expressed by prospective investors during the book-building process (where considered appropriate), and with the Company's consent reduce the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement of the reduction in the number of Offer Shares being offered under the Global Offering and/or of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as well as on the Company's website at www.petro-king.cn and the website of the Stock Exchange at www.hkexnews.hk as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering for which details are set out in the section headed "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed on Tuesday, 5 March 2013 by the Company and the Joint Bookrunners (on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

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

The obligations of the Underwriters under the Underwriting Agreements to subscribe for, and to procure applicants for the subscription for, the Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) after consultation with the Joint Bookrunners, if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange. Further details of such termination are set out in the section headed "Underwriting-Underwriting Arrangements and Expenses" in this prospectus.

22 February 2013

EXPECTED TIMETABLE ^(Note 1)

Application lists of the Hong Kong Public Offering open ^(Note 2)11:45 a.m. on Wednesday,
27 February 2013

Latest time to lodge **WHITE** and **YELLOW** Application Forms12:00 noon on Wednesday,
27 February 2013

Latest time to give **electronic application instructions** to
HKSCC ^(Note 3)12:00 noon on Wednesday,
27 February 2013

Latest time to complete electronic applications under the **White**
Form eIPO service through the designated website at
www.eipo.com.hk ^(Note 4)11:30 a.m. on Wednesday,
27 February 2013

Latest time to complete payment of White Form eIPO applications
by effecting internet banking transfer(s) or PPS payment
transfer(s)12:00 noon on Wednesday,
27 February 2013

Application lists of the Hong Kong Public Offering close12:00 noon on Wednesday,
27 February 2013

Expected Price Determination Date^(Note 5)Wednesday, 27 February 2013

(1) Announcement of

- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Hong Kong Offer Shares

expected to be published in South China Morning Post
(in English) and Hong Kong Economic Times
(in Chinese) on or beforeTuesday, 5 March 2013

(2) Results of allocation of the Hong Kong Public
Offering (including successful applicants' identification
document numbers, where appropriate) to be available
through a variety of channels (see the section
headed "**How to Apply for Hong Kong**
Offer Shares — Publication of results") fromTuesday, 5 March 2013

A full announcement of the Hong Kong Public Offering containing
(1) and (2) above will be published on the Company's website at
www.petro-king.cn and the website of the Stock Exchange at
www.hkex.com.hk fromTuesday, 5 March 2013

EXPECTED TIMETABLE ^(Note 1)

Results of allocations in the Hong Kong Public Offer will be available at www.iporesults.com.hk with a “search by ID” function	Tuesday, 5 March 2013
Despatch of share certificates in respect of wholly or partially successful applications on or before ^(Note 6)	Tuesday, 5 March 2013
Despatch of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications on or before ^(Notes 6 and 7)	Tuesday, 5 March 2013
Dealings in Shares on the Stock Exchange to commence at 9:00 a.m. on	Wednesday, 6 March 2013

Notes:

- (1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including conditions of the Global Offering, are set forth in the section headed “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 27 February 2013, the application lists will not open and close on that day. See the paragraph headed “How to Apply for Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists” in this prospectus.
- (3) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC” in this prospectus.
- (4) You will not be permitted to submit your application to the **White Form eIPO** service provider through the designated website www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) If, for whatever reason, the Offer Price is not agreed by the Company and the Joint Bookrunners (on behalf of the Underwriters) on or before Tuesday, 5 March 2013, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) Refund cheques or e-Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications if the Offer Price is determined at less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.

EXPECTED TIMETABLE ^(Note 1)

- (7) Applicants who apply via **White Form eIPO** or with **WHITE** application forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their application forms that they wish to collect refund cheques, if any, and (where applicable) share certificates in person from the Company's Hong Kong Share Registrar, may collect refund cheques, if any, and (where applicable) share certificates in person from the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 5 March 2013. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Identification and authorisation documents (where applicable) acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection.

Applicants who apply with **YELLOW** application forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their application forms that they wish to collect refund cheques in person, may collect their refund cheques (if any) but may not elect to collect the share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** application form applicants.

Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms. Further information is set out in the section headed "How to apply for Hong Kong Offer Shares — Refund of application monies" in this prospectus.

Share certificates will only become valid certificates of title provided that, no later than 8:00 a.m. on the Listing Date, the Global Offering has become unconditional and neither the Hong Kong Underwriting Agreement nor the International Placing Agreement has been terminated in accordance with its terms. If any of the Underwriting Agreements does not become unconditional or is terminated in accordance with the terms therein, our Company will make an announcement as soon as possible. No dealings in the Offer Shares should take place prior to the commencement of dealings in the Shares on the Stock Exchange. Investors who trade the Offer Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

CONTENTS

This prospectus is issued by Termbray Petro-king Oilfield Services Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

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

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed “Risk factors”. You should read this section carefully before you decide whether to invest in our Shares.

OVERVIEW

We are a leading independent⁽¹⁾ China-based provider of high-end⁽²⁾ oilfield services in terms of technical capability, overseas and offshore project experience, and our revenue in 2011⁽³⁾. It is estimated by Spears & Associates that we accounted for approximately 15% of the global revenues of independent Chinese oilfield services companies for high-end oilfield services in 2011⁽⁴⁾, and we ranked 3rd amongst the independent China-based high-end oilfield services providers. According to the Spears Report, the global revenues for both high-end and non high-end oilfield services in 2011 amounted to approximately RMB446.8 billion (equivalent to approximately HK\$554.0 billion), for which it is estimated that independent Chinese oilfield services companies accounted for approximately RMB5.2 billion (equivalent to approximately HK\$6.4 billion, representing approximately 1.2%) while the others, being generally subsidiaries and affiliates of the PRC NOCs and international oilfield service providers, accounted for the remaining RMB441.6 billion (equivalent to approximately HK\$547.6 billion, representing approximately 98.8%). Accordingly, based on our revenue in 2011, we accounted for approximately 8.6% of the RMB5.2 billion revenue attributable to the independent Chinese high-end and non high-end oilfield services companies and approximately 0.1% of the RMB446.8 billion revenue of the entire global revenues of both high-end and non high-end oilfield services. We are one of the few China-based oilfield services companies with the capability to offer high-end integrated oilfield service.⁽³⁾ We specialise in technically challenging projects which require high level of technical expertise, geological understanding and technological proficiency to accomplish, such as HTHP oilfields, high H₂S concentration oilfields, oil and gas fields with low permeability (tight and shale fields for instance), and offshore projects. We

⁽¹⁾ In the context of describing the Group or other oilfield service providers/companies in this prospectus, the word “independent” means “non-government-owned” or “non-state-owned”.

⁽²⁾ According to the Spears Report, certain segments of oilfield services are considered to require more advanced technology and expertise, and are thus often referred to as “high-end” markets. For instances, drilling services and completion equipment services that are associated with deep wells, HTHP wells, horizontal wells, and wells in hard and/or abrasive formations are generally considered high-end markets and multi-stage fracturing on horizontal tight and shale oil or gas wells is considered “high-end” segment of stimulation services market.

⁽³⁾ Reference: Spears Report

⁽⁴⁾ Based on global revenues of independent Chinese oilfield services companies for high-end oilfield services of approximately RMB2.97 billion in 2011 (which is an estimate of Spears & Associates comprising of the 2011 revenues of the Group, and other PRC independent oilfield services providers. The respective 2011 revenues of certain services providers which are listed companies were extracted from their respective audited financial statements which are public information, and the collective revenues of other PRC independent oilfield services providers have been estimated based on prior experience of the Spears & Associates’ research team regarding market concentration typical of the oilfield services market outside North America).

SUMMARY

are one of the major oilfield services providers of a number of high-end technologies (namely turbine-drilling and multistage fracturing, which only a few Chinese independent oilfield services providers have the capability to undertake) in China in terms of number of jobs/wells completed.⁽³⁾ Certain members of our senior management as well as our founder, Mr. Wang, were amongst the key technical experts certified for their contribution to the offshore extended reach drilling (or ERD) project at the South China Sea which recorded the world's longest horizontal displacement and China's deepest measured depth in late 1990s, and to date we are still providing services for offshore projects at the South China Sea. We are also one of the few independent China-based oilfield services providers which have accomplished offshore projects,⁽³⁾ and the pioneer in introducing turbine drilling to China with dominant share of the current turbine drilling market in China.⁽³⁾

We provide high-end services and products across various stages in the life of an oil or gas field, including the provision of services in well evaluation and appraisal, drilling, casing, well completion, well production, well workover, production enhancement and well abandonment, as well as the supply of oilfield services tools and equipment. Amongst our available services, we principally focus on the provision of consultancy services; oilfield project services in drilling, well completion and production enhancement; and sales of oilfield services tools and equipment.

Our consultancy services are generally engaged for projects located in technically challenging areas and consist of (i) integrated project management (“IPM”) services; and (ii) supervisory services in specific technical areas within a particular project. In respect of our IPM services, we generally assist our customers to design and manage oilfield projects, with service scope comprising (i) designing an integrated project development plan; (ii) studying well data and providing laboratory testing and analysis; (iii) providing advice and assistance on bid evaluation and contract negotiation for outsourced projects; (iv) on-site operational management and/or (v) providing general consulting advice. Our IPM services may cover the exploration and/or development phases of an oilfield project and/or may focus on specific technical areas (such as drilling, well completion and production enhancement). In respect of our supervisory services, we assist our customers to monitor the execution of oilfield operation in accordance with an existing project development plan, and we monitor and supervise according to specific roles and duties as agreed with our customers. During the Track Record Period, we had completed 28 IPM services projects and 13 supervisory services projects. In respect of consultancy services, all except for one of our contracts signed during the Track Record Period have commenced operation, and we had signed eight contracts (which amount to an aggregate of approximately HK\$13.8 million) subsequent to the Track Record Period and up to 31 December 2012. We believe that the provision of IPM services gives us significant competitive advantages. By providing IPM services, we are able to take an early involvement in project design and management which enables us to build in-depth relationship with customers. This relationship puts us in an advantageous position in attaining subsequent contracts for the provision of oilfield project services and products.

Our oilfield project services principally cover drilling, well completion and production enhancement. For each oilfield project services, our work scope comprises provision of project development plan, supply and installation of related tools and equipment and provision of on-site project operation. We may be engaged for providing one or more oilfield project services for one oilfield project. We generally apply high-end technologies in our services. Accordingly, we focus on and specialise in technically challenging projects. During the Track Record Period, in terms of number

SUMMARY

of wells, we had completed 413 oilfield project services, which included 220 drilling jobs (in 40 of which we applied turbine drilling), 93 well completion jobs (of which at least 62 were HTHP wells and/or wells of high H₂S concentration) and 100 production enhancement jobs (of which 74 were multistage fracturing jobs). In respect of oilfield project services, all of our contracts signed during the Track Record Period have commenced operation, and we had signed 29 contracts (which amount to an aggregate of approximately HK\$460.8 million) subsequent to the Track Record Period and up to 31 December 2012. Please refer to the section “Glossary of technical terms” on page 36 of this prospectus for detailed descriptions of “turbine drilling” and “multistage fracturing”. Please refer to the section headed “Business — Competitive strengths — B. Our technological proficiency” on page 177 of this prospectus for a list of our landmark projects.

As at 31 December 2012, we had projects under backlog with a total contract amount of approximately HK\$481.5 million of which revenue of HK\$99.1 million was recognised in 2012 and HK\$382.4 million is expected to be recognised in 2013. Our major contracts include a tender won from Sinopec to provide multistage fracturing services to 40 wells in the Ordos Basin in November 2012. This represents the third consecutive successful tender won for multistage fracturing services from such customer, bringing the total number of wells in multistage fracturing services awarded by the same customer to 137 during the Track Record Period and up to 31 December 2012. The services in relation to such 40 wells awarded to us are expected to be completed in the first half of 2013, with contract amount expected to be about HK\$121.3 million (assuming on average applying 10-stage multistage fracturing). The Company ranked second in this round of bidding, evidencing the Company’s leading position and well recognised brand name and service quality in multistage fracturing for tight and shale gas have been well received by the market and its customers. In 2012 and during the four years up to 31 December 2012, the Group had completed a total of 147 and 166 wells for production enhancement respectively (of which 123 and 132 were multistage fracturing jobs) and as at 31 December 2012, the Group had a backlog of 19 jobs to be performed in the first half of 2013. Another major contract in the backlog is from our customer in Venezuela, South America, PDVSA, in relation to the our provision of the well completion oilfield project services, with the committed order amounted to HK\$206.4 million to be completed in first half of 2013.

Our services, level of technical expertise and capabilities and service quality have been well recognised by customers. Over the years, we received numerous accolades awarded by a number of our customers (such as Sinopec, CACT and EOG (China)) for our services across a wide range of areas in the oilfield services industry. We are also recognised by reputable international oilfield services providers such as, amongst others, Baker Hughes as their preferred business partners, based on our leading technical capabilities and quality standard (in terms of service quality, efficiency, safety and reliability) in the industry.

We also manufacture and sell certain oilfield services tools and equipment. The products we manufacture range from precision completion and production enhancement tools to surface flow control equipment. A number of our products (including but not limited to safety valves, packers, control systems for subsurface tools and casing centralisers) attained certificates awarded by the API. In addition, we conduct trading of tools and equipment upon customers’ request.

SUMMARY

PAST OPERATIONS IN SANCTIONED COUNTRIES

We have past business activities in connection with Iran, Syria and Myanmar. The amount of total revenue generated from the countries that are the subject of any relevant sanctions laws or regulations in the US, EU, Australia or the BVI or any sanctions adopted by the UN in force as at the date hereof (“**Sanctioned Countries**”) during the Track Record Period were approximately HK\$72.3 million, HK\$450.8 million, HK\$395.1 million and HK\$49.3 million, respectively, representing approximately 25.2%, 80.7%, 70.6% and 8.6% of our total revenue for the same periods, respectively. Please refer to the section headed “Business — Past operations in sanctioned countries” on page 226 of this prospectus for details of our past operations and business activities in those countries.

We confirm that we have concluded, after consultation with our legal advisers, that (i) the Group is not subject to US sanctions laws and regulations that apply to US persons and, in the case of Iran, non-US entities owned or controlled by US persons; (ii) with respect to US sanctions laws and executive orders against Iran that apply to non-US person (such as Presidential Executive Order 13590, the Iranian Threat Reduction and Syrian Human Rights Act (“**ITRSHRA**”) and the International Emergency Economic Powers Act (“**IEEPA**”)), the Group’s business activities relating to Iran fall outside the scope of Presidential Executive Order 13590 and it is unlikely that the Group would be sanctioned under ITRSHRA or IEEPA given that, in respect of ITRSHRA, (a) Petro-king International’s one contract in question in relation to ITRSHRA was completed before the effective date of ITRSHRA; (b) Petro-king International’s another contract in relation to Yadavaran Oilfield recorded low value after 24 September 2012 (being US\$120,000), when National Iranian Oil Company (“**NIOC**”) was designated to be an agent of Iran’s Islamic Revolutionary Guard Corps (“**IRGC**”), and the relevant contract activity ended soon after the sanctions became effective; and (c) Top Select had been disposed out of the Group; and, in respect of IEEPA, (a) past OFAC enforcement is known to focus on the non-US banks processing the transactions, not the recipients of the funds and (b) payment for our outstanding accounts receivable for such transactions will be made in Hong Kong dollars; (iii) the Group is not subject to the sanctions laws and regulations in Australia and EU; (iv) the Company, Hero Gain, Wellsharp Group, Petro-king South America and Sheraton Investment are in compliance with the BVI sanctions laws and regulations and the other members of the Group (for the avoidance of doubt, excluding Top Select which was disposed of by the Group on 9 November 2012) are not subject to the BVI sanctions laws and regulations; (v) UN sanctions apply to states and are not directly applicable to conduct by private actors; (vi) Petro-king International and the Group do not have any obligations or liabilities (contingent or otherwise) arising from any contracts entered into by Top Select after the disposal; (vii) upon the Listing, no members of the Group will have any business dealings with any countries, governments, entities or individuals that are the subject of any relevant sanctions laws or regulations in the US, EU, Australia or the BVI, or any sanctions adopted by the UN, in force as of the date hereof; and (viii) the Group will not use any proceeds from the Global Offering or subsequent fund raising on the Stock Exchange to fund any activities or business in any such sanctioned countries or with any such sanctioned entities under the US, EU, Australia or the BVI sanctions laws and regulations, or any sanctions adopted by the UN, as of the date hereof.

SUMMARY

Top Select, which was disposed of on 9 November 2012, currently still has contracts relating to business activities in Syria that have been suspended, as well as ongoing contracts relating to business activities in Iran.

According to our BVI legal advisers, it would appear that Top Select's obligations under its contract relating to Iran were caught by certain provisions of The Iran (Restrictive Measures) (Overseas Territories) Order 2012 (the "**2012 Iran Order**"). If Top Select, which was disposed of on 9 November 2012, were to be found guilty of any breach of the 2012 Iran Order, it and its officers during the relevant time may be subject to penalties. Nevertheless, the Company, which does not by itself have any activities in or engage with Iran, Iranian persons or entities, Syria or Syrian persons or entities, remains in compliance with the relevant BVI sanctions legislation even if Top Select is or was in breach of such legislation. Specifically, the facts that Top Select was an indirect subsidiary of the Company and that Ms. Sun Jinxia acted as the director of each of the Company (up till 24 December 2012) and Top Select (up till 9 November 2012), does not of themselves give rise to a breach of any specific provision of the Iran Orders or the Syria Order, or constitute facilitation by the Company of the activities of Top Select, considering that it is acceptable market practice for individuals to wear "different hats" when acting as the director of each company.

According to our BVI legal advisers, the BVI sanctions legislation relating to Iran does not provide for any penalty to be applied on, or extend liability to, any other member of the Group in respect of any breach of the 2012 Iran Orders by Top Select. Therefore, no penalty will be imposed on our Company, our Group (for the avoidance of doubt, excluding Top Select, which was disposed of on 9 November 2012) and the Company's shareholders and Directors even if Top Select were to be found guilty of any breach of the 2012 Iran Order.

Please refer to the section headed "Business — Past operations in sanctioned countries — B. Compliance with respect to the Group's activities in Iran, Syria and Myanmar with sanctions laws and regulations of the US, EU, Australia and the BVI and any sanctions adopted by the UN" on page 232 of this prospectus for detailed analysis on the Group's compliance with respect to the sanction regime in each of these jurisdictions.

We further confirm that, other than Iran, Syria and Myanmar, the Group had not had, during the Track Record Period and up to the Latest Practicable Date, and will not have any business activities in connection with any countries, governments, entities or individuals that are the subject of any relevant sanctions laws and regulations in the US, EU, Australia or the BVI, or any sanctions adopted by the UN, in force as of the date hereof.

SUMMARY

KEY OPERATIONAL DATA

Revenue by business lines

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

	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011		2012	
	<i>HK\$</i> <i>million</i> <i>(approx)</i>	%	<i>HK\$</i> <i>million</i> <i>(approx)</i>	%	<i>HK\$</i> <i>million</i> <i>(approx)</i>	%	<i>HK\$</i> <i>million</i> <i>(approx)</i>	%	<i>HK\$</i> <i>million</i> <i>(approx)</i>	%
	<i>(unaudited)</i>									
Consultancy services										
IPM services	69.0	24.1	37.8	6.8	41.3	7.4	25.6	5.9	34.7	6.1
Supervisory services.....	11.6	4.0	15.2	2.7	12.8	2.3	9.6	2.2	12.3	2.2
Oilfield project services										
Drilling	19.3	6.7	74.3	13.3	139.5	24.9	106.3	24.3	116.1	20.3
Well completion	68.5	23.9	419.3	75.1	284.8	50.9	276.4	63.2	74.1	13.0
Production enhancement	19.1	6.7	5.8	1.0	46.3	8.3	3.7	0.8	293.6	51.4
Manufacturing and sales of tools and equipment	99.2	34.6	5.9	1.1	34.8	6.2	15.9	3.6	40.3	7.0
Total	286.7	100.0	558.3	100.0	559.5	100.0	437.5	100.0	571.1	100.0

Our results of operations and financial conditions are principally driven by the level of oilfield project activities and demand for high-end oilfield services, which depends on a number of factors including oil and gas prices, government policies over oil and gas exploration and production, energy consumption growth in China and globally (which may have an impact on the development of technically challenging wells that require high-end technology). In addition, our business is concentrated on Sinopec, one of the three PRC state-owned oil groups dominating the oil and gas exploration, development and production sector in the PRC. We believe that such concentration is an industry norm given the dominance of the three PRC state-owned oil groups in the market. Furthermore, we generally generate our revenue on a project basis. Therefore, the fluctuation of the number of oilfield projects available for oilfield services providers for each year (as affected by the level of oilfield project activities) will have an impact on our yearly results of operations.

Our revenue increased significantly from 2009 to 2011 primarily due to our strong business growth in the Middle East in respect of our oilfield project services, mainly as a result of the increasing demand for oilfield services as a consequence of the rebound of global energy consumption starting from 2010 which followed the world's economic recession in 2008. Our revenue attributable to our consultancy services decreased in 2010 and 2011 as compared to that of 2009. The relatively high level of consultancy services in 2009 was primarily due to the fact that we had two relatively

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large (in terms of revenue) IPM projects in Russia and Iran in 2009 and the demand for our consultancy services was stable in 2010 and 2011. Our revenue attributable to manufacturing and sales of tools and equipment decreased from 2009 to 2010, but recorded significant growth from 2010 to 2011. The relatively high level of revenue in 2009 was mainly due to the fact that we recorded revenue from certain trading transactions in 2009, while the increase from 2010 to 2011 was mainly attributable to the consolidation of Shenzhen FST's revenue following our acquisition of a majority interests in it in 2011. Our revenue increased from the nine months ended 30 September 2011 to the nine months ended 30 September 2012 primarily attributable to the strong growth in the demand in China in respect of our production enhancement services within the oilfield project services sector and we had secured certain new contracts of multistage fracturing for a number of wells in China. As a result, the revenue contribution from production enhancement also increased for the nine months ended 30 September 2012 accordingly.

The increase of the Group's business in production enhancement as from the fourth quarter of 2011 coincides with the increase in the level of activities in more technically challenging regions and the development of unconventional gas resources in China, as driven by the growth in demand for energy in China. Please refer to the sections headed "Business — Overview" on page 166 of this prospectus and "Industry overview — Major industry trends — Outlook for China's development of unconventional gas resources" on page 110 of this prospectus in relation to the PRC's government policies in respect of oil and gas and how they influence the oilfield services industry for details. It is expected that Sinopec's business development and expansion plans, coupled with China's development of unconventional gas resources will continue to drive the trend on increasing demand for various types of high-end oilfield project services, particularly production enhancement services, which we expect will support the growth prospects of the Group.

Since our inception in 2002, we have provided services/products to customers located in various regions/countries in the world, including China, the Middle East, Russia, Australia, Western Africa, Caribbean Sea and South America. After we started to fade out our business operations relating to Iran and Syria in the fourth quarter of 2011, we strategically placed significant efforts to the market of China which has increasing demand for related oilfield services, as demonstrated by our revenue contribution from China for the nine months ended 30 September 2012. We intend to maintain China as one of the largest markets in the near- to mid-term.

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Revenue by geographical area

The following table shows revenue generated from segments of oilfield project services and consultancy services by geographical area according to location of the customers' oilfields and revenue generated from segment of manufacturing and sales of tools and equipment by geographical area according to location of the customers:

	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011		2012	
	(HK\$ million)	%	(HK\$ million)	%	(HK\$ million)	%	(HK\$ million)	%	(HK\$ million)	%
	<i>(unaudited)</i>									
China.....	50.6	17.7	107.0	19.1	161.2	28.8	64.9	14.8	422.6	74.0
Iran.....	71.9	25.1	436.9	78.3	368.5	65.9	346.2	79.1	41.8	7.3
Syria.....	0.4	0.1	13.5	2.4	26.6	4.7	24.7	5.6	6.5	1.1
Russia.....	59.1	20.6	—	—	0.7	0.1	—	—	45.2	7.9
Australia.....	23.4	8.2	—	—	—	—	—	—	—	—
Algeria.....	75.7	26.4	—	—	—	—	—	—	—	—
Venezuela.....	—	—	—	—	—	—	—	—	20.7	3.6
Turkmenistan.....	—	—	—	—	—	—	—	—	22.5	4.0
Others <i>(Note)</i> ...	5.6	1.9	0.9	0.2	2.5	0.5	1.7	0.5	11.8	2.1
Total.....	<u>286.7</u>	<u>100.0</u>	<u>558.3</u>	<u>100.0</u>	<u>559.5</u>	<u>100.0</u>	<u>437.5</u>	<u>100.0</u>	<u>571.1</u>	<u>100.0</u>

Note: Other countries mainly included The Republic of Trinidad and Tobago, Kazakhstan, Myanmar and Singapore.

Our business or service focus remained, and will continue to remain, on the nature of services it provides to its customers, ie. our various types of consultancy services and oilfield projects services, and is not confined to any one particular subset of oilfield services project. Geological factors which determine the availability of exploitable resources, rather than geographical limits, are the key considerations for the oil and gas industry. As an oilfield services provider, we would offer our oilfield services to the oil and gas companies, who compete on natural resources around the globe and would go to wherever there are available resources, in any countries or regions. We do not initiate oilfield projects or determine the location of oilfield development, and will go to where those projects are initiated by the oil and gas companies and provide the relevant oilfield services required by them.

Therefore, the fluctuation of product mix and the geographical movement of the Group was mainly a result of variation in demand by customers in light of (a) the different phases of development of the particular oilfields; (b) the different geological conditions of the particular oilfields which require the corresponding levels of skills and technology; and (c) the particular types of services and the level of technological skills offered by the Group.

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OUR MAJOR CUSTOMERS

Our customers for consultancy services and oilfield project services include:

- PRC oil and gas companies (which include NOCs), such as Sinopec, CNPC and CNOOC (including CACT), mainly for our oilfield project services for their local projects and/or for consultancy services and/or oilfield project services for their overseas projects
- International oil and gas companies such as ConocoPhillips and Shell, mainly for our consultancy services for their projects in China
- Overseas regional oil and gas companies (which include non-PRC NOCs), such as Venineft, PDVSA and EOG (China) for a variety of our services for their local and overseas projects

Our customers for manufacturing and sales of tools and equipment include oil and gas companies and oilfield services companies. Oil and gas exploration, development and production segments in the PRC are dominated by three state-owned oil and gas groups, namely CNPC, Sinopec and CNOOC. These state-owned groups have many subsidiaries and affiliates in China and overseas. As such, Chinese oilfield services providers generally find their business concentrated on one or more of the three state-owned oil groups. During the Track Record Period, our major customers have primarily been subsidiaries and joint ventures of Sinopec. Despite the strong and established relationship with Sinopec (on a group basis) which has accounted for a substantial portion of our revenue, we generally take the view that our business does not rely on Sinopec as a single entity, but on a number of different subsidiaries or joint ventures of Sinopec which generally enjoy autonomy in selecting their oilfield services providers. In any event, while we will continue to strengthen our relationship with Sinopec, we intend to increase the business volume with our other customers and to further expand our customer base through our sales and marketing activities.

OUR SUPPLIERS AND INVENTORIES

For our oilfield project services, we mainly source assembling tools and materials which include drilling, completion and fracturing tools and equipment and ancillary materials such as drill bits, drill pipes, well completion packers and safety valves, acidising fluids and fracturing fluids according to the specifications stipulated in the service contracts. For high-end tools such as safety valves and packers, we generally manufacture by ourselves or source from internationally-renowned independent third party suppliers. For the tools and equipment which we manufacture by ourselves, from independent third party suppliers in the PRC and other Asian countries (which do not include any Sanctioned Countries) who we believe are able to manufacture products, components and parts that attain relevant international standards and who offer relatively competitive prices comparing to their international counterparts.

For the tools and equipment which we manufacture by ourselves, we purchase raw materials and components such as steel bars, tubing, computers and electronic devices.

We source technical services from independent third party suppliers with good technical reputation or marketing network to supplement our technology and services.

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We evaluate each of our suppliers based on the quality of their products, their qualification in accordance with relevant industry association or government authorities, and their reputation and position in the market. Generally we will only finalise our choice after assessment of around three to four suppliers.

Our inventory mainly consists of:

- raw materials in relation to our business in manufacture and sales of tools and equipment;
- assembling materials for tools required for or consumed in the cause of providing oilfield project services, such as well drilling tools, well completion tools and fracturing tools, and the assembled tools; and
- finished goods in relation to our business in manufacturing and sales of tools and equipment such as safety valves and packers, and wellhead control panels and other equipment.

We review and analyse our inventory level on a regular basis and generally procure supplies after we receive orders or when we expect orders from customers, except for (i) a small amount of inventory relating to our business of manufacture and sales of tools and equipment; and (ii) inventory that may be commonly used across different arms of business such as safety valves and packers for which we will keep an appropriate level of inventory at any particular time. We endeavour to avoid situations where we have insufficient stock, over-stocking or having our stock become obsolete by implementing adequate inventory level control policies and procedures.

COMPETITION

In China and around the world, in the typical field development cycle, oil and gas companies first develop the easiest reservoirs and then move on to more challenging targets, which means that over time new fields to be developed will become deeper, and with increasing depth will have higher pressures and temperatures. New reservoirs are also increasingly likely to consist of low permeability formations, requiring the use of advanced technology for cost-effective field development. Therefore, the trend in the Chinese market and around the world going forward will be towards more-demanding application and away from less-demanding applications, and hence a trend of increasing demand for high-end oilfield services.

In the oilfield services industry, we are a leading independent China-based provider of high-end segment in terms of technical capability, overseas and offshore experience and our revenue in 2011.⁽⁵⁾ We believe our main competitors are either the multinational oilfield services providers or two other independent China-based oilfield services companies. Competition in the high-end segment of the oilfield services industry is based principally on the ability to provide highly customised services, reputation, experience, technology proficiency, geographical knowledge, track record, communication skills, service capacity and reliability. We believe that we are one of the reputable independent Chinese oilfield services providers with extensive local and overseas experience, high-end technology proficiency, reliability and service capacity, and appreciation on the importance of local

⁽⁵⁾ Reference: *Spears Report*

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acquaintances. We do not rely on pricing strategy to compete against other independent China-based oilfield services providers, but our pricing flexibility is one of our competitive edges when competing against multinational oilfield services companies. We also believe we hold a competitive edge over such major western integrated oilfield service companies in respect of oilfield projects operated by Chinese NOCs as we have an in-depth understanding of their operational norms gathered through years of working in close cooperation with them.

OUR TECHNICAL CAPABILITIES

We place significant emphasis on enhancing our existing oilfield services technology as well as keeping abreast of technology developments in the oilfield services industry. Our technology development efforts will continue to focus on the design and application of high-end oilfield services technology with which we are acquainted (such as turbine-drilling, multistage fracturing, surface facilities for safety and flow control and the use of safety valves, packers, other well completion and production enhancement tools, drilling fluids and fracturing liquid). In addition, to diversify our research focus, we recently commenced development and enhancement of other new services and technologies in the oilfield services industry to further broaden our services and product lines. As at the Latest Practicable Date, our technology development department was headed by Mr. Du Heli (杜鶴立) and had 45 engineers.

SALES STRATEGY AND CHARGES FOR OUR SERVICES AND PRODUCTS

We seek or identify new business opportunities or secure new business through different approaches for our different lines of business. For our consultancy services, we use an active approach, which means seeking new business opportunities through actively approaching customers following preparation of relevant customer and project information. For our oilfield project services, we use an active approach and, to a lesser extent, open bidding. For our manufacture and sales of tools and equipment business, we generally sell products upon customer requests.

With respect to fees for services rendered or products supplied, we apply different charging means for different types of our principal services and products. We charge our customers for our consultancy services based on (i) time spent by our servicing personnel in accordance with our day rate and (ii) in the case of IPM services where there is a project development plan, design fees for project development plan in addition to (i). We usually charge our customers for our drilling services (i) a fixed fee; plus (ii) a fee based on the time and number of personnel spent on the project in accordance with our day rate. Our oilfield project services in well completion and production enhancement are generally charged on a project basis. Our prices are set on a case by case basis which normally reflect (a) well depth; (b) well or wellbore complexity; (c) location; (d) the level of expertise and our value added to the project; (e) our costs and expenses on the project; and (f) our competitors' pricing. The prices for our replacement components and parts, wellhead control panels and other equipment depend on the manufacturing costs or purchasing costs of the relevant items.

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OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths include the following:

- Our strong market position as a leading independent China-based provider of high-end oilfield services in the global market
- Our technological proficiency
- Our ability to provide effective and successful consultancy services
- Our established relationship with key customers and leading international oilfield services providers
- Our experienced, stable, motivated and highly incentivised management team with dedicated technological expertise in the oilfield services industry
- Our vertical integration of manufacture and sales of tools and equipment

OUR BUSINESS STRATEGIES

We aim to become a leading high-end oilfield services provider that can compete with the largest international oilfield services companies having significant presence in a number of products and service lines in various regions. We plan to achieve this target through adopting and implementing the following strategies:

- We will further extend our presence in China, and continue our overseas expansion
- We will further strengthen our existing consultancy and oilfield project services
- We will further develop our manufacture and sales of tools and equipment business
- We will continue to broaden our range of products and services

OUR NON-EXECUTIVE DIRECTOR

One of our non-executive Directors, Mr. Lee Tommy, is one of the directors and one of the shareholders in a PRC entity, on which, according to a certificate issued by the relevant governmental authority in March 2010, the administrative penalties amounting to RMB10 million had been imposed by that customs authority for acts in violation of certain general customs regulatory provisions which were not serious in nature. Please refer to the section headed “Directors, senior management and employees — Directors — Non-executive Directors” on page 266 of this prospectus for further details of the tax violation. The Directors and the Sole Sponsor are satisfied that Mr. Lee Tommy is able to discharge his role as a non-executive Director under rules 3.08 and 3.09 of the Listing Rules.

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FINANCIAL RESOURCES AND LIQUIDITY MANAGEMENT

We principally fund our operations with cash generated from our operations and bank borrowings, supplemented by shareholders' funds where necessary. We review and analyse our trade payables, trade receivables and cash on a regular basis. We closely monitor our trade receivables and have established procedures to control and manage the recoverability of trade receivables. We may also obtain further bank borrowings if required.

TRADE RECEIVABLES TURNOVER DAYS

Our trade receivable turnover days were 176 days, 188 days, 263 days and 190 days for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, respectively. Please refer to the section headed "Financial information — Consolidated balance sheet — Discussion of key balance sheet items — Trade receivables" on page 327 of this prospectus for details of the reasons for the relatively long trade receivables turnover days during the Track Record Period. To strengthen our management and control of credit risks, we (a) since June 2012 progressively implemented additional measures such as reviewing our trade receivables from specific major customers on a monthly basis and assigning specific management personnel for chasing long outstanding trade receivables from major customers with an active but friendly approach, considering the issuance of legal letter where appropriate, and making specific provision if any specific trade receivables are considered unrecoverable; (b) have formed a management committee comprising Mr. Wang and Ms. Sun Jinxia on 1 October 2012 to supervise and enhance the implementation of our management and credit risk control measures. While keeping our focus in the PRC, we will continue to explore the diversification of our customer base from China-based state-owned oil companies to international oil and gas companies and overseas regional and local oil and gas companies in view of the fact that those international/overseas oil companies normally request for payment terms with a relatively shorter credit period than those state-owned enterprise in the PRC.

RECENT DEVELOPMENT

In recent years, the Chinese government has emphasised shale gas exploitation and exploration, taking shale gas as part of the country's new energy strategy. Subsequent to the government policies such as China's 12th Five-Year Plan and Shale Gas Development Plan (2011-2015) issued in March 2011 and 2012 respectively, Chinese government launched the Natural Gas Development 12th Five-Year-Plan and announced 《關於出台頁岩氣開發利用補貼政策的通知》 (Notice on the issuance of policy on subsidy in respect of shale gas exploration and development*) in October and November 2012, respectively. These government policies, emphasising development of shale gas reserves, will inevitably drive an increasing trend of producers including NOCs such as Sinopec, CNOOC and CNPC as well as non-NOCs oil and gas companies engaging in technically challenging oilfield projects, which in turn will drive the increase of level of demand for high-end oilfield project services such as directional drilling, coiled tubing and multistage fracturing.

Driven by the need of China to develop its unconventional reservoirs, extensive production enhancement work is demanded. In the three phases of bidding undergone by Sinopec in respect of Ordos Basin in 2012, the Group ranked second in terms of the number of awarded wells and was awarded with 40 wells in each of these biddings (and therefore a total of 120 wells). Services for some

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of the wells won under the third bidding are expected to be completed in the first half of 2013. In addition, in January 2013, the Group entered into a strategic alliance framework agreement with 中國華電工程(集團)有限公司 (China Huadian Engineering Co., Ltd., “**Huadian**”), a subsidiary of 中國華電集團 (China Huadian Group*), pursuant to which the Group will be the preferred partner to provide relevant oilfield project services to Huadian with respect of certain fields for which Huadian won the bid.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table presents a summary of our consolidated statements of comprehensive income for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012, respectively. The summary of our consolidated statements of comprehensive income is derived from, and should be read in conjunction with, the Accountant’s Report set forth in Appendix I to this prospectus, which has been prepared in accordance with IFRS.

Selected consolidated statements of comprehensive income

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				<i>(unaudited)</i>	
Revenue	286,677,682	558,261,469	559,490,832	437,543,602	571,077,139
Operating profit.....	94,208,048	107,637,725	116,074,393	100,066,010	92,374,060
Finance costs, net	(1,284,896)	(2,029,273)	(3,297,436)	(2,486,793)	(5,823,245)
Share of profit/(loss) of an associate	—	598,597	492,291	(610,006)	(1,102,297)
Share of (loss)/profit of a jointly controlled entity	—	—	(1,312,861)	1,165,193	(43,226)
Gain on disposal of a jointly controlled entity.....	—	—	—	—	47,742,893
Profit before income tax	92,923,152	106,207,049	111,956,387	98,134,404	133,148,185
Income tax expense	(15,911,000)	(21,572,637)	(19,863,851)	(13,760,378)	(25,997,354)
Profit for the year/period	77,012,152	84,634,412	92,092,536	84,374,026	107,150,831
Other comprehensive (loss)/income					
Currency translation differences	(108,066)	4,617,538	8,040,679	5,911,035	(1,267,503)
Total comprehensive income for the year/period	76,904,086	89,251,950	100,133,215	90,285,061	105,883,328

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	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				<i>(unaudited)</i>	
Profit for the year/period attributable to:					
Owners of the Company	77,611,446	84,634,412	86,847,607	81,737,731	104,438,357
Non-controlling interests	<u>(599,294)</u>	<u>—</u>	<u>5,244,929</u>	<u>2,636,295</u>	<u>2,712,474</u>
	<u>77,012,152</u>	<u>84,634,412</u>	<u>92,092,536</u>	<u>84,374,026</u>	<u>107,150,831</u>
Total comprehensive income for the year/period attributable to:					
Owners of the Company	77,503,380	89,251,950	94,254,615	87,546,130	103,249,413
Non-controlling interests	<u>(599,294)</u>	<u>—</u>	<u>5,878,600</u>	<u>2,738,931</u>	<u>2,633,915</u>
	<u>76,904,086</u>	<u>89,251,950</u>	<u>100,133,215</u>	<u>90,285,061</u>	<u>105,883,328</u>

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2012

Estimated consolidated profit attributable to owners of the

Company for the year ended 31 December 2012 ^(Note 1)not less than HK\$170.0 million

Unaudited pro forma estimated earnings per Share for the

year ended 31 December 2012 ^(Note 2)not less than HK\$0.17

Notes:

- (1) The bases on which the above profit estimate has been prepared are set out in Appendix III to this prospectus. Our Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2012 based on the audited consolidated results of our Group for the nine months ended 30 September 2012 and the unaudited consolidated results of our Group based on management accounts for the three months ended 31 December 2012. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in Note 2 of Section II in Appendix I to this prospectus.
- (2) The calculation of unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2012, assuming that our Company had a total of 1,000,000,000 Shares were in issue assuming that the Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2012. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or Share Option Scheme, or any shares which may be allotted and issued or repurchased by our Company pursuant to a general mandate.

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STATISTICS OF THE GLOBAL OFFERING^(Note 1)

	<u>Based on Offer Price of HK\$2.78</u>	<u>Based on Offer Price of HK\$3.39</u>
Market capitalisation of our Company ^(Note 2)	HK\$2,780 million	HK\$3,390 million
Prospective price/earnings multiple on a pro forma fully diluted basis ^(Note 3)	16.4 times	19.9 times
Unaudited pro forma adjusted net tangible asset value per Share ^(Note 4)	HK\$1.05	HK\$1.20

Notes:

- (1) The Shares being offered in the Global Offering will rank pari passu with all Shares in issue or to be issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus. All statistics in this table take no account of any Shares which may be issued upon the exercise of the Over-allotment Options, the options granted under the Pre-IPO Share Option Scheme or the options which may be granted under the Share Option Scheme.
- (2) The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue immediately upon completion of the Capitalisation Issue and the Global Offering.
- (3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the unaudited pro forma estimated earnings per Share for the year ended 31 December 2012 at the respective Offer Price of HK\$2.78 and HK\$3.39 per Share.
- (4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and based on 1,000,000,000 Shares expected to be in issue immediately upon completion of the Capitalisation Issue and the Global Offering at the respective Offer Price of HK\$2.78 and HK\$3.39 per Share.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. Dividend payments are discretionary and will be subject to the recommendation of our Board and approval of our Shareholders in general meetings in accordance with our Articles. Our dividend payment amounts, if any, for a given year will be dependent upon our future results of operations, financial conditions, capital requirements, legal and contractual restrictions and other factors that our Board may deem relevant. In addition, our Controlling Shareholders, subject to our Articles, may influence our dividend policy.

We declared dividends on 19 June 2012 of HK\$120,000,000 payable to the shareholders of the Company whose names were registered in the Company's register of members as at 30 June 2010 on a pro rata basis which will be settled prior to the Listing by the internal resources of the Group.

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NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there had been no material adverse change in our financial, operational or trading position or prospects since 30 September 2012, and no event since 30 September 2012 had occurred that would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

USE OF PROCEEDS

The aggregate amount of the net proceeds from the Global Offering is estimated to be approximately HK\$710.2 million assuming an Offer Price of HK\$3.09 (being the mid-point of the indicative Offer Price range of HK\$2.78 to HK\$3.39), excluding the exercise of the Over-allotment Option and after deducting underwriting fees and other expenses payable by our Company in connection with the Global Offering.

We plan to use the net proceeds of the Global Offering as follows:

- up to 35%, or approximately HK\$248.6 million, will be used to establish a research and development and manufacturing base in the PRC;
- up to 30%, or approximately HK\$213.1 million, will be used for the acquisition of a range of fracturing related tools and equipment to expand our scale of operation on unconventional gas (including tight and shale gas);
- up to 15%, or approximately HK\$106.5 million, will be used for investment in the Group's research and development in new services and technologies, such as turbine drilling tools, oil-based drilling mud, surface facility products and multistage fracturing tools and chemicals for unconventional gas fields;
- up to 10%, or approximately HK\$71.0 million for (i) enhancement of regional offices in the PRC and overseas; (ii) conducting exhibitions and technical seminars; and (iii) facilitating the business of our newly established regional office in Venezuela; and
- the remaining balance will be used for general working capital purposes.

For more details, please refer to the section headed "Future plans and use of proceeds" on page 354 of this prospectus.

LISTING EXPENSES

The total estimated listing expenses (excluding underwriting commission) in connection with the Global Offering was approximately HK\$38.0 million, and for the nine months ended 30 September 2012, the Group incurred listing expenses amounting to approximately HK\$19.4 million, among which approximately HK\$15.3 million has been charged to the profit and loss and approximately HK\$4.1

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million was capitalised as deferred expenses, which is expected to be charged against equity upon successful listing under relevant accounting standards. We estimate that the listing expenses to be incurred and charged to the profit and loss in the financial period after 30 September 2012 will be approximately HK\$9.0 million.

RISK FACTORS

We believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorised into: (i) risks relating to our business and industry; (ii) risks relating to conducting our operations in the PRC; (iii) risks relating to conducting our operations in Singapore; (iv) risks relating to the Global Offering; and (v) risks relating to statements in this prospectus. The most significant risks are summarised below. These risks are not the only significant risks that may affect the value of the Shares. Please refer to the section headed “Risk factors” on page 47 of this prospectus for further discussions.

- Demand for our services, the prices we charge for our services and our profit margins depend on oil and gas industry activity
- If we fail to successfully extend our presence in China in accordance with our business strategy, our results of operations and financial conditions may be adversely and materially affected
- We relied on Sinopec for a substantial portion of our revenue during the Track Record Period
- If we fail to respond to change in the needs, preferences & technical requirements of our major customers or the general oilfield services industry, results of our operations and financial conditions may be materially and adversely affected
- The oilfield service industry has experienced a shortage of senior technical experts and management and we face intense competition for qualified personnel for our business

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“2011 Amendment of Memorandum”	the amendment of the memorandum of association of the Company regarding, inter alia, the alteration of the issued shares of the Company from a single class of shares with no par value to Voting Shares with no par value and Non-Voting Shares with no par value by written resolutions of all the Shareholders passed on 24 March 2011
“Affiliate”	any person or entity that directly or indirectly controls, is controlled by, or is under direct or indirect common control with another person or entity
“Agip”	Azienda Generale Italiana Petroli, an Independent Third Party
“Amendment of Memorandum”	the amendment of the Memorandum of Association regarding, inter alia, the alteration of the issued shares of the Company to a single class with voting rights by written resolutions of all the Shareholders passed on 18 February 2013 which will take effect prior to the Listing Date
“API”	American Petroleum Institute
“Application Form(s)”	White Application Form(s), Yellow Application Form(s) and Green Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company that will take effect prior to the Listing Date
“Baker Hughes”	Baker Hughes Eho Ltd, Hughes Christensen Division, Baker Hughes (Beijing) Trading and/or Baker Hughes Singapore, all of which are Independent Third Parties
“Board”	the board of Directors of our Company
“BP”	BP p.l.c. and its subsidiaries, all of which are Independent Third Parties
“Bs”	bolivares fuertes, the lawful currency of Venezuela
“Business Day”	a day which is not a Saturday, a Sunday or a public holiday in Hong Kong and on which banks in Hong Kong are generally open for business
“BVI”	British Virgin Islands

DEFINITIONS

“CACT”	CNOOC-Agip-Chevron-Texaco Operators Group, an Independent Third Party and 51%-owned by CNOOC with the remaining 49% owned by international oil and gas companies namely Agip and Chevron
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of part of any reserve accounts of the Company upon completion of the Global Offering referred to in the section headed “Statutory and general information — A. Further information about our Company — 3. Resolutions of all the Shareholders passed on 18 February 2013” in Appendix V to this prospectus
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCBIC”, “Sponsor” or “Sole Sponsor” or “Sole Global Coordinator”	CCB International Capital Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO), acting as the sole sponsor, sole global coordinator and joint bookrunner and joint lead manager of the Global Offering
“Chevron”	Chevron Corporation, an Independent Third Party
“China Galaxy International”	China Galaxy International Securities (Hong Kong) Co., Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“CIMB”	CIMB Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

DEFINITIONS

“Circular 75”	《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles*) issued by the SAFE on 21 October 2005
“Circular 19”	《境內居民通過境外特殊目的公司融資及返程投資外匯管理操作規程》(the Circular on Operational Rules concerning Foreign Exchange Control on Domestic Residents’ Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles*) issued by the SAFE on 20 May 2011
“CNOOC”	China National Offshore Oil Corporation, a PRC state-owned enterprise, including its subsidiaries, affiliates and associated companies, one of which is CNOOC Limited (中國海洋石油有限公司), a Hong Kong limited liability company and whose shares are listed in the Stock Exchange (stock code: 0883), unless specified otherwise or required in the context, all of which are Independent Third Parties
“CNPC”	China National Petroleum Corporation, a PRC state-owned enterprise, including its subsidiaries, affiliates and associated companies unless specified otherwise or required in the context, all of which are Independent Third Parties
“Companies Act”	the BVI Business Companies Act 2004 and any amendments thereto
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended and supplemented from time to time
“Company”, “our Company”, “we”, “us” or “Petro-king”	Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司) (which was formerly known as “Termbray Oilfield Services (BVI) Ltd. (添利油田服務(英屬維爾京群島)有限公司)” and changed its name to “Termbray Petro-king Oilfield Services (BVI) Limited (添利百勤油田服務(英屬維爾京群島)有限公司)” on 13 March 2008 and further changed to “Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司)” on 9 August 2012), a company incorporated in the BVI on 7 September 2007 as a limited liability company
“Company Law”	《中華人民共和國公司法》(the Company Law of the PRC*), as enacted by the SCNPC on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“ConocoPhillips”	ConocoPhillips China Inc., an Independent Third Party
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, being King Shine Controlling Shareholder Group and Termbray Controlling Shareholder Group
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the national securities markets in China and certain matters relating to the proposed offshore listing of enterprises with business in China or owned by PRC nationals
“Deed of Indemnity”	a deed of indemnity entered on 19 February 2013 between Termbray Industries, Termbray Electronics (BVI), Termbray Natural Resources and King Shine Controlling Shareholder Group with and in favour of our Company
“Deed of Non-competition”	a non-competition deed entered into on 18 February 2013 between the Company (for itself and as trustee for and on behalf of its subsidiaries and associated companies) and each of the King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI), Termbray Natural Resources, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited and First Trend Management (PTC) Limited
“Dezhou Jiacheng”	德州嘉誠石油裝備有限公司 (Dezhou Jiacheng Oil Tools Co., Ltd.*), a limited liability company established in the PRC on 3 April 2007 which is wholly-owned by Petro-king Shenzhen and therefore is an indirect wholly-owned subsidiary of the Company
“Director(s)”	director(s) of our Company
“EIA”	U.S. Energy Information Administration, the statistical and analytical agency within the U.S. Department of Energy
“EOG (China)”	EOG Resources China Limited, an Independent Third Party
“EPS”	earnings per Share
“ESOS” or “Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 20 December 2010 (as amended by the addendum adopted by the Company on 25 September 2012), principal terms of which and the number of vested options are summarised in the section headed “Statutory and general information — D. Pre-IPO Share Option Scheme” in Appendix V to this prospectus

DEFINITIONS

“EU”	the European Union
“Expert Oil Services”	Expert Oil Services Kish (which was formerly known as “Petro-King Oil Services Kish” and changed its name to “Expert Oil Services Kish” on 22 October 2008), a company incorporated in Kish Islands with limited liability on 5 August 2008 which is 98% owned by Wellsharp Group and therefore is an indirect subsidiary of the Company
“FMC”	FMC Technologies Singapore Pte Ltd, an Independent Third Party
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by its present subsidiaries or (as the case may be) its predecessor
“H-Star Petrotech”	H-Star Petrotech Company Limited, a company incorporated in Hong Kong with limited liability on 10 December 2010 which is wholly-owned by Sheraton Investment and therefore is an indirect subsidiary of the Company
“Halliburton”	Halliburton Far East Pte Ltd, 哈里伯頓能源服務(中國)有限公司 (Halliburton Energy Services (China) Limited) and/or Halliburton Energy Services, Inc., all of which are Independent Third Parties
“Hero Gain”	Hero Gain Investments Limited (豐潤投資有限公司), a company incorporated in the BVI with limited liability on 1 July 2010 which is wholly-owned by Petro-king Hong Kong and therefore is an indirect wholly-owned subsidiary of the Company
“HKD”, “HK\$” or “HK dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 25,000,000 New Shares being initially offered by our Company at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” on page 366 of this prospectus)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” on page 366 of this prospectus) at the Offer Price (plus brokerage fee of 1%, Stock Exchange trading fee of 0.005%, and SFC transaction levy of 0.003%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” on page 366 of this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting — Hong Kong Underwriters” on page 356 of this prospectus, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 21 February 2013 relating to the Hong Kong Public Offering and entered into by, among others, the executive Directors, the King Shine Controlling Shareholder, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and us
“Huizhou FST”	惠州市弗賽特石油設備有限公司, a limited liability company established in the PRC on 14 August 2012 which is 100% owned by Shenzhen FST
“IFRS”	International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC)

DEFINITIONS

“Independent Third Part(y)(ies)”	a party or parties that is or are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive, substantial shareholders of our Company, our subsidiaries or any of their respective associates
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters with professional and institutional and individual investors at the Offer Price, as further described in the section headed “Structure of the Global Offering” on page 366 of this prospectus
“International Placing Agreement”	the international placing agreement relating to the International Placing to be entered into on or about 27 February 2013 by, among others, the executive Directors, the King Shine Controlling Shareholder, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the International Underwriters and us
“International Placing Shares”	the 225,000,000 New Shares initially being offered by our Company for subscription under the International Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option
“International Underwriters”	the group of underwriters led by the Joint Bookrunners, which is expected to enter into the International Placing Agreement to underwrite the International Placing
“IPM”	integrated project management for an oilfield project. Please also refer to the section headed “Business — Principal services and products — A. Consultancy services — IPM Services” on page 191 of this prospectus for further details
“Iran”	the Islamic Republic of Iran
“Iranian Refinement”	Iranian Refinement Development Premier Co. Ltd., a limited company incorporated in Iran on 3 March 2009 which is 49% owned by Top Select
“Joint Bookrunners”	CCBIC, CIMB and China Galaxy International
“Joint Lead Managers”	CCBIC, CIMB and China Galaxy International
“King Shine”	King Shine Group Limited (君澤集團有限公司), a company incorporated in the BVI with limited liability on 29 August 2007, a Controlling Shareholder of the Company

DEFINITIONS

“King Shine Controlling Shareholder Group”	King Shine, Mr. Wang and Ms. Zhou
“Latest Practicable Date”	13 February 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about 6 March 2013, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“M&A Rules”	《關於外國投資者並購境內企業的規定》(the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*) jointly issued on 8 August 2006 by six PRC regulatory agencies, including the MOFCOM, the State Administration of Taxation of the PRC, the State Administration for Industry & Commerce of the PRC, the CSRS and the SAFE and amended on 22 June 2009
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company that will take effect prior to the Listing Date
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Albert Wong”	Mr. Wong Kwok Ping Albert (王國平), our chief technology officer and the sole shareholder of Natural Peak
“Mr. Wang” or “our Chairman”	Mr. Wang Jinlong (王金龍), our executive Director, chairman, chief executive officer, founder and a Controlling Shareholder
“Mr. Zhao”	Mr. Zhao Jindong (趙錦棟), our executive Director and a shareholder of King Shine

DEFINITIONS

“Ms. Zhou”	Ms. Zhou Xiaojun (周曉君), the wife of Mr. Wang and a Controlling Shareholder
“Natural Peak”	Natural Peak Overseas Ltd, a company incorporated in the BVI with limited liability which owns 49% shares in Sheraton Investment
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Shares”	new Shares offered for subscription by the Company pursuant to the Global Offering
“NOC”	national oil company
“Non-Voting Shares”	ordinary shares in the capital of the Company with no par value and with rights and obligations more particularly set forth in the section headed “Statutory and general information — A. Further information about our Company — 2. Changes in the share capital of our Company” in Appendix V to this prospectus, which only existed subsequent to the 2011 Amendment of Memorandum but prior to the Amendment of Memorandum
“OECD”	the Organisation for Economic Co-operation and Development
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which the Shares are to be issued pursuant to the Global Offering, to be determined as described in the section headed “Structure of the Global Offering — Pricing of the Global Offering” on page 371 of this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option
“Ordos Basin”	a basin that covers an area of approximately 370,000km ² across Shaanxi, Gansu and Shanxi Provinces and Ningxia and Inner Mongolia Autonomous Regions in the mid-western region of China

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by us to the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to the International Placing Agreement, to require us to issue and allot up to an aggregate of 37,500,000 additional New Shares at the Offer Price solely to cover over-allocations in the International Placing, if any, exercisable at any time from the date of the International Placing Agreement until the 30th day from the last day for the lodging of applications under the Hong Kong Public Offering
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PDVSA”	Petróleos de Venezuela, S.A. and/or PDVSA Services, B.V., all of which are Independent Third Parties
“Petro-king Hong Kong”	Petro-king Holding Limited (百勤控股有限公司) (formerly known as “Termbray Oilfield Services Limited (添利油田服務有限公司)” and changed its name to “Petro-king Holding Limited” on 3 March 2008), a company incorporated in Hong Kong with limited liability on 13 September 2007, a wholly-owned subsidiary of the Company
“Petro-king Huizhou”	百勤石油技術(惠州)有限公司 (Petro-king Oilfield Technology (Huizhou) Limited*), a wholly foreign-owned enterprise established in the PRC on 21 September 2012 which is wholly-owned by Petro-king Hong Kong and therefore is an indirect wholly-owned subsidiary of the Company
“Petro-king International”	Petro-king International Co., Limited (百勤國際有限公司), a company incorporated in Hong Kong with limited liability on 14 July 2003 which is wholly-owned by Petro-king Hong Kong and therefore is an indirect wholly-owned subsidiary of the Company
“Petro-king Shenzhen”	深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited*), a wholly foreign-owned enterprise established in the PRC on 26 April 2002 which is wholly-owned by Petro-king Hong Kong and therefore is an indirect wholly-owned subsidiary of the Company
“Petro-king South America”	Petro-king Oilfield Technology (South America) Holding Limited, a company incorporated in the BVI on 16 March 2012 which is wholly-owned by Petro-king Hong Kong and therefore is an indirect subsidiary of the Company

DEFINITIONS

“Petro-king Venezuela”	Petro-king Oilfield Technology Holdings Limited De Venezuela, C.A., a company incorporated in Venezuela on 17 September 2012, which is a subsidiary of Petro-king South America and therefore an indirect subsidiary of the Company
“PRC”, “China” or the “People’s Republic of China”	the People’s Republic of China, which for the purposes of this prospectus only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“PRC Enterprise Income Tax Law”	《中華人民共和國企業所得稅法》(the PRC Enterprise Income Tax Law*) which was promulgated by the National People’s Congress of PRC on 16 March 2007 and became effective on 1 January 2008
“PRC GAAP”	the generally accepted accounting principles in the PRC
“PRC government” or “State”	the central government of the PRC, including all government subdivisions (including provincial, municipal and other regional or local government entities)
“PRC Labour Contract Law”	《中華人民共和國勞動合同法》(the PRC Labour Contract Law*) which was adopted by the SCNPC on 29 June 2007 and became effective on 1 January 2008
“PRC Legal Advisers”	Shu Jin Law Firm, our legal advisers as to the PRC law
“Price Determination Agreement”	the agreement to be entered into between us and the Joint Bookrunners (on behalf of the Underwriters) on the Price Determination Date to record and determine the Offer Price
“Price Determination Date”	on or about 27 February 2013 (Hong Kong time) at which time the Offer Price is determined, or such later time as our Company and the Joint Bookrunners (on behalf of the Underwriters) may agree, but in any event not later than 5 March 2013
“Principal Share Registrar”	Computershare Hong Kong Investor Services Limited
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by our Shareholders on 18 February 2013 particulars of which are set forth in the section headed “Statutory and general information — A. Further information about our Company — B. Resolutions of all the Shareholders passed on 18 February 2013” in Appendix V to this prospectus

DEFINITIONS

“Rial(s)”	Iranian rial, the lawful currency of Iran
“RUB”	Russian rouble, the lawful currency of Russia
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
“SGD” or “S\$”	Singapore dollars, the lawful currency of Singapore
“Share(s)”	(i) prior to the 2011 Amendment of Memorandum and after the Amendment of Memorandum, ordinary shares of our Company with no par value and (ii) subsequent to the 2011 Amendment of Memorandum and prior to the Amendment of Memorandum, comprising Non-Voting Shares and Voting Shares
“Share Option Scheme”	the share option scheme conditionally adopted by our Shareholders on 18 February 2013, principal terms of which are summarised in the section headed “Statutory and general information — E. Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of Shares
“Shell”	Shell China Exploration and Production Company Limited, an Independent Third Party
“Shenzhen FST”	深圳市弗賽特檢測設備有限公司 (Shenzhen Fluid Science & Technology Co., Ltd.*), a limited liability company established in the PRC on 20 January 2006 which is 60% owned by Petro-king Shenzhen and therefore is an indirect subsidiary of the Company
“Sheraton Group”	Sheraton Investment, H-Star Petrotech, Star Petrotech and Sun Oil
“Sheraton Investment”	Sheraton Investment Worldwide Ltd, a company incorporated in the BVI with limited liability on 9 June 2010 which is 51% owned by Hero Gain and therefore is an indirect subsidiary of the Company

DEFINITIONS

“Sichuan Basin”	a basin that covers an area of approximately 160,000 km ² across Sichuan Province and part of the Chongqing Municipality in the southwestern region of China
“Sinopec”	China Petrochemical Corporation, a PRC state-owned enterprise including its subsidiaries, affiliates and associated companies unless specified otherwise or required in the context, all of which are Independent Third Parties
“SIPC”	Sinopec International Petroleum Exploration and Production Corporation (Iran), and “SIPC (Iran)” means the project company of SIPC to carry out the Yadavaran Project in Iran
“Small and Low-profit Enterprise”	the enterprise which engages in an industry that is not restricted or prohibited by the government and whose accrued taxable income, employees and total assets do not exceed the statutory limit
“Spears Report”	a report dated 22 February 2013, which we commissioned Spears & Associates to prepare for US\$30,000. The report analyses, among other things, the Chinese and international oilfield service markets
“Stabilising Manager”	CCBIC
“Star Petrotech”	Star Petrotech Pte. Ltd. (which was formerly known as “Star Petroleum Engineering Pte. Ltd.” and changed its name to “Star Petrotech Pte. Ltd.” on 18 February 2009), a company limited by shares incorporated in Singapore on 4 February 2009 which is wholly-owned by Sheraton Investment and therefore is an indirect subsidiary of the Company
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between Jade Win Investment Limited and the Sole Global Coordinator
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Oil”	星油能源科技(深圳)有限公司 (Sun Oil Technology Co., Ltd.*), a limited liability company established in the PRC on 8 April 2011 which is wholly-owned by H-Star Petrotech and therefore is an indirect subsidiary of the Company
“Syria”	the Syrian Arab Republic
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers, as amended from time to time

DEFINITIONS

“TAML”	Technology Advancement for Multi-Laterals, formed in 1997 as an international operators’ forum which subsequently formed a joint-industry project in 1998. It has created a system that serves as the industry standard to classify or rank the type of completion equipment used in multilateral wells. The TAML system has six “levels/grades”. A “level/grade” refers to the type of junction between the main wellbore and the lateral wellbore. The complexity of the multilateral completion increases with the level/grade, and the cost to construct the junction increases with the junction complexity. The TAML classification system primarily relates to the type and complexity of the completion equipment installed in the well, rather than the difficulty of drilling the well. In fact, the same type of wellbore could be completed several different ways using completion equipment of varying degrees of complexity. In its early days, TAML tracked the number of multilateral wells by type of junction used and found that most multilateral wells were completed using the simplest types of junction (levels/grades 1 and 2) and that relatively few were completed using more sophisticated (levels/grades 3 through 6) equipment
“TCL Corporation”	TCL Corporation (TCL 集團股份有限公司), a company incorporated in the PRC with limited liability by shares and whose shares are listed on the Shenzhen Stock Exchange (stock code: 00100) and which is the sole shareholder of TCL HK
“TCL HK”	TCL Industries Holdings (H.K.) Limited (TCL 實業控股(香港)有限公司), a company incorporated in Hong Kong with limited liability and a substantial shareholder of the Company
“TCL Investment”	the investment by TCL Corporation (indirectly via its wholly-owned subsidiaries) in the Company
“Termbray Controlling Shareholder Group”	Termbray Industries, Termbray Electronics (BVI), Termbray Natural Resources, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited, First Trend Management (PTC) Limited and HSBC International Trustee Limited
“Termbray Electronics (BVI)”	Termbray Electronics (B.V.I.) Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Termbray Industries and a Controlling Shareholder of the Company through its shareholding in Termbray Natural Resources

DEFINITIONS

“Termbray Industries”	Termbray Industries International (Holdings) Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (stock code: 0093) and a Controlling Shareholder of the Company through its shareholding in Termbray Electronics (BVI)
“Termbray Investment”	the investment by Termbray Industries (indirectly via its wholly-owned subsidiaries) in Petro-king International and Petro-king Shenzhen through a series of transactions. Details of the Termbray Investment are more particularly set out under the section headed “History and development — (10) Termbray Investment” on page 148 of this prospectus
“Termbray Natural Resources”	Termbray Natural Resources Company Limited, a company incorporated in the BVI with limited liability which is wholly-owned by Termbray Electronics (BVI) and is a Controlling Shareholder of the Company
“Top Select”	Top Select Holdings Limited, a company incorporated in the BVI with limited liability on 2 January 2009 which was wholly-owned by Petro-king International until 9 November 2012 when it was disposed of to Mr. Yang Yingwei (楊映煒)
“Track Record Period”	the three financial years of the Company ended 31 December 2011, and the nine months ended 30 September 2012; and the phrase “during the Track Record Period”, followed by a series of figures or percentages, refers to information relating to the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, respectively
“Turbodrill SG”	Turbodrill Technology Pte. Ltd., a company incorporated in Singapore with limited liability on 1 September 2011, which is wholly-owned by Petro-king Hong Kong and therefore is an indirect wholly-owned subsidiary of the Company
“UN”	the United Nations
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“USD”, “US\$” or “U.S. dollar(s)”	United States dollars, the lawful currency of the United States

DEFINITIONS

“VAT”	value added tax
“Venineft”	LLC Venineft, Russia, a 74.9% subsidiary of Rosneft, a Russian state-owned petroleum company, with the remaining 25.1% interest owned by Sinopec, and an Independent Third Party
“Voting Shares”	ordinary shares in the capital of the Company with no par value and with rights and obligations more particularly set forth in the section headed “Statutory and general information — A. Further information about our Company — 2. Changes in the share capital of our Company” in Appendix V to this prospectus, which only existed subsequent to the 2011 Amendment of Memorandum but prior to the Amendment of Memorandum
“Wellsharp Group”	Wellsharp Group Limited (偉鋒集團有限公司), a company incorporated in the BVI with limited liability on 11 April 2008 which is wholly-owned by Petro-king International and therefore is an indirect wholly-owned subsidiary of the Company
“White Form eIPO”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Winfield”	Winfield Oil Services Limited, a wholly-owned subsidiary of Sinopec and an Independent Third Party

The English names of the PRC entities, PRC laws or regulations or the PRC governmental authorities mentioned in this prospectus and marked with “” are translation from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.*

Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus are as of the Latest Practicable Date.

In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings ascribed to them under the Listing Rules, unless the context otherwise requires.

DEFINITIONS

In this prospectus, unless otherwise stated, certain amounts denominated in RMB and U.S. dollars have been translated into HK dollars at an exchange rate of US\$1 = HK\$7.76 and RMB1 = HK\$1.24 for illustration purposes only. Such conversions shall not be construed as representations that amounts in RMB or U.S. dollars were or may have been converted into HK dollars at such rate or any other exchange rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

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

“absorption well”	a kind of wells where liquids enter into formations during the operation of drilling, well completion or production
“acidising”	the pumping of acid into the well bore to remove near-well formation damage and other damaging substances. The procedure commonly enhances production by increasing the effective well radius
“API gravity”	the American Petroleum Institute’s scale for measuring the specific density of liquid hydrocarbons, in degrees; the lower the API gravity, the heavier the compound, and generally, the lower its commercial value; crude oils generally range from 6 degrees API (very heavy) to 60 degrees API (very light)
“bridge plug”	a composite downhole tool that is located and set to isolate the lower part of the well bore while the upper section is being tested or subject to the installation of swell packers, which may be permanent or retrievable, enabling the lower well bore to be permanently sealed from production or temporarily isolated from a treatment conducted on an upper zone
“casing”	(i) a steel pipe that is screwed together and lowered into the well bore after drilling; the casing, along with the cement, providing support to the well bore against surrounding geological pressure so as to maintain well bore stability; or (ii) a process which refers to the lining of steel tube into the well until it reaches the well bore for the flow of oil and gas from the reservoir to the surface and for preventing the well bores from collapsing under the pressure of fluids and surrounding rocks after drilling
“cementing”	a process of injecting cement into the space between the side of a well and the outside of the casing to provide and reinforce the structural integrity of well bores, preventing the well walls from collapsing under pressure
“coalbed methane”	also known as coal seam gas, is natural gas contained in coalbeds

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“crude oil”	a general term for unrefined petroleum or liquid petroleum. Petroleum can range from solid to gas, but the term is generally used to refer to liquid crude oil. Crude oil may include condensate and natural gas liquids
“cutting”	the fragments of rock dislodged by the drill bit and brought to the surface in the drilling fluids/mud. Washed and dried cuttings samples are analysed by geologists to obtain information about the formations drilled
“day rate”	fixed daily fee charged with respect to the services provided by a drilling rig or drilling service team
“deep well”	a term commonly used to refer to a well with a vertical depth of over 4,000 m. As well depth increases rock formations tend to become more dense due to the increasing amount of overburden compressing the rock. Drilling becomes more difficult as the rock density increases because the rate of penetration through the rock slows down. In addition, the denser rock tends to wear out the drill bit more rapidly, thus requiring more frequent halts to the drilling process in order to “trip out” the drill string and replace the worn out drill bit. As a general rule, an increase in well depth is associated with an increase in pressure and temperature
“deepwater”	according to the Spears Report, although there is no commonly accepted definition of deepwater, for some, it is considered that deepwater only includes water depths in excess of 3,000 feet. The maximum water depth in which an offshore well has been drilled is approximately 10,000 feet
“directional drilling”	intentional drilling of a well at a non-vertical or deviated angle, in order to improve reach or exposure to petroleum reservoirs; such drilling is especially common for offshore wells, given the multiple number of wells which may be drilled for a single production platform
“downhole”	pertaining to or underground in the wellbore (as opposed to being on the surface)
“drill bit”	the tool attached to the end of the drill string which cuts and bores its way through the rock formations at the bottom of the well

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“drill collar”	a thick-walled seamless, tubular steel piece made of solid bars of steel, such as plain carbon steel or advanced alloy steel with threads in both ends, which connects the drill pipe to the drill bit. The thickness of its wall is four to six times that of ordinary drill pipes
“drill pipe”	a seamless steel pipe made of advanced alloy steel screwed together by special threaded ends called tool joints. The drill pipe connects the rotary system on the drilling rig to the drill collar and drill bit downhole. Drill pipe is both to pump drilling fluid to the drill bit and to be able to raise, lower and rotate the bottomhole assembly and drill bit
“drill string”	the connected column of drill pipe, drill collar and any other tools used to make the drill bit turn at the bottom of the wellbore. The drill string is driven by the rotary system of a rig
“drilling”	the cutting process by applying pressure and rotation using specific drilling equipment and auxiliary tools to create a wellbore, of a long-lasting and stable connection between the target rock formation or reservoir and the wellhead during the exploration, evaluation and development stages of an oil and gas field. Please also refer to the section headed “Industry overview — Global upstream oilfield services market — Global drilling services, completion equipment and services and stimulation services markets” on page 96 of this prospectus for descriptions of “drilling services” according to the Spears Report
“drilling fluids”	fluids, or drilling mud, circulated downhole during drilling to cool and lubricate the drill bit, remove well cuttings, maintain downhole pressure and preserve the integrity of the well bore; drilling fluids can be water, oil, or gas-based, with various additives. Synonymous with “drilling mud” in general usage. Oil-based drilling mud provide greater lubricity than water-based mud and are primarily used for horizontal or directionally drilled wells where the possibility of the drill pipe becoming stuck in the well is high. The decision as to whether to use either high-performance water-based drilling mud or oil-based drilling mud in a horizontal well is primarily formation dependent (namely, rock type, temperature and wellbore tortuosity). In general horizontal wells with greater vertical depths, higher temperature, longer lateral length, greater wellbore tortuosity and higher clay content are the most likely to use oil-based drilling mud. In collapse-prone formations, a low density, water-resistant, stable and buoyant oil-based drill mud is well suited for use

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“extended reach drilling” or “ERD”	the directional drilling of wells in which the bottom of the well relative to the surface location of the well has a large lateral displacement. It is generally used (i) to reach a larger area from one surface drilling location, and (ii) to keep a well in a reservoir for a longer distance in order to maximise its productivity and drainage capability
“extended reach drilling well” or “ERD well”	currently there is no single, generally-accepted definition of ERD wells in terms of the ratio between lateral displacement and vertical depth many would consider an ERD well to be a well with a ratio of horizontal offset to true vertical depth in excess of two. However, some international oilfield services providers may view any well that is technically challenging as a result of its lateral departure as an ERD well
“field”	a general term in geology for all hydrocarbons located in a specified producing area. A field consists of a reservoir that traps hydrocarbons and that is covered an impermeable, sealing rock which prohibits their escape
“fracturing”	a process of hydraulic fracturing through the pumping of fluid or slurry at high pressure down the well into the reservoir rock to create or enlarge existing fissures and cracks for the increase of productivity and recovery rate of oil and gas reservoirs with relatively tight reservoir rock
“H ₂ S”	hydrogen sulfide, a highly poisonous gas which is life-threatening in sufficiently high concentrations and durations. One of the most difficult production challenges faced by operators and oilfield service companies is posed by the presence of high H ₂ S concentrations in natural gas. Drilling and other operational crews must be prepared to use detection equipment, personal protective equipment, proper training and contingency procedures in the H ₂ S-prone areas. In the United States, the oil and gas industry is largely regulated by state regulatory agencies, which have typically considered H ₂ S concentrations in excess of 2% to be high. In China, the PRC Oil and Gas Industry Standard issued by the PRC National Energy Administration has defined a high H ₂ S concentration as between 2% to 10%

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“high-end”	in respect of markets, certain segments of oilfield services which are considered to require more advanced technology and expertise. For instances, drilling services and completion equipment services that are associated with deep wells, HTHP wells, horizontal wells, and wells in hard and/or abrasive formations are generally considered high-end markets and multi-stage fracturing on horizontal tight and shale oil or gas wells is considered high-end segment of stimulation services market
“horizontal well”	a well drilled by deviation drilling to achieve an inclination typically greater than 70 degrees. Such wells are drilled into reservoir formations to allow for maximum crude oil recovery and productivity
“HTHP” or “high-temperature and high-pressure”	high-temperature and high-pressure downhole conditions. In China, under the PRC Oil and Gas Industry Standard issued by the PRC National Energy Administration, high temperature means temperature over 120°C. Also, Chinese operators and equipment and service companies have had little experience in dealing with downhole pressures in excess of approximately 10,000 psi. Given the current state of technology among Chinese suppliers, it would appear that a definition of high temperature as that over 120°C and high pressure as that over 10,000 psi is relevant for the Chinese market as well as other markets such as Iran where western oil companies and oilfield service companies are prohibited from working at this time. In the United States and Europe, there does not exist a single industry standard as to what constitutes high temperature and high pressure. However, US and European operators and oilfield service companies have had more experience than their Chinese counterparts in drilling and producing deep wells and the state of the art is more advanced. As a result, western suppliers generally consider high temperature to mean in excess of 150°C and high pressure to be in excess of 15,000 psi. High temperatures and high pressures pose drilling, completion and production challenges. High temperatures cause electronic equipment in downhole tools to fail quickly, slowing down drilling as worn-out equipment is replaced. High pressures require advanced materials and designs for downhole and surface production equipment. As a general rule, an increase in well depth is associated with an increase in pressure and temperature
“LNG”	liquefied natural gas, natural gas that has been converted to liquid form for ease of storage or transport

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“multilateral well”	a well in which there is more than one horizontal or near horizontal lateral wellbore drilled from a single main wellbore and connected back to that main wellbore. Different types of equipment can be used to connect the branch(es) of a multilateral well to the main wellbore
“multistage fracturing” or “multistage hydraulic fracturing”	an advanced technique of fracturing whereby (i) the wellbore that connects to the production casing is divided into multi-sections by packers which are initially open-ended, each with a hole of increasing diameters from the packer at the farthest end of the casing; (ii) fracturing fluid and proppant or acid is pumped under high pressure down the well as a result of which the last section along the casing will be the subject of fracturing (and acidising in the case where acid is pumped); (iii) following fracturing (and acidising, as the case may be) of the last section, a pellet which is the same size as the hole of the packer at the farthest end of the casing will be pumped into the casing leading to the sealing of the packer at the farthest end of the casing, to the effect that the continuous pumping of fracturing fluid and proppant or acid down the well under high pressure down will cause fracturing (and acidising, as the case may be) to the next section; and (iv) recycle of the foregoing exercise is conducted until fracturing (and acidising, as the case may be) for all sections along the casing has been completed. Accordingly, multistage fracturing serves to fracture the rock formation so as to enhance production and allow the well to produce economic quantities of the hydrocarbons. It is believed that in China, the largest multistage fracturing jobs being conducted at this time are 17-stage multistage fracturing jobs. Over time, the average number of stages in a multistage fracturing job in China is expected to increase, as it has in the US market
“oil production”	the phase that occurs after successful exploration and development and during which hydrocarbons are extracted from underground reservoirs to the surface using a series of methods
“petroleum reservoir”	a subsurface body of rock having sufficient porosity and permeability to store and transmit crude oil or natural gas

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“pressure pumping services”	pressure pumping services consist of cementing, stimulation and sand control. Each type of service involves pumping some kind of fluid and slurry down the casing or tubing under high pressure. As a result, the disciplines required to succeed in the business include chemistry, engineering, geology and the ability to marshal large groups of workers to perform complex tasks
“production enhancement” or “stimulation”	the engagement of certain techniques to allow the well to produce economic quantities of hydrocarbons. Please refer to the sections headed “Industry overview — Global upstream oilfield services market — Global drilling services, completion equipment and services and stimulation services markets” on page 96 of this prospectus and “Business — Principal services and products — B. Oilfield project services — Production enhancement” on page 200 of this prospectus for further details
“reservoir”	subsurface porous rock formations, such as sandstone, limestone and dolomite, in which oil and natural gas can be found
“rotary system”	the system on a rig which rotates the drill string and drill bit during operations; rotary systems typically are either in the form of rotary tables, which are located on the drilling floor, or in the form of more advanced top drive systems, located in the derrick swivel
“rotating liner cementing”	a way of cementing which engages the rotation of a liner string by power systems on the ground at the stage of running a liner and injecting the cement and the subsequent rotation of a liner hanger due to the transmission of the torque. The rotating liner cementing includes the process of (a) running a liner; and (b) disposing drilling fluid by circulation and injecting the cement after setting the hanger. It intends to make sure that the liner can be run to the bottom of a well successfully and that the mud can replace the drilling fluid effectively so that both the efficiency of the replacement by the mud and the quality of cement can be improved
“safety valves”	valves that are installed below the wellhead to prevent uncontrolled flow in an emergency situation, and that, in the worst case, may be the only means of preventing a blow-out

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“sand control”	methods or techniques to prevent the migration of reservoir sand into the well bore, areas near the well bore, or the downhole pumping equipment during oil production. In weak formations, sand control may be necessary-to maintain the structure of the reservoir around the well bore
“shale gas”	natural gas contained within a commonly occurring rock classified as shale. Shale formations are characterised by low permeability, with more limited ability of gas to flow through the rock than is the case with a conventional reservoir. These formations are often rich in organic matter and, unlike most hydrocarbon reservoirs, are typically the original source of the gas, <i>i.e.</i> shale gas is gas that has remained trapped in, or close to, its source rock
“sidetracking”	a process of cutting window(s) in the original well bore casing and drilling along a pre-designed track into the target layer for a secondary well bore away from an original well bore, usually engaged for horizontal wells
“slim hole well(s)”	a type of well with a relatively small open hole. As the gap of annulus between the casing and the open hole is small (generally less than one inch (25.4mm, one side being less than 12.7mm)), it is common for high circulating pressure, blocking of the annular, well leakage and other complications to occur during cementing. Thus, it is hard to guarantee the quality of cement in a slim hole well
“swell packers”	packers that swell when exposed to hydrocarbon based fluid and as a result of swelling create an annular isolation, or seal, between the open hole and the production casing, the use of which instead of cement for the purpose of annular isolation creation allows better well completion for challenging wells such as horizontal wells where conventional means of cementing may not create the targeted annular isolation in an efficient manner, as for example cement can reduce the productivity index by covering up most of the sand face on a horizontal well in a thin oil sand
“tight gas”	a general term for natural gas found in low permeability formations. Generally, tight gas is classified as those low permeability gas reservoirs that cannot produce economically without the use of technologies to stimulate flow of the gas towards the well, such as hydraulic fracturing

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“turbo-drilling” or “turbine drilling”	a technique which engages hydraulic energy of injected fluid created by artificial pressure to drive a downhole motor at ultra-high speed and lower torque. The technique uses a drill bit made of special materials that can withstand tougher ground materials, making drilling under tougher geological conditions easier but at the same time allowing the drill to remain dynamically stable at its geometrical axis given the lower vibration as a result of lower torque
“unconventional gas”	refers to a part of the gas resource base that has traditionally been considered difficult or costly to produce, such as coalbed methane, shale gas and tight gas
“vertical drilling”	a typical well drilling technique characterised by a generally vertical well bore track
“well completion”	a crucial stage in the oil and gas well construction process that follows drilling which serves to establish the channel through which oil and gas may flow from the reservoir to the surface, involving penetration of the reservoir, annular isolation, installation of and perforating the casing, and subsequently installation of the well completion string. Effective well completion will protect the oil and gas reservoir, increase productivity, extend the life of oil and gas production, and thereby allow optimum commercial production. Please also refer to the section headed “Industry overview — Global upstream oilfield services market — Global drilling services, completion equipment and services and stimulation services markets” on page 96 of this prospectus for descriptions of “completion equipment and services” according to the Spears Report
“well completion string”	the combination of tubing, liner systems, production packers, subsurface flow controls, subsurface safety valves and associated items which is installed inside the production casing down the well to establish a safe, efficient and controlled conduit between the reservoir and the surface for the production of reservoir fluids (oil and gas)
“wellbore”	a well hole
“wellhead”	a combination of surface components placed on top of an oil or gas well that is used for providing the suspension point and pressure seals so as to control the wellhead pressure for tubing and casing that runs from the bottom of the hole sections to the surface pressure control equipment

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“wildcat well”	an exploration well drilled in an area or geological formation that has no known reserves or previous discoveries
“WTI”	West Texas Intermediate, a light sweet crude oil
“X-tree”	a set of control valves, pressure gauges, and chokes resembling a Christmas tree, assembled at the top of a wellhead to control the flow of oil and gas

We also use the following technical measurements. Here is an explanation for your reference.

“°C”	degree Celsius
“bbl”	a barrel, which is equivalent to 158.988 litres or 0.134 tons of oil (at an API gravity of 33 degrees)
“bpd”	barrels per day
“Btu”	British Thermal Unit, a commonly employed measurement of energy
“cm”	centimetre
“g”	gram
“m”	metre
“m ³ ”	cubic metre
“m/h”	metre per hour
“psi”	pounds per square inch, used to measure air or liquid pressure
“ROP”	rate of penetration, the speed at which a drill bit breaks the rock under it to deepen the borehole
“SG”	specific gravity, which is the ratio of density of a substance compared to the density of reference substance (for liquids, the reference substance is nearly always fresh water at 4°C)
“sq.m.” or “m ² ”	square metre
“trips”	number of times a logging tool enters and exits a wellbore to collect data

FORWARD-LOOKING STATEMENTS

This prospectus contains, and the documents incorporated by reference herein may contain, forward-looking statements representing our goals, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as “will”, “expect”, “estimate”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar terms. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. These forward-looking statements include, but are not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- the future competitive environment for the industry which we operate in;
- the regulatory environment as well as the general industry outlook for the industry which we operate in; and
- future developments in the industry which we operate in; and general economic trends in China.

The words “will”, “expect”, “estimate”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar expressions, as they relate to us (other than in relation to our profits, results of operations and earnings), are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Please refer to the sections headed “Risk factors”, “Business” and “Financial information” in this prospectus for more details.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our financial conditions may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Except as required by applicable laws and regulations, including the Listing Rules, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should not place undue reliance on any forward-looking information.

In this prospectus, statements of or references to our intentions or those of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with an investment in our Company before making any investment decision regarding our Company. You should pay particular attention to the fact that our Company was incorporated in the British Virgin Islands and a substantial part of our Group's operations are conducted outside Hong Kong and are governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial conditions or on the trading price of our Shares, and could cause you to lose all or part of the value of your investment in the Offer Shares.

There are risks involved in our operation and many of these are beyond our control. These risks can be categorised as (i) risks relating to our business and industry; (ii) risks relating to conducting our operations in the PRC; (iii) risks relating to conducting our operations in Singapore; (iv) risks relating to the Global Offering; and (v) risks relating to statements in this prospectus.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Demand for our services, the prices we charge for our services and our profit margins depend on oil and gas industry activity.

Demand for our services and products is particularly sensitive to the level of oilfield project activities in the PRC and overseas and demand for high-end oilfield services. The level of such activities and demand depends on a number of factors, including prices for oil and gas, the government policies over oil and gas exploration and production, the pace of development of oil and gas fields and various other factors that are beyond our control. Prices for oil and gas may be subject to wide fluctuations in response to relatively minor changes in the supply and demand for oil and natural gas in the market, which is highly dependent on the market sentiment on the social and political stability of the oil and gas supplying region, the worldwide economic and financial market conditions and the overall global business environment. Market volatility and adverse financial or economic conditions across the world attributing to the global financial economic crisis starting from the second half of 2008, including the current European debt crisis, tend to discourage investor confidence, reduce investing activities, cast doubt on the sustainability on the worldwide economic growth, and generally have an adverse impact on the overall business sentiments and environment, slowing down global economic growth and development activities following which the level of demand for oil and natural gas in the market will be decreased. The decreased level of demand generally causes a downturn in oil and gas prices. A prolonged downturn in oil and gas prices could depress the level of oilfield project activities and demand for high-end oilfield services in the PRC and overseas, which would likely reduce the demand for our services and products, place pressure on our pricing and reduce our profit margins and cash flow, adversely affecting our business, results of operations and financial conditions.

In addition, in the event that any government policies favouring oilfield project activities (such as China's 12th Five-Year-Plan set up by the Chinese government with respect to the development and exploration of unconventional gas resources) are withdrawn, or world energy consumption ceases to

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grow any further, the level of developing and exploration of technically challenging fields may decrease, which in turn would likely reduce the demand for high-end oilfield services and products and place pressure on our pricing and reduce our profit margins and cash flow, adversely affecting our business, results of operations and financial conditions.

Our operating profit margin may also fluctuate as a result of a number of other factors, including fluctuation of our product and service mix in light of (a) the different phases of development of the particular oilfields of our customers; and (b) the different geological conditions of the particular oilfield of our customers which require the corresponding level of skills and technology, as well as the implementation of our business strategy, such as efforts and degrees of marketing activities and business expansion plan and thus the incurring of relating operating and development costs. Our operating profit margin were 32.9%, 19.3%, 20.7%, 22.9% and 16.2%, respectively for each of the years ended 31 December 2009, 2010 and 2011 and for the nine months ended 30 September 2011 and 2012. However, our operating profit margin during the Track Record Period may not be an indication of the operating profit margin in future. If we cannot manage the stability or growth of our operating profit margin, our business, results of operations and financial conditions could be adversely affected.

If we fail to successfully extend our presence in China in accordance with our business strategy, our results of operations and financial conditions may be adversely and materially affected.

China became our single largest market in terms of revenue during the first nine months ended 30 September 2012. In view of the rapid increase in demand for high-end oilfield services (in the business segments in which we principally operate) in China, we will focus on developing and further extending our presence in China and will maintain China as one of our largest markets in the near- to mid-term amid our ongoing overseas expansion. There is no assurance that we will successfully achieve what we target under our business strategy — to extend our presence in China successfully and to maintain China as one of our largest markets in the near- to mid-term. If such business strategy fails to materialise, we may not be able to sustain our profitability in view of the faster energy consumption growth in China (with reference to that globally), and as such our results of operations and financial conditions may be adversely and materially affected. In any event, our track record in respect of our geographical presence should not be taken as an indication of our business strategy.

We relied on Sinopec for a substantial portion of our revenue during the Track Record Period.

We generate a majority of our revenue from conducting business with a limited number of major customers, which are subsidiaries or joint ventures of Sinopec. During the Track Record Period, revenue generated from our customers which are subsidiaries or joint ventures of Sinopec, accounted for approximately 82.1%, 96.5%, 90.2% and 76.7% of our total revenue, respectively, while revenue generated from our largest customer, which is also a subsidiary or joint venture of Sinopec, accounted for approximately 26.4%, 53.7%, 62.0% and 51.6% of our total revenue for the same periods, respectively. The concentration of our business on Sinopec exposes us to a variety of risks that could have a material adverse impact on our revenue and profitability. For example, should the Sinopec headquarters issue new policies that limit or prohibit its subsidiaries' and affiliates' demand for our services that override any service-provider-selection-autonomy which any of them may enjoy, all subsidiaries or joint ventures of Sinopec may reduce or cease their demand for our services. Under such circumstances, if we are unable to find comparable alternatives as our customers (which may be

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difficult given that Sinopec is one of the three state-owned oil and gas groups dominating the oil and gas exploration, development and production sector in the PRC), our business, results of operations and financial conditions will be materially and adversely affected, to the extent that our revenue may be decreased by a significant percentage. In addition, given the dominance of Sinopec in the oil and gas exploration, development and production sector in the PRC, if Sinopec on a group basis ceases its demand for our services, our reputation, experience and capabilities may also be speculated and/or jeopardised across market players and customers, which may adversely affect our business relationship with our other customers and consequently have a material and adverse impact on our business, results of operations and financial conditions.

If we fail to respond to change in the needs, preferences and technical requirements of our major customers or the general oilfield services industry, results of our operations and financial conditions may be materially and adversely affected.

Competitiveness in the oilfield service market depends in large part on the ability to keep up with the leading technology in the related areas. This technology is subject to rapid and significant change. If we are not able to anticipate technological trends or become aware of new technology quickly, and fail to rapidly develop and incorporate such new and advanced technology that our customers require, we may not be able to produce sufficiently advanced products or offer services to our customers to their satisfaction.

In line with the general market practice in China, we do not have exceptionally long-term commitments from our customers for the provision of services or products. For example, we generally provide our services and products on a project basis, rather than on an on-going basis under long term contracts. Our operations, including our range of services and products, offerings, pricing, procurement, and research and development efforts, are largely subject to changes in the needs, preferences and technical requirements of our customers. If we do not have the expertise, technology or capital resources to respond adequately to those changes or fail to respond to those changes in a timely manner or at all, we may lose such customers and our business, results of operations and financial conditions may be materially and adversely affected.

In addition, our business, results of operations and financial conditions will be affected by our competitiveness in terms of technology with reference to the availability and prevalence of high-end technology and services in the Chinese market. In the event that our high-end technology becomes more commonly applied across the industry among more Chinese oilfield services providers or when the leading high-end oilfield services providers fail to differentiate themselves and stand out from other providers in terms of its technology, we may need to consider relinquishing our existing pricing policy, leading to a relatively lower profit margin. Accordingly, the rise of technological skills and knowledge of the Chinese oilfield services providers in general will increase the intensity of the competition in the high-end oilfield services industry and therefore will have an adverse impact on our business, results of operations and financial conditions.

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The oilfield service industry has experienced a shortage of senior technical experts and management and we face intense competition for qualified personnel for our business.

Our oilfield service operations require a large number of talented and experienced engineers with highly specialised skills and abilities. However, talented and experienced personnel are scarce in the oilfield service industry and competition for their service is intense. A general shortage of qualified personnel and the generally higher compensation offered by international firms in our markets may also require us to raise employee salaries and benefits, which could affect our profitability. We believe that the shortage of qualified personnel is particularly acute in Singapore. As we began our operations in Singapore only relatively recently, we may face additional difficulties in attracting and retaining qualified personnel for our operations as compared to firms who are more established in the Singapore market. If we are unable to attract and retain a sufficient number of qualified personnel, our business, results of operations and financial conditions could be adversely affected.

We rely on a group of engineers to render our services to our customers and carry out research and development activities to enhance our technologies. The continuous service of our engineers is important to our future prospect and development. The loss of the service of our engineers or failure to find qualified replacement due to the shortage of talented and experienced personnel may disrupt and adversely affect our operations. Further, we do not maintain any key personnel insurance. As a result, any loss relating to our key personnel, including our engineers, directors and members of senior management, will not be covered by insurance and may negatively affect our business and operations.

We face risks associated with provision of our services and sales of our tools and equipment in overseas markets, and if we are not able to effectively manage these risks, our ability to manage and grow our business abroad will be limited.

Our plans to expand our overseas operations are subject to the risks associated with conducting our business overseas, such as uncertain political, legal and economic environments, fluctuations in foreign currency exchange rates, local market disruptions or market entry barriers, tariffs and trade barriers, restrictions on the movement of the funds, import or export control, deprivation of contract rights or the seizing of property without fair compensation. Conditions such as the uncertainties associated with war, terrorist activities, epidemics, pandemics or political instability in any of the countries in which we operate or derive sales could affect us by causing delays or losses in the delivery of services or products as well as increased security costs, insurance premiums and other expenses. There can be no assurance that such protectionist policies, political instability, economic volatility or currency restrictions will not develop in the future. If any of the risks described above materialise, or if we are unable to manage these risks effectively, our ability to manage or grow our international business would be undermined, which may in turn materially and adversely affect our business, financial conditions, results of operations and prospects.

In addition, certain countries where we operate, such as Syria, experienced or are experiencing political unrest and, in some cases, armed conflict. Our business may be affected by financial, geo-political and general economic events and circumstances prevailing from time to time in those countries, which may prevent us from delivering our services or otherwise adversely affect our

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business operation. It is not possible to predict the occurrence of any financial, geo-political or economic events or circumstances, including war or hostilities, in the future and we cannot assure you that we will be able to develop our business successfully in those countries if any adverse political events or circumstances were to occur.

We face significant competition in the oilfield services industry, and if we fail to compete effectively, we may lose market share and our business, results of operations and financial conditions may be adversely affected.

The market for oilfield services in the PRC and overseas is competitive. We expect the competition will become more intense as the number of competitors in the market increases. Our principal competitors consist of both domestic companies of various size and large multinational corporations. Many of our competitors may have longer operating history, stronger capital resources and better research and development capabilities, a larger customer base, stronger customer relationship, or better brand name or name recognition than we do. These market players tend to compete on experience, technology, personnel, scale of operations and costs. Our ability to succeed in the oilfield services market in the PRC and overseas will depend on many factors, including our pricing, quality of services and products, equipment suitability, reputation for safety and our technology. If we cannot retain our competitive strengths on our experience, technology, personnel, scale of operations with reference to market standard, and thus fail to compete effectively, we may not be able to expand our business pursuant to our business strategy or maintain our existing level of revenue-generating capability, and as a result our business, results of operations and financial conditions will suffer.

Our businesses involve inherent risks and occupational hazards, which could harm our reputation, subject us to liability claims and cause us to incur substantial costs.

Our operations are subject to occupational hazards inherent in the oil and gas industry, such as fires, explosions, blowouts, and oil spills that can cause personal injury or loss of life, damage to or destruction of property or equipment, pollution and other damage to the environment. In addition, loss of oil and gas production and damage to geological formations can occur in completion operations. Any of these consequences, to the extent they are significant, could result in business interruption or suspension of operations, legal liability and damage to our business reputation and corporate image. Litigation arising from a catastrophic occurrence at a location where our services are engaged may result in us being named as a defendant in legal proceedings asserting potentially large and time-consuming claims, including claims brought by our customers alleging deficiencies in safety or failures in our services or products. If there occurs any such accidents or litigations, our reputation could be materially and adversely affected and substantial costs will need to be incurred, and our business, results of operations and financial conditions could be materially and adversely affected.

We may not be able to manage future growth successfully.

We have grown rapidly over the last few years primarily due to our strong business growth in the PRC and in the Middle East. In particular, our revenue grew from approximately HK\$286.7 million in 2009, to approximately HK\$558.3 million in 2010 and to approximately HK\$559.5 million in 2011. We believe that sustaining our rapid growth depends, to a large extent, on our ability to manage the

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demands from increased responsibilities on our management personnel. The increased responsibilities include increased administrative burden and increased organisational challenges common to large, expansive operations. Accordingly, if we fail to retain sufficient executive-level personnel, we may not be able to manage future growth and our business, results of operations and financial conditions could be adversely affected.

We concentrate our purchases from a small group of suppliers, and any disruption or price fluctuation in their supply may harm our business. In addition, we may not be able to procure raw or assembling tools and materials or lease equipment from suppliers on acceptable terms or in a timely manner.

Purchases of raw and assembling tools and materials such as consumables, replacement components and parts used in our services represented a significant portion of our operating costs. Purchases from our five largest suppliers accounted for approximately 73.4%, 74.5%, 50.3% and 67.0% of our total purchases during the Track Record Period, respectively. Our purchases are concentrated on a small group of suppliers. Purchases from our largest supplier accounted for approximately 22.7%, 31.1%, 15.6% and 51.1%, respectively, of our total purchases for the same periods. We usually do not enter into long-term supply contracts with our suppliers or hedge against the price volatility of raw and assembling materials. Should there be a disruption or a price fluctuation in supply by one or more of our major suppliers and we fail to find replacement suppliers on favourable terms or at all, our ability to effectively provide services and products may be affected and our business may be harmed. If we fail to provide services and products effectively, we may be liable to damages and other liabilities to our customers, which may adversely and materially affect our business, results of operations and financial conditions. More importantly, our reputation and capabilities may be jeopardised across market players and customers, which may have a material and adverse impact on our business, results of operations and financial conditions.

Our operations are dependent on having sufficient raw and assembling tools and materials and suitable equipment used in our services. We cannot assure you that there will not be any substantial fluctuations in the supply and price of materials and equipment, and that such fluctuations will not have any material adverse impact on our business, results of operations and financial conditions. Should any of the suppliers fail to supply raw or assembling tools and materials or lease to us equipment of acceptable quality, quantity and price in a timely manner, particularly if we are unable to obtain the raw or assembling tools and materials or equipment from alternative suppliers on a timely basis or on commercially acceptable terms, our service delivery schedule may be disrupted, which could result in loss of revenue and customers. Disruption of our service delivery schedule may also render us liable to damages and other liabilities to our customers, which may adversely and materially affect our business, results of operations and financial conditions. More importantly, our reputation and capabilities may be jeopardised across market players and customers, which may have a material and adverse impact on our business, results of operations and financial conditions.

We may be subject to credit risk of our counterparties.

We are subject to credit risks of our counterparties and our profitability is dependent on our customers making payment on services or products acquired from us. The credit terms for some of our services or products may be relatively long and there is no assurance that our Group will be able to

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collect all or any part of its trade receivables within the credit terms granted by it. During the Track Record Period, our outstanding trade receivables were approximately HK\$120.4 million, HK\$454.6 million, HK\$350.3 million and HK\$453.7 million as at 31 December 2009, 2010 and 2011 and 30 September 2012, respectively, and our trade receivable turnover days were 176 days, 188 days, 263 days and 190 days for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, respectively. We cannot assure investors that risks of delay in payment by our customers will not increase in the future, or that we will not experience cash flow problems as a result of such delay. We are also subject to risk of incurring bad debts should there be any defaults in payments by any of our new customers. Default or delay in payments by our customers will adversely affect our business, results of operations and financial conditions. Market volatility and adverse financial or economic conditions attributing to the global financial economic crisis starting from the second half of 2008, including the current European debt crisis, tend to discourage investor confidence, reduce investing activities, cast doubt on the sustainability on the worldwide economic growth, and generally have an adverse impact on the global economy and business sentiment, which in turn may directly or indirectly affects the cash flow of our customers. The continuing uncertainty in respect of the worldwide economy and financial market will increase the insolvency risk of our customers and thus the risk of default or delayed payment towards us.

We had negative cash flow from operating activities during the Track Record Period.

We had positive cash flow from our operating activities of approximately HK\$102.6 million and HK\$7.0 million for the each of the years ended 31 December 2009 and 2011, respectively, but we experienced negative cash flow from our operating activities of approximately HK\$105.9 million and HK\$131.7 million for the year ended 31 December 2010 and the nine months ended 30 September 2012, respectively. Please refer to the section headed “Financial information — Liquidity and capital resources” on page 338 of this prospectus for details. There is no guarantee that we will generate sufficient cash flow from our operations in future. If we are unable to generate sufficient cash from our operating activities or to obtain required funding from other sources, our operations and financial activities could be materially and adversely affected.

We had net current liabilities during the Track Record Period.

We recorded net current assets of approximately HK\$406.8 million, HK\$466.5 million and HK\$405.5 million as at 31 December 2010 and 2011 and as at 30 September 2012, respectively, but we experienced net current liabilities of approximately HK\$95.1 million as at 31 December 2009. Please refer to the section headed “Financial information — Consolidated balance sheets” on page 322 of this prospectus for details. We cannot assure you that we will not experience periods of net current liabilities in the future. A net current liabilities position would expose us to liquidity risks if we were unable to refinance certain loans when they come due, and accordingly our operations and financial activities could be materially and adversely affected.

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We relied on bank and other borrowings during the Track Record Period and may continue to depend on bank borrowings in the near future for our operations.

We obtained bank loans to support our general working capital during the Track Record Period. As at 31 December 2009, 2010 and 2011 and 30 September 2012, bank borrowings amounted to approximately HK\$24.2 million, HK\$76.7 million, HK\$103.3 million and HK\$173.9 million, respectively. Please refer to the section headed “Financial information — Indebtedness” on page 342 of this prospectus for further details. We expect to fund the general working capital requirement for our business operations and capital expenditure through internally-generated cash flow as well as bank borrowings. We cannot assure you that we will always be able to renew existing borrowings upon expiry, or secure new borrowings from banks or other financial institutions, whether on commercially acceptable terms or not. If the banks and other financial institutions providing existing borrowings do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative borrowings on comparable terms or at all, our business, results of operations and financial conditions will be adversely affected.

More importantly, the global financial economic crisis starting from the second half of 2008, including the current European debt crisis, tends to cast doubt on the sustainability on the worldwide economic growth and generally has an adverse impact on the overall business sentiments and environment, leading to the tightening of credit markets, a low level of liquidity in many financial markets and an increase in volatility in credit and equity markets. This results in the implementation by many financial institutions of tightened credit policy which reduces the amount of funding available to borrowers. If these conditions continue or worsen, they may adversely affect the availability, terms and cost of borrowings or disrupt our ability to renew existing borrowings or obtain new borrowings, which we rely on for our operations. Such impact may materially and adversely affect our cash flow, business, results of operations and financial conditions.

The execution of our capital expenditure plan is subject to some uncertainty.

We expect to commit a significant amount of capital to acquire land use right and construct production and research facilities in Huizhou, Guangdong. These ongoing projects are subject to delays and cost overruns, including shortages of materials or skilled labour, unforeseen engineering problems, work stoppages, weather interference, unavailability of necessary equipment and the inability to obtain any required permits and approvals. We cannot assure you that we will be able to acquire property, plant or equipment as planned. Significant delays, supply shortages or costs overruns could adversely affect our manufacturing and marketing plans, business, results of operations and financial conditions.

Our operations are subject to seasonal variations.

Our oilfield service operations are affected by seasonal variations in the PRC and worldwide. During the Track Record Period, we recorded higher revenue in the second half of a year. We believe that it is due to the fact that our customers in the PRC tend to execute more projects in the bottom half of each year as most of our customers set annual budgets early in the year and incur the budgeted capital expenditures to carry out relevant activities later in the year, particularly in the fourth quarter. In addition, public holidays such as Chinese New Year holidays in the first quarter of a year limit our

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operations which resulted in lower revenue in the first quarter of a year during the Track Record Period. Therefore, demand for our services and products is subject to seasonal variations. We cannot predict the impact seasonal variations will have on our operating results in any given year. Such impact could be material.

Our business expansion may be affected by the inherent risks associated with the development of unconventional gas resources in China.

Unconventional reservoirs such as shale gas are increasingly seen as a key source of future oil and gas production growth both globally and in China. China's remaining recoverable resources of unconventional gas totalled almost 50 trillion m³ as at the end of 2011, comprising 36 trillion m³ of shale gas, 9 trillion m³ of coalbed methane and 3 trillion m³ of tight gas. China has begun to tap into its potentially huge unconventional oil and gas reserves, and NDRC issued the Shale Gas Development Plan (2011-2015) (頁岩氣發展規劃) (2011-2015) to emphasise shale gas exploitation and exploration. Please refer to the section headed "Industry overview — Major industry trends — Outlook for China's development of unconventional gas resources" on page 110 of this prospectus for details. As high-end oilfield services such as horizontal drilling and hydraulic fracturing are key to increasing oil and gas production from shale given how the unconventional oil and gas reserves are deposited within rock formations and the geological conditions of such formations, there is expectation amongst market players in the industry and research houses that the level of demand for provision of high-end oilfield services, particularly horizontal drilling and production enhancement, will continue to increase in the foreseeable future. We therefore anticipate that such increase will also drive and expedite our business and revenue growth going forward.

However, the rate at which China will be able to increase its production of unconventional gas could be greatly impacted by a number of "above ground" and "below ground" factors that affect the direct cost of production. The "above ground" factors that affect the cost of production include: the availability of existing pipeline/processing infrastructure for delivery to end-use markets; the availability and cost of adequately trained labour; the availability and cost of equipment such as drilling rigs and pumping equipment; the availability and cost of materials such as water, proppant, etc. used in hydraulic fracturing; and the regulatory framework. The "below ground" factors that affect the cost of production are the geologic features of the fields within the play such as depth, thickness, organic content of the gas reserves, etc. Compared to the US at the same stage of its shale gas development, China has fewer of each of the "above ground" resources needed for the exploration and development of its shale gas resources. For example, because one of China's two biggest shale gas deposits — the Tarim Basin in Xinjiang — is a desert, the shortage of water used in multistage fracturing will add to the cost of drilling and completing wells.

In addition, early indications are that China's shale gas geology is different from what is typically found in the US. The formations in China within which the shale gas reserves exist are older, deeper, less brittle, and, tonne for tonne, produce less than half of that in the US. Shale gas deposits found in Sichuan Province and the Tarim Basin in Xinjiang Province generally contain organic material deposited in ancient marine environments, similar to the way most US shale gas deposits were formed. However, other shale gas areas such as the Ordos Basin and parts of northern China are more

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likely to hold non-marine deposits containing less methane. In addition, many of China's shale gas deposits are mixed with clay, which is more difficult to fracture than shale containing more brittle quartz. As a result, these "below ground" factors combine to create a more challenging environment for the development of China's gas shale resources compared to the US.

Accordingly, based on what is known about China's geology at this early stage, shale gas resources may prove more difficult and more expensive to develop than those in North America.

Our production enhancement services in China recorded strong growth as from the fourth quarter of 2011 and a relatively large portion of our revenue for the nine months ended 30 September 2012 was attributable to our production enhancement services in China. As at 31 December 2012, we had backlog amounting to approximately HK\$105.4 million in respect of our production enhancement services in China. Based on the government policies favouring oilfield project activities set up by the Chinese government, it is expected that we will have long-term and ongoing business growth on the production enhancement in China. For the nine months ended 30 September 2012, China was our single largest market in terms of revenue and we aim to maintain China as one of our largest markets in the near- to mid-term, and therefore we will have significant exposure in the China market, including the shale gas industry. Accordingly, if the development of unconventional gas resources in China does not flourish as anticipated by market players, the level of demand for production enhancement services may not increase as expected and our growth in terms of business scale and revenue may be adversely affected.

Failure to comply with existing or future environmental laws and regulations could adversely affect us.

Our operations render us subject to various national and local environmental laws and regulations in the areas where we operate, including those governing the use, storage, discharge and disposal of hazardous substances. Please refer to the sections headed "Summary of legal and regulatory provisions" on page 118 and "Business — Environmental compliance" on page 222 of this prospectus for further details. There is no assurance that breaches will not occur in future or that the PRC authorities and foreign governments that will not impose additional or more stringent environmental requirements that would require us to incur significant expense or expend a considerable amount of management and other resources.

We are subject to significant operational risks that may not be fully covered by our insurance policies.

We face operational risks such as accidents or problems in our normal operations which may result in personal injury or death and/or damage to our property, such as equipment and facilities, and/or the environment. Hazards present in the oil and gas industry, such as fire, explosion, blowouts and oil spills, may interrupt our customers' operations, and the levels of our operations and revenue may be indirectly affected by such hazards.

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The insurance that we have taken out, which includes the insurance coverage as required by law and our additional group commercial insurance coverage for our certain employees, may not be sufficient to cover all of our potential losses or liabilities. Losses or liabilities which are not covered by the insurance policies we have taken out could be detrimental to our operations and future prospects.

Our employees and local business partners could engage in corrupt or other improper conduct that could harm our reputation and business.

In the oilfield services industry, corruption practices may include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by oil and gas companies or relevant persons in the oil and gas industry from oilfield services providers for the purpose of obtaining or retaining business. We cannot assure you that none of our employees and local business partners has engaged in, or will engage in corrupt or other improper conduct or violate applicable anti-corruption laws. If our employees engage in corrupt or other improper conduct or violate applicable anti-corruption laws, we could be subject to unfavourable publicity and administrative or criminal liabilities. Such liabilities may have a material adverse effect on our reputation, business, financial conditions and results of operations.

We may not be able to protect our intellectual property, including our proprietary know-how and technology, and we may be involved in intellectual property disputes.

Certain of our products or services, and the processes we use to produce or provide them, are our proprietary know-how and technology which represent one of our business strengths but may not qualify for protection by legal means. There can be no assurance that measures we have taken to protect our intellectual property rights are adequate to prevent or deter infringement or other misappropriation of our intellectual property. In the absence of any intellectual property protection for such know-how and technology, our competitors may be able to develop similar technology in reliance of our know-how. Our competitors may also be able to develop technology independently that is similar to ours without gaining access to our know-how. Our business, results of operations and financial conditions may be adversely affected if our competitors are able to develop technology based on our know-how.

In addition, as we place a strong emphasis on the introduction and engagement of innovative and effective technology in our services, tools, techniques, methodologies, programmes and components we use to provide our services may infringe upon the intellectual property rights of others. There is no assurance that the tools, techniques, methodologies, programmes and components used by us will not be alleged to infringe upon issued patents, pending patent applications or other intellectual property rights. Infringement claims may result in significant legal and other costs and may distract management from operating our core business. If we are adjudged to have infringed intellectual property rights of others and are required to obtain license, if available, to use such rights, royalty payments under licenses from third parties would increase our costs. If a license was not available we might not be able to continue providing a particular product or service. In either case, our business, results of operations and financial conditions could be adversely affected.

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Furthermore, the information publicly disclosed by us in connection with the Global Offering or subsequently as a public company may be used by our customers against us. We have disclosed our operational, financial and other information and data in this prospectus which otherwise would not be available to the public. After the completion of the Global Offering, we will become a listed public company subject to the Listing Rules and other applicable securities laws and we will continue to publicly disclose our operational, financial and other information and data. We cannot assure you that our customers or the subsidiaries, affiliates and joint ventures of Sinopec will not use this information and data in their commercial negotiations with us. In addition, this information and data will also be available to our competitors. As we face intense competition in our industry, disclosing our operational, financial and other information and data may allow our competitors to assess our business and operations. If our customer and/or our competitors use this information and data, we may be at a disadvantage in contract negotiations or in competition, and as a result, our business, financial conditions, results of operations and profitability may be materially and adversely affected.

We may be prevented from engaging in certain trade transactions in certain jurisdictions or obtaining certain types of financing from such jurisdictions as a result of our operations in the Middle East and Myanmar.

We have past business activities in connection with Iran, Syria and Myanmar. Please refer to the section headed “Business — Past operations in sanctioned countries” on page 226 of this prospectus for details of our past operations and business activities in Iran, Syria and Myanmar and the sanctions laws and regulations against Iran, Syria and Myanmar in the US, EU, Australia and the BVI.

We cannot assure you that our past, current and future activities globally will not subsequently be considered sanctionable activities or business due to further amendments to the US, EU, Australia and/or the BVI sanctions laws and regulations. If our past, current and future activities or business in relation to our contracts are subsequently considered in violation of any of the US, EU, Australia and/or the BVI sanctions laws and regulations, we may become subject to the applicable penalties or sanctions pursuant to such laws or regulations. There is no assurance that investors who are subject to the jurisdictions of the US, EU, Australia or the BVI will be willing to make such investments, which may have an impact on the Global Offering and hence our business, financial conditions and results of operations.

Our Shares might be delisted from the Main Board of the Stock Exchange in the event of a breach of our undertakings in relation to US/EU/Australia/BVI sanctions laws or regulations or any sanction adopted by the UN, or that we were to embark on business opportunities with any countries, governments, entities or individuals that are the subject of any US/EU/Australia/BVI sanctions laws or regulations or any sanction adopted by the UN.

We confirm that, (i) upon the Listing, no members of the Group will have any business dealings with any countries, governments, entities or individuals that are the subject of any relevant sanctions laws or regulations in the US, EU, Australia or the BVI, or any relevant sanctions adopted by the UN, in force as of the date hereof; and (ii) the Group will not use any proceeds from the Global Offering or subsequent fund raising on the Stock Exchange to fund any activities or business in any such sanctioned countries or with any such sanctioned entities under the US, EU, Australia or the BVI sanction laws and regulations, or any sanction adopted by the UN, as of the date hereof. In the event

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of a breach of either of those confirmations or that we were to embark on business opportunities with any countries, governments, entities or individuals that are the subject of any relevant US/EU/Australia/BVI sanctions laws or regulations in force as of the date hereof and were found by the relevant authority to have engaged in sanctionable conduct under the sanctions regime in force as of the date hereof which subjects the Stock Exchange, HKSCC, HKSCC Nominees and/or their respective employees, the Listing Committee and/or its members, the Company and/or its investors to possible sanctions, then the Stock Exchange might order the delisting of the Shares from the Main Board of the Stock Exchange.

Our operations in Russia may be subject to licensing requirement.

The Russian Law on Subsoil dated 21 February 1992 imposes a license requirement on all activities relating to the use of subsoil that involve “increased dangers”. These activities include planning, construction, exploitation, expansion, reconstruction, maintenance, technical re-equipment, temporary closedown and liquidation of dangerous industrial facilities; manufacturing, installation, commissioning, maintenance and repair of technical devices that are used at dangerous production facilities; assessment of industrial safety and training and retraining of workers in dangerous industrial facilities that are non-educational institutions. Facilities are considered dangerous if dangerous material such as highly inflammable liquid or gas is obtained, used, altered, formed, stored or transported or if certain activities such as mining or the enrichment of minerals or underground activities take place on them. We entered into certain procurement and service contracts with Venineft, a company duly organised under Russian laws, pursuant to which we, inter alia, designate our employees to Russian for the provision of supervisory and IPM services to Venineft. Given that it is our customer who is operating the oil well and we provide supervisory and IPM services, it is their responsibility to have a valid license and to ensure that other requirements, such as the works to be conducted by certified employees, are met. In addition, if our employees were involved in providing services connected with operating the oil well in Russia, we would need to prove their special qualification and have them certified in accordance with applicable Russian laws.

In addition, the Ministry of the Regions of Russia published a list of activities which require a certificate issued by an Self-Regulating Organisation (“SRO”) that is officially publicly registered and authorised to issue such certificates. This list includes, inter alia, drilling, construction and installation of oil and gas wells, and casing of wells with pipes, removal of pipes and free lowering or lifting of pipes upon/onto wells. Transactions/contracts that are executed without the respective certifications may be considered invalid. Companies performing construction activities that require certification by an SRO without such certification face administrative liability. The administrative penalty for legal entities acting without the appropriate certificate ranges from RUB 40,000 to 50,000. Failure to comply with the certificate can lead to a fine between RUB 30,000 and 40,000. Repeated violations lead to a fine that ranges from RUB 30,000 to 40,000 or the suspension of the business activity for up to 90 days. However, the statutory limitation period is at most one year from occurrence of a violation. As disclosed above, we provide supervisory and IPM services under our procurement and service contracts with LLC Venineft for their operation of an oil well. Hence, there is no requirement for us to obtain such license, SRO membership or certificate and there is no administrative liability for not obtaining the license, SRO membership or certificate.

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Notwithstanding the foregoing, a Russian authority may take a different view and may therefore qualify our services in Russia as activities subject to licensing or certification requirement, and hence rendering us liable to the foregoing fines.

We may be subject to an obligation to register with the Russian tax authorities for the purposes of tax control.

Under Russian Law, foreign entities that have employees present in Russia for a period of time exceeding 30 days at a fixed place of business are subject to an obligation to register with the Russian tax authorities for the purposes of tax control. This obligation is not waived even if the foreign entity does not create a permanent establishment in Russia. According to the Tax Code of the Russian Federation, performance of business activities by a foreign organisation without a tax registration shall result in the imposition of a fine in the amount of 10% of the income received during that time as a result of such activities, but not less than RUB 40,000 (equivalent to HK\$10,252). As we have had employees present in Russia for a period of time exceeding 30 days at a fixed place of business for the purpose of providing services pursuant to certain of our procurement and service contracts with LLC Venineft, and we have not registered with the Russian tax authorities for the purpose of tax control, we may be subject to a fine as stipulated above. Accordingly, our maximum liability as a result of our failure to make the foregoing registration will be approximately HK\$363,000.

Your interests may be diluted as a result of further completion of the acquisition of a majority interests in the Sheraton Group or the grant of new Shares pursuant to the ESOS or the Share Option Scheme.

Pursuant to the terms of the agreement in relation to the progressive acquisition of a majority of interests in the Sheraton Group, we may need to issue new Shares to Natural Peak as consideration for the purchase of the remaining 4% interests in Sheraton Investment pursuant to the relevant transaction agreement. Please refer to the section headed “History and development — Corporate history — (9) Acquisition of the Sheraton Group” on page 144 of this prospectus for details. New Shares may also be allotted or issued upon exercise by the grantees of their options under the ESOS or the Share Option Scheme. If new Shares are issued, either as a result of the pursuit of further completion of the investment in Sheraton Group or the exercise of options under the ESOS or the Share Option Scheme, the percentage ownership of the existing Shareholders may be reduced.

In addition, the value of the options to be granted under the Share Option Scheme will be recognised as share-based payments under the employee benefit expenses which may have a negative effect on our results of operations.

We may face PRC regulatory risks relating to the Share Option Scheme.

On 15 February 2012, the SAFE issued 《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》 (the Notice of SAFE on Issues relating to Foreign Exchange Administration for Domestic Individuals Participation in Equity Incentive Plans of Overseas-Listed Companies*) (the “**Equity Incentive Plan Notice**”). The Equity Incentive Plan Notice applies to domestic individuals as defined in Article 52 of 《中華人民共和國外匯管理條例》 (Foreign Exchange Administration Regulations of the PRC), including directors, supervisors, senior management or other

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employees of a domestic company, either Chinese citizens (including citizens of Hong Kong, Macau or Taiwan) or foreign individuals. Such individuals are required to file foreign exchange registrations with the relevant SAFE authorities for participation in a company's share option scheme if the domestic company is listed abroad or for participation in the share option scheme of an overseas-listed company, which either invests in or is invested in by a domestic company or controls or is controlled by a domestic company. If we fail to arrange relevant registration procedures for individuals participating in the Share Option Scheme, we may be subject to the relevant regulatory measures or administrative sanctions. We may therefore face regulatory risks relating to the Share Option Scheme if we grant share options to domestic individuals provided in the Equity Incentive Plan Notice in the future.

Historical dividend may not be a good indication of future dividend.

Under the BVI law, we may only pay dividends if the value of our Company's assets exceeds our liabilities, and our Company is able to pay its debts as they fall due. Our ability to pay dividends will depend on our ability to generate sufficient profits. We cannot give any assurance that we will declare dividends of any amounts, at any rate or at all in the future. Future dividends, if any, will be at the discretion of our Directors and will depend upon our future earnings, general financial conditions, legal and contractual restrictions and other factors that our Directors may deem relevant. We cannot assure you that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends. Therefore, investors are cautioned not to use historical dividends as an indication of the amount of future dividends. You should refer to the section headed "Financial information — Dividends and dividend policy" on page 353 of this prospectus for additional information regarding our current dividend policy and the section headed "Risk factors — Risks relating to conducting our operations in the PRC — Payment of dividends is subject to restrictions under PRC law" for additional legal restrictions on the ability of our PRC subsidiary to pay dividends to us.

Our operations are subject to various laws and regulations in various jurisdictions.

Our operations are subject to various laws and regulations under various jurisdictions. Notwithstanding our efforts to comply with applicable laws and regulations, there is no assurance that we will at all times be in full compliance with all of the laws and regulations in the jurisdictions where we operate, and the requirements and regimes thereunder that apply to our operations. Any failure, or any claim that we have failed to comply with any of them, may attract significant monetary penalties and cause material disruption to our operations. In addition, any tightening of the regulatory framework to which our operations are subject could result in increased costs and liabilities. If any of these events occurs, our business, results of operations and financial position may be materially and adversely affected.

RISKS RELATING TO CONDUCTING OUR OPERATIONS IN THE PRC

The political, economic and social policies and conditions in the PRC could adversely affect our business, results of operations and financial conditions as well as our prospects.

Almost all of our assets are located in the PRC and our business, results of operations and financial conditions are subject to economic, political and legal developments in the PRC. China's

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economy differs from the economies of developed countries in many respects, including the amount of government involvement, level of development, growth rate, control over foreign exchange and allocation of resources. For the past two decades, the PRC government has implemented economic reform measures emphasising the utilisation of market forces in the development of the PRC economy. While China's economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained. In addition, even if these measures benefit the overall PRC economy, they may adversely affect our business, results of operations, financial conditions and prospects.

The non-convertible nature of Renminbi and our ability to invest in the PRC and the ability of our PRC subsidiary to pay dividends and service debts in foreign currencies are subject to foreign exchange control and foreign investment regulations in the PRC.

The Renminbi is not a freely convertible currency at present. The PRC government regulates conversion between the Renminbi and foreign currencies. Under the PRC foreign exchange rules and regulations, payments of current account items, including profit distributions, interest payments and expenditures related to business operations, are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. However, there can be no assurance that the current PRC foreign exchange policies regarding payment of dividends in foreign exchange will continue in the future, and that we will be able to meet all of our foreign currency obligations or to remit profits to our Shareholders in the form of dividends. In addition, changes in PRC foreign exchange policies may have a negative impact on the ability of our PRC subsidiary to distribute dividends to us in foreign currencies.

Strict foreign exchange controls continue to apply to capital account transactions. Capital account transactions must be approved by or registered with the SAFE. Repayments of loan principal, distributions of returns on direct capital investment and investments in negotiable instruments are also subject to restrictions. Subsequent to the Global Offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from the Global Offering in the form of registered capital or a shareholder loan into our PRC subsidiary to finance our operations in the PRC. Our choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in the PRC. In addition, our transfer of funds to our subsidiaries in the PRC is subject to approval by PRC governmental authorities in case of an increase in registered capital, or subject to approval/registration with PRC governmental authorities in case of a shareholder loan. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

The uncertain legal environment in China could limit the legal protections available to you.

PRC laws and regulations govern our operations in the PRC. The PRC legal system is a civil law system based on written statutes. Unlike common law system, prior court decisions may be cited for reference but have limited precedential value. Although the PRC has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade since late 1970s, many of these laws and regulations, particularly with respect to the financial services industry, are relatively new and evolving, are ambiguous and subject to different interpretations and may be

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inconsistently implemented and enforced. These uncertainties relating to interpretation, implementation and enforcement of PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can adversely affect the value of your investment, and can affect the legal remedies and protections available to foreign investors, including you.

Payment of dividends is subject to restrictions under PRC law.

As a holding company holding interests in operating subsidiaries and as some of our operating subsidiaries are domiciled in the PRC, our ability to declare future dividends will to some extent depend on the availability of dividends, if any, received from such PRC operating subsidiaries. Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Furthermore, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under IFRS, or vice versa.

As a result, we may not receive sufficient distributions from our subsidiaries, which could adversely impact our cash flow and our ability to make dividend distributions to our Shareholders, including in periods in which we are profitable.

Our financial position may be adversely affected by the PRC Enterprise Income Tax Law.

As a holding company, our Company was incorporated under the laws of the BVI and holds interests in its PRC operating subsidiaries. Under the PRC Enterprise Income Tax Law and 《中華人民共和國企業所得稅法實施條例》 (the Implementation Rules of the PRC Enterprise Income Tax Law*) (the “**Implementation Rules**”) which became effective on 1 January 2008, an enterprise is classified as either a “resident enterprise” or a “non-resident enterprise”. Enterprises established within the PRC or established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises”. According to the Implementation Rules, “de facto management body” refers to a management body that exercises, in substance, overall management and control over the business, personnel, accounting and assets of an enterprise. Most members of our management are located in the PRC and, if they remain there, we may be deemed PRC resident enterprises and therefore subject to an enterprise income tax rate of 25% on our worldwide income. Accordingly, our historical operating results will not be indicative of our operating results for future periods and the value of our Shares may be materially and adversely affected.

If we are deemed to be non-resident enterprises for tax purposes in the PRC, our Shareholders outside the PRC will be subject to a withholding tax rate of 10% for any dividends paid by our subsidiaries established in the PRC unless they are entitled to certain tax reductions or exemptions, for example, under certain tax treaties.

According to 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 (the Arrangements Between Mainland and Hong Kong Special Administrative Region for Avoiding Dual Taxation on Income and Preventing Escape of Taxation*), a withholding tax at the rate of 5% is

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applicable to any dividends paid to the Hong Kong shareholder by its PRC subsidiary provided that the recipient is a company that holds at least 25% of the capital of the PRC subsidiary. According to 《關於執行稅收協定股息條款有關問題的通知》 (the Notices on Issues relating to the Administration of the Dividend Provision in Tax Treaties*) (the “Notices”) promulgated on 20 February 2009 by the State Administration of Taxation of the PRC, the qualification for dividend recipient to enjoy tax preferential treatment of being levied at 5% rate is as follows: (1) the recipient of the dividend must be a corporation; (2) the recipient’s ownership in the Chinese company must meet the prescribed 25% direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; and (3) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential treatment.

In addition, the PRC Enterprise Income Tax Law stipulates that if (i) an enterprise distributing dividends is domiciled in the PRC or (ii) capital gains are realised from the transfer of equity interests in enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. Therefore, if the overseas members of our Group are deemed PRC resident enterprises for tax purposes, then (i) any dividends we pay to our Shareholders and (ii) any capital gains realised by our Shareholders from transfer of our Shares may be regarded as PRC-sourced income and be subject to a PRC withholding tax at a rate of up to 10%. However, it is uncertain whether the dividends we pay in respect of our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to the PRC tax. Our tax liability may depend, in part, on how the PRC tax authorities interpret, apply or enforce the Enterprise Income Tax Law and its Implemental Rules.

Compliance with the PRC Labour Contract Law may increase our labour costs.

The PRC Labour Contract Law became effective on 1 January 2008. Compliance with the requirements under the PRC Labour Contract Law, in particular the requirements to make severance payments and non-fixed term employment contracts, may increase our labour costs.

The PRC Labour Contract Law imposes greater liabilities on employers and significantly impacts the cost of an employer’s decision to reduce its workforce. Furthermore, it requires certain terminations to be based upon seniority and not merit. If we decide to significantly change or decrease our workforce in the PRC, the PRC Labour Contract Law could materially and adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be materially and adversely affected. We also could incur additional material compliance costs in connection with the PRC Labour Contract Law.

There may be difficulties in effecting service of process upon us or our management who reside in the PRC and in seeking recognition and enforcement of foreign judgements or arbitral awards in the PRC.

Our assets are primarily located in the PRC and most of our senior management and Directors reside in the PRC. On 14 July 2006, Hong Kong and the PRC entered into 《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》 (the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the

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Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned*), (the “**Reciprocal Arrangement**”), pursuant to which a party with a final court judgement rendered by a Hong Kong court requiring payment of money in a civil commercial case according to a written choice of court agreement may apply for the recognition and enforcement of such judgement in the PRC. Similarly, a party with a final judgement rendered by a PRC court requiring payment of money in a civil commercial case pursuant to a written choice of court agreement may apply for the recognition and enforcement of such judgement in Hong Kong. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Reciprocal Arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. Notwithstanding the foregoing, if the parties in dispute do not agree to such a choice of court agreement in accordance with the requirements set forth in the Reciprocal Arrangement, it may be difficult or impossible for investors to effect service of process against our asset, senior management or Directors in the PRC in order to seek the recognition and enforcement of foreign judgements in the PRC.

The PRC is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”), which allows for the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories. There is also reciprocal arrangement on enforcement of arbitral awards between Hong Kong and the PRC under a memorandum of understanding which was signed on 21 June 1999, approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000 (the “**Memorandum of Understanding**”). However, it may be difficult to seek recognition and enforcement of arbitral awards in the PRC if the arbitral awards were given by arbitration bodies that are not signatories to the New York Convention or do not have arrangements with the PRC similar to the Memorandum of Understanding.

We did not fully contribute to the mandatory social insurance and housing accumulation fund.

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance and housing accumulation fund contribution requirements for all employees. During the Track Record Period, we did not fully comply with the social insurance contributions and housing accumulation fund contribution requirements. In respect of social security insurance, Petro-king Shenzhen, Shenzhen FST, Sun Oil and Dezhou Jiacheng have fully contributed to their employees’ social security insurance since April 2012, June 2012, June 2011 and January 2012, respectively. Prior to that, Petro-king Shenzhen and Shenzhen FST had made contributions to social security insurance since their incorporation but had not made full contributions. Sun Oil was established in April 2011 and had completed the opening of its social security insurance account in June 2011. Dezhou Jiacheng had not made any contributions to its employees’ social security insurance prior to January 2011 but it had paid (though not fully) the social security insurance contributions from January to December 2011.

In respect of housing accumulation funds, after 《深圳住房公積金暫行管理辦法》 (the Interim Administration Measures on Housing Accumulation Funds in Shenzhen*) came into effect on 20 December 2010, Petro-king Shenzhen began to make full contributions to its employees’ housing accumulation funds. Shenzhen FST had not made contributions to its employees’ housing accumulation funds for the period from the date on which the abovementioned interim administration

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measures in Shenzhen became effective to May 2012. It has made full contributions to its employees' housing accumulation funds since June 2012. Sun Oil had completed the opening of its employee's housing accumulation funds account in May 2011 following its establishment in April 2011 and has since made full contributions. Dezhou Jiacheng has not made any contributions to its employees' housing accumulation funds.

As advised by our PRC Legal Advisers, for the outstanding social security insurance incurred before July 2011, in the event that the relevant authorities demand our Group to pay the relevant social security insurance but our Group does not do so within the prescribed time limit, an additional late payment at the daily rate of 0.2% of the outstanding amount will be imposed; for the outstanding social security insurance incurred after July 2011, our Group may be demanded by the relevant authorities to pay the relevant social security insurance with an additional late payment at the daily rate of 0.05% of the outstanding amount from the due date. For the outstanding housing accumulation funds, our Group may be demanded by the relevant authorities to pay the outstanding amount within a prescribed time limit, failing which the people's court may order for compulsory execution.

We may be demanded by relevant authorities to effect the above payments within the prescribed time limits. According to the consultation with relevant government authorities by our PRC Legal Advisers, the local social security insurance and housing accumulation fund authorities normally would refer to《中華人民共和國行政處罰法》(the PRC Administration Penalty Law*) and would not demand the outstanding payment after the lapse of two years from the date of default.

As at the Latest Practicable Date, we had not received any notification from the relevant authorities alleging that we had not fully contributed to the social security insurance or the housing accumulation funds and demanding payment of the same before a stipulated deadline. Upon receipt of the request from the relevant authorities, if any, we intend to pay the outstanding social security insurance and housing accumulation funds and/or any late payment and/or penalty imposed by the relevant authorities accordingly. We estimate that as at the Latest Practicable Date, the maximum financial impacts on our Group arising from the underpayment of our social security insurance contributions, if demanded by the relevant authorities, amounted to approximately RMB1,188,201 (equivalent to HK\$1,473,369), for which we had made full provision. The amount of late payment for the outstanding social security insurance incurred after 1 July 2011, which amounted to approximately RMB55,624 (equivalent to HK\$68,974) as at 31 October 2012, appeared to be insignificant, and we therefore did not make provisions for the late payments or fines. The maximum outstanding housing accumulation fund contribution amounts to approximately RMB56,712 (equivalent to HK\$70,323), for which we have made full provisions.

Certain leased properties of our PRC subsidiaries lack title certificate and the relevant lease agreements are not registered.

Under the relevant PRC laws and regulations, the lease agreements we entered into must be registered with the relevant authority, failing which we may be subject to a fine between RMB1,000 and RMB10,000 imposed by the relevant authority. The lease agreements in respect of part of our leased properties of 7,121.86 sq.m. in Xinjiang, Shenzhen, Beijing, Zhengzhou, Dezhou, Chongqing, Wuhan, Jingchuan, Tongchuan and Ordos, which are for office and warehouse use, have not been registered. In addition, we have not been able to obtain from the lessor complete title documents in

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respect of our leased property in Dezhou with a gross floor area of approximately 500 sq.m., which is for office use, two leased properties in Shenzhen with a total gross floor area of approximately 2,125 sq.m., one leased property in Chongqing with a total gross floor area of approximately 2,080 sq.m., one leased property in Zhengzhou with a total gross floor area of approximately 1,100 sq.m., one leased property in Ordos with a total gross floor area of 160 sq.m., and one leased property in Shenzhen with a total gross floor area of approximately 600 sq.m., which are for office, warehouse and production facility use. According to our PRC Legal Advisers, our right to use these leased properties as a lessee is subject to uncertainty as a result of the potential lack of title of the lessors to these leased properties. Please refer to the section headed “Business — Real estates — A. PRC properties” on page 224 of this prospectus for details of our non-compliance.

PRC regulations of direct investment and loans by offshore holdings companies to PRC entities could delay or limit us from using the proceeds of the Global Offering to make additional contributions or loans to our PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including the proceeds of the Global Offering, are subject to the PRC regulations. For example, any of our loans to any of our PRC subsidiaries which is a foreign invested enterprise must not exceed the difference between the total amount of investment that such PRC subsidiary was allowed to make under the relevant PRC laws and its respective registered capital, and any such loans must be registered with the local branch of the SAFE. In addition, our additional capital contributions to any of our PRC subsidiaries which is a foreign invested enterprise must be approved by the MOFCOM or its relevant local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contribution or provide loans to our PRC subsidiaries or to fund our operations may be adversely affected, which could harm our PRC subsidiaries’ liquidity and our ability to fund working capital, expansion projects, meet our obligations and commitments.

In addition, in August 2008, the SAFE promulgated 《國家外匯管理局綜合司關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知》 (the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises*), or Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless otherwise specifically provided for. In addition, the SAFE strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from the SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the 《中華人民共和國外匯管理條例》 (Foreign Exchange Administration Regulations of the PRC*). This may restrict our ability to implement our acquisition strategy and could adversely affect our business, financial conditions, results of operations and future prospects.

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RISKS RELATING TO CONDUCTING OUR OPERATIONS IN SINGAPORE

The introduction of any new policies, laws and regulations, or changes to the existing policies, laws and regulations, in Singapore may have a negative effect on our business and operations in Singapore.

Singapore policies, laws and regulations govern our operations in Singapore. The Singapore economy continues to evolve and the Singapore government is likely to develop the policies, laws and regulations in Singapore so as to meet the changing needs of the economy. Any changes in policies by the Singapore government may lead to changes in laws and regulation or interpretation thereof, as well as changes in import and export restrictions and taxation policies. Should the laws and regulations applicable to our business and operations in Singapore become more stringent in the future, they may restrict our ability to operate at the same level or require us to incur unanticipated liabilities or additional compliance costs, which may in turn have a negative effect on our business and operations in Singapore.

RISKS RELATING TO THE GLOBAL OFFERING

As there has been no prior public market for our Shares, the liquidity and market price of our Offer Shares may be volatile.

Prior to the Global Offering, there was no public market for our Shares. The initial issue price range of our Shares was determined by the Joint Bookrunners (on behalf of the Underwriters) and us. The Offer Price may differ significantly from the market price of our Shares following the Global Offering. The listing of, and the permission to deal in, our Shares on the Stock Exchange does not guarantee the development of an active public market or the sustainability thereof following the completion of the Global Offering, or that the market price of our Shares will not decline after the Global Offering. In addition, the price and trading volume of our Shares may be volatile.

The following factors, among others, may cause the market price of our Share after the Global Offering to vary significantly from the Offer Price:

- variations in our revenue, earnings and cash flow;
- announcements of new technologies or products by us or our competitors;
- news regarding any gain or loss of customers by us;
- news regarding recruitment or loss of our key personnel or senior management;
- announcements of competitive developments, acquisitions or strategic partnerships in our industry;
- our inability to obtain or maintain regulatory approval for our operations;
- our inability to compete effectively in the market;

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- changes in earnings estimates of our financial performance or recommendations by financial analysts;
- release of lock-up or other transfer restrictions on our outstanding Shares or equity securities or sales or perceived sales of additional equity securities or Shares;
- general market conditions or other developments affecting us or our industry;
- political, economic, financial and social developments in the global economy;
- potential litigation or regulatory investigation;
- unexpected business interruptions resulting from natural disasters or power shortages; and
- the operating and stock price performance of other companies or other industries and other events or factors beyond our control.

There may be a future sale or major divestment of our Shares by a substantial Shareholder.

The sale of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, may adversely affect the market price of our Shares. Except as otherwise described in the sections headed “Underwriting” and “Substantial Shareholders” in this prospectus, there are generally no restrictions imposed on our substantial Shareholders selling or otherwise disposing of their shareholdings. Any major disposal of our Shares by any of our substantial Shareholders may cause the market price of our Shares to decline. Future sales, or perceived sales, of a substantial number of our Shares may materially and adversely affect our ability to raise capital in the future at a time and a price favourable to us, and our Shareholders would experience dilution of their holdings upon a future issuance or sale of additional securities.

Our Controlling Shareholders have substantial control over our Company and their interest may not be aligned with the interests of our other Shareholders.

Immediately following the Global Offering (assuming that the Over-allotment Option is not exercised at all and without taking into account any shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Share Option Scheme), our Controlling Shareholders will beneficially own 66.8% of our entire issued share capital. Our Controlling Shareholders will be in a position to exert significant influence over our affairs, and will be able to influence the outcome of any Shareholders’ resolution, irrespective of how other Shareholders may vote. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not always coincide with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

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You may face difficulties in protecting your interests because we are incorporated under the laws of the BVI and, protection to minority shareholders may differ under the laws of the BVI from those established under the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Memorandum and Articles, the Companies Act and the laws of the BVI. The laws of the BVI relating to the protection of the interests of non-controlling shareholders differ in some respects from those established under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please see the section headed “Summary of the constitution of the Company and BVI company law” in Appendix IV to this prospectus.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

This prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our actual performance for the periods of time to which such statements relate.

This prospectus contains certain forward-looking statements relating to our plans, objectives, expectations and intentions. Such forward-looking statements involve known and possibly known risks, uncertainties and other factors which may cause our actual performance or achievements to be materially different from the anticipated performance or achievements expressed or implied by the forward-looking statements in this prospectus. Such forward-looking statements are based on numerous assumptions as to our present and future business strategies and the environment in which we will operate in the future. Our actual performance or achievements may differ materially from those disclosed in this prospectus.

**WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
CERTIFICATE OF EXEMPTION FROM THE COMPANIES ORDINANCE**

Waiver from strict compliance with Rule 4.04(1) of the Listing Rules and Paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance

According to Rule 4.04(1) of the Listing Rules, the Accountant's Report contained in this prospectus must include, inter alia, the results of our Group in respect of each of the three financial years immediately preceding the issue of this prospectus or such shorter period as may be acceptable to the Stock Exchange.

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, our Group is required to include in this prospectus a statement as to the gross trading income or sales turnover (as the case may be) of our Group during each of the three financial years immediately preceding the issue of this prospectus as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown of the more important trading activities.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance, our Group is required to include in this prospectus a report by our auditor with respect to profits and losses and assets and liabilities of our Group in respect of each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 342A(1) of the Companies Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

The Accountant's Report for each of the three years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 has been prepared and is set out in Appendix I to this prospectus.

An application was made to the Stock Exchange on 14 February 2013 for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver was granted by the Stock Exchange on 19 February 2013, on the conditions that:

- (i) the Company lists on the Stock Exchange by 31 March 2013;
- (ii) the Company obtains a certificate of exemption from the SFC from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance; and
- (iii) a profit estimate for the year ended 31 December 2012 which complies with Rules 11.17 to 11.19; and a Directors' statement that there is no material adverse change to its financial and trading positions or prospect with specific reference to the trading results from 30 September 2012 to 31 December 2012 will be included in the Prospectus.

**WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
CERTIFICATE OF EXEMPTION FROM THE COMPANIES ORDINANCE**

An application was also made to the SFC on 14 February 2013 for a certificate of exemption from strict compliance with paragraphs 27 of Part I and 31 of Part II of the Third Schedule to the Companies Ordinance in relation to the inclusion of the Accountant's Report for the full year ended 31 December 2012 in this prospectus on the grounds that it would be unduly burdensome and there would not be sufficient time for our Company and the reporting accountant to complete the work on the financial statements for the full financial year ended 31 December 2012 for inclusion in the prospectus. A certificate of exemption has been granted by the SFC under section 342A of the Companies Ordinance.

Our Directors and the Sponsor confirmed that all information that is necessary for the public to make an informed assessment of the business, assets and liabilities, financial position and profitability of the Group has been included in the Prospectus, as such the waiver granted by the Stock Exchange and the exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Listing Rules and paragraphs 27 of Part I and 31 of Part II of the Third Schedule to the Companies Ordinance will not prejudice the interests of the investing public.

Our Directors and the Sponsor confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since 30 September 2012 and there is no event since 30 September 2012 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of the SFO and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement in this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are formed on bases and assumptions that are fair and reasonable.

THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms set out the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 25,000,000 Hong Kong Offer Shares and the International Placing of initially 225,000,000 International Placing Shares (subject, in each case, to adjustment on the basis described in the section headed "Structure of the Global Offering" on page 366 of this prospectus).

The Global Offering is sponsored by the Sole Sponsor, namely CCBIC. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters) and our Company on the Price Determination Date. The Global Offering is managed by the Sole Global Coordinator. For further details of the Underwriters and underwriting arrangements, please refer to the section headed "Underwriting" on page 356 of this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and our Company on the Price Determination Date.

If, for whatever reason, the Joint Bookrunners (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, the Global Offering will not become unconditional and will lapse immediately.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken to permit any public Offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Hong Kong Public Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors or any other persons or parties involved in the Global Offering.

Each person acquiring Offer Shares in the Global Offering will be required to confirm, or be deemed by its acquisition of Offer Shares to have confirmed, that it is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Capitalisation Issue and upon the exercise of any options which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.

Save as disclosed in this prospectus, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the tax implications of subscription for, purchasing, holding or disposing of and dealing in our Shares under the laws of the place at your operations, domicile, residence, citizenship or incorporation. We emphasise that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchase, holding or disposal of or dealing in our Shares.

STABILISATION AND OVER-ALLOTMENT

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for or purchase the newly issued securities in the secondary market during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the commencement of trading in the Shares of our Company on the Stock Exchange. Such transactions will be effected in compliance with all applicable laws, rules and regulations in place in Hong Kong. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time during the stabilising period, which will begin on the day on which trading of our Shares commences on the Stock Exchange and end on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. As a result, demand for our Shares, and their market price, may fall after the end of the stabilising period.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes (i) over-allocation of shares for the purpose of preventing or minimising any reduction in the market price of shares, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of shares, (iii) subscribing, or agreeing to subscribe, for shares pursuant to an option or other right

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, shares pursuant to an option or other right in order to close out any positions established under (i) or (ii) above, (v) selling shares to liquidate a long position established and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 37,500,000 Shares, which is approximately 15% of the new Shares of our Company initially available under the Global Offering.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager, or any person acting for it, may maintain a long position in our Shares. The size of the long position and the period for which the Stabilising Manager, or any person acting for it, will maintain the long position are at the discretion of the Stabilising Manager and are uncertain. Investors should be warned that, in the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to decline in the market price of our Shares.

Any stabilising action taken by the Stabilising Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Stabilising bids for or market purchases of the Shares by the Stabilising Manager, or any person acting for it, may be made at or below the Offer Price and can therefore be made at or below the price paid for the Offer Shares by applicants for, or investors in, the Offer Shares.

In connection with the Global Offering, the Stabilising Manager may require our Company to over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or combination of these means. In particular, for the purpose of covering such over-allocations, the Stabilising Manager may borrow up to 37,500,000 Shares from Jade Win Investment Limited (equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option), under the Stock Borrowing Agreement.

The terms of the Stock Borrowing Agreement will be in compliance with the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to restrictions under Rule 10.07(1)(a) of the Listing Rules. The principal terms of the Stock Borrowing Agreement are set out below:

- the stock borrowing arrangement will only be effected by the Stabilising Manager (or its affiliates) for settlement of over-allocations in connection with the International Placing;
- the maximum number of Shares to be borrowed by the Stabilising Manager (or its affiliates) from Jade Win Investment Limited will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- the same number of Shares so borrowed will be returned to Jade Win Investment Limited not later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the day on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between the parties;
- the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- no payments will be made to Jade Win Investment Limited in relation to the stock borrowing arrangement.

HONG KONG SHARE REGISTER AND STAMP DUTY IN HONG KONG

All Shares issued pursuant to applications made in the Global Offering will be registered in our Company's register of members to be maintained in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty.

Unless otherwise determined by our Company, dividends payable in HK dollars in respect of the Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each Shareholder.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedure for the Hong Kong Offer Shares is set out in the section headed "How to apply for Hong Kong Offer Shares" on page 376 of this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" on page 366 of this prospectus.

ROUNDING

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

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Wang Jinlong (王金龍)	Flat A, 4th Floor Tak On Mansions 5 Pine Street Tai Kok Tsui, Kowloon Hong Kong	Chinese
Mr. Zhao Jindong (趙錦棟)	Flat H, 8/F, Block 2 2 Tin Yan Road Central Park Towers Tin Shui Wai, New Territories Hong Kong	Chinese
Non-executive Directors		
Mr. Lee Tommy (李銘浚)	House A2, Beaulieu Peninsula 2 Yu Chui Street Tuen Mun, New Territories Hong Kong	Chinese
Ms. Ma Hua (馬華)	Room 503, Building 3 Hong Ling Nan Yuan 1004 Hong Ling Road South Fu Tian District Shenzhen Guangdong Province China	Chinese
Mr. Ko Po Ming (高寶明)	Flat A, 21/F Block 9 The Palazzo 28 Lok King Street Fo Tan, Shatin, New Territories Hong Kong	British
Independent Non-executive Directors		
Mr. He Shenghou (何生厚)	Room 808, 6F Block 6 He Ping Li Dongcheng District Beijing China	Chinese

DIRECTORS

Name	Address	Nationality
Mr. Tong Hin Wor (湯顯和)	Flat E, 10/F, Block 3 Le Bleu Deux Coastal Skyline 12 Coastal Front Road Tung Chung, New Territories Hong Kong	Chinese
Mr. Wong Lap Tat Arthur (黃立達)	1208 Dragon Bay Villa Hou Sha Yu Shunyi District Beijing 101302 China	British

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor and Sole Global
Coordinator**

CCB International Capital Limited
34/F Two Pacific Place
88 Queensway
Admiralty
Hong Kong

**Joint Bookrunners and Joint
Lead Managers**

CCB International Capital Limited
34/F Two Pacific Place
88 Queensway
Admiralty
Hong Kong

CIMB Securities Limited
Units 7706-08 Level 77
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

China Galaxy International Securities (Hong Kong)
Co., Limited
Room 3501-3507, 35/F
Cosco Tower
183 Queen's Road Central
Hong Kong

Legal Advisers to our Company

as to Hong Kong law:
Tung & Co.
Office 1601, 16th Floor, LHT Tower
31 Queen's Road Central
Hong Kong

as to PRC law:
Shu Jin Law Firm
24/F, Aerospace Skyscraper
No. 4019 Shennan Road
Futian District, Shenzhen
PRC

as to BVI law:
Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

Conyers Dill & Pearman
Commerce House, Wickhams Cay 1
PO Box 3140, Road Town, Tortola
British Virgin Islands VG1110

as to Singapore law:
Stamford Law Corporation
10 Collyer Quay
#27-00 Ocean Financial Centre
Singapore 049315

as to United States, European Union and United Nations law:
Norton Rose LLP
3 More London Riverside
London SE1 2AQ
United Kingdom

as to Australian law:
Norton Rose Australia
ABN 32 720 868 049
RACV Tower, 485 Bourke Street
Melbourne VIC 3000
Australia

as to Russian law:
NOERR OOO
125047, Moscow, 1-ya Brestskaya Street 29

as to Iranian law:
Atieh Associates Law Firm
No. 15 Fifth Street, Bucharest Avenue
Tehran 13718 Iran

**Legal Advisers to the
Underwriters**

as to Hong Kong law:
Minter Ellison
15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

as to PRC law:
Jingtian & Gongcheng
Suite 1202-1204, K. Wah Centre
1010 Huaihai Road (M)
Xu Hui District
Shanghai 200031
PRC

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

Auditor and Reporting Accountant	PricewaterhouseCoopers, Certified Public Accountants 22/F Prince's Building Central Hong Kong
Property Valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen's Road East Hong Kong
Receiving Bankers	China Construction Bank (Asia) Corporation Limited 6, Des Voeux Road Central Central Hong Kong Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong

CORPORATE INFORMATION

Registered office in the British Virgin Islands	Commerce House Wickhams Cay 1 P.O. Box 3140 Road Town, Tortola British Virgin Islands VG1110
Principal place of business in Hong Kong registered under Part XI of the Companies Ordinance	Office No. 504, 5th Floor Tower 1, Silvercord No. 30 Canton Road Kowloon, Hong Kong
Headquarters and principal place of business in the PRC	F7, Tiley Central Plaza No. 3 Haide Road Nanshan District Shenzhen Guangdong China
Company's website	www.petro-king.cn (Information contained on the website does not form part of this prospectus.)
Company secretary	Mr. Tung Tat Chiu, Michael (佟達釗), a practicing solicitor in Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Wang Jinlong (王金龍) Flat A, 4th Floor Tak On Mansions 5 Pine Street Tai Kok Tsui, Kowloon Hong Kong Mr. Tung Tat Chiu, Michael (佟達釗) Office 1601, 16th Floor LHT Tower 31 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Members of Audit Committee	Mr. Wong Lap Tat Arthur (黃立達) (Chairman) Mr. Tong Hin Wor (湯顯和) Mr. He Shenghou (何生厚)
Members of Remuneration Committee	Mr. He Shenghou (何生厚) (Chairman) Mr. Tong Hin Wor (湯顯和) Mr. Wong Lap Tat Arthur (黃立達) Mr. Wang Jinlong (王金龍) Mr. Lee Tommy (李銘浚)
Members of Nomination Committee	Mr. Wang Jinlong (王金龍) (Chairman) Mr. Lee Tommy (李銘浚) Mr. He Shenghou (何生厚) Mr. Tong Hin Wor (湯顯和) Mr. Wong Lap Tat Arthur (黃立達)
Members of Sanction Oversight Committee	Mr. Wong Lap Tat Arthur (黃立達) (Chairman) Mr. Wang Jinlong (王金龍) Mr. He Shenghou (何生厚)
Compliance adviser	China Galaxy International Securities (Hong Kong) Co., Limited Room 3501-3507, 35/F Cosco Tower 183 Queen's Road Central Hong Kong
Principal share registrar and transfer office in the British Virgin Islands	Codan Trust Company (B.V.I.) Ltd. Commerce House, Wickhams Cay 1 P.O. Box 3140 Road Town, Tortola British Virgin Islands VG1110
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Principal bankers

Standard Chartered Bank (China) Limited
11/F Tower A, Kingkey 100 Building
No. 5016 Shennan East Road, Luohu District
Shenzhen 518001
China

China Merchants Bank
China Merchants Building, Shekou
Shenzhen 518067
China

Industrial and Commercial Bank of China Limited
Clearing Centre the Second Floor
North Block Financial Center
Shennan Road East
Shenzhen
PRC

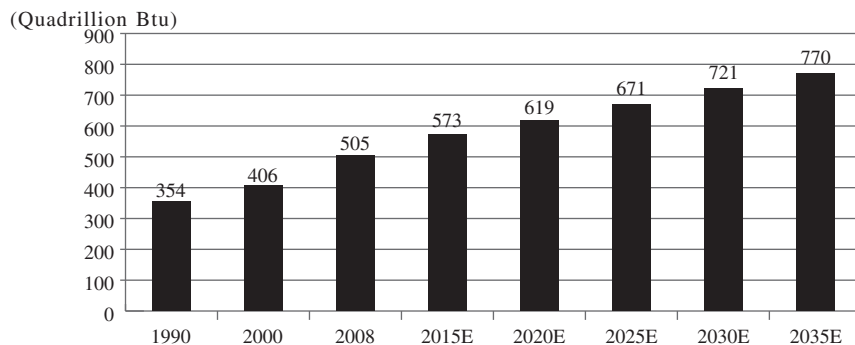
Hang Seng Bank Limited
83 Des Voeux Road
Central
Hong Kong

INDUSTRY OVERVIEW

This and other sections of this prospectus contain information relating to the PRC, Hong Kong and other economies and industry in which we operate. The information and statistics contained in this section have been derived partly from publicly available government and official sources. Certain information and statistics set forth in this section have been extracted from a market research report by Spears & Associates, an independent market research agency, which we commissioned. References to Spears & Associates should not be considered as Spears & Associates' opinion as to the value of any securities or the advisability of investing in us. We believe that the sources of the information extracted from the Spears Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. We, our affiliates or advisers, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers, the Underwriters or their affiliates or advisers, or any party involved in the Global Offering do not make any representation as to the accuracy, completeness or fairness of such information from official government publications and, accordingly, you should not unduly rely on such information from official government publications.

GLOBAL OIL AND GAS MARKET

Global energy consumption has increased significantly over the past decades and is expected to continue to increase. According to International Energy Outlook 2011 released by the EIA, world marketed energy consumption will grow by 52.5% from 505 quadrillion Btu in 2008 to 770 quadrillion Btu in 2035. The following chart sets forth the historic and forecast world energy consumption:



Source: EIA, International Energy Outlook 2011

Economic growth is among the most primary factors which drive the changes in world energy consumption. Starting in 2008, the world experienced its worst recession during the past decades and as a result, global energy consumption decreased in 2009 for the first time since 1982. Since the second half of 2009, the global economy started to recover and global energy consumption began its rebound in 2010. According to BP Statistical Review of World Energy June 2012, global primary energy consumption grew by 2.5% in 2011, roughly in line with the 10-year average. The centre of gravity for world energy consumption continues to shift from the OECD to emerging countries, especially those in Asia. Emerging economies accounted for all of the net growth in energy

INDUSTRY OVERVIEW

consumption, with China alone accounting for 71% of global energy consumption growth. According to EIA, China and India are two of the nations that were least affected by the worldwide recession. They continue to lead world economic growth and energy demand growth. According to the EIA, China's total primary energy consumption is expected to grow from 86.2 quadrillion Btu in 2008 to 191.4 quadrillion Btu in 2035, representing a CAGR of 3.0%. While energy consumption in non-OECD Asia (led by China and India) shows the most robust growth of all the non-OECD regions, rising by 117% from 2008 to 2035, strong growth in energy consumption is also projected for much of the rest of the non-OECD regions.

Among all types of fuels, oil continues to be the most important source of energy, representing about 33.1% of global energy consumption in 2011, followed by coal, natural gas, hydroelectricity, nuclear and renewable energies. According to BP Statistical Review of World Energy June 2012, worldwide proved oil reserves totalled 1,652.6 billion barrels at the end of 2011, up 19.5% from the previous year and up 30.4% from the total in 2001. Such reserves amounted to a 54.2 years of global production at current production rate of approximately 83.6 million bpd. China's proved oil reserves totalled 14.7 billion barrels at the end of 2011, representing a 9.9 years of production at the current production rates of approximately 4.1 million bpd.

According to the EIA, world's consumption of oil will increase from 85.7 million bpd in 2008 to 112.2 million bpd in 2035, where over 75% of total increase is projected to come from nations of non-OECD Asia and the Middle East, and where long-term GDP growth are expected. China, in particular, is expected to have the 2nd highest oil consumption growth only next to India, at a 2.9% CAGR from 2008 to 2035.

The following table sets forth the historical and projected world oil consumption volume by region/country, from 2008 to 2035:

(Million barrels per day)	2008	2015E	2020E	2035E	2008 as % of total	2035E as % of total	2008- 2035E CAGR
OECD							
OECD Americas	24.2	25.2	25.5	27.2	28.2%	24.2%	0.4%
- U.S.	19.5	20.4	20.7	21.9	22.8%	19.5%	0.4%
- Canada.....	2.2	2.3	2.3	2.4	2.6%	2.1%	0.2%
- Mexico/Chile	2.4	2.5	2.6	2.9	2.8%	2.6%	0.7%
OECD Europe	15.6	14.4	14.6	14.9	18.2%	13.3%	-0.2%
OECD Asia	8.3	7.8	8.2	8.4	9.7%	7.5%	0.1%
- Japan	5.0	4.3	4.6	4.5	5.8%	4.0%	-0.4%
- South Korea	2.1	2.3	2.4	2.6	2.5%	2.3%	0.7%
- Australia/New Zealand	1.1	1.2	1.2	1.3	1.3%	1.2%	0.5%
Total OECD	48.0	47.5	48.3	50.4	56.0%	44.9%	0.2%

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(Million barrels per day)	2008	2015E	2020E	2035E	2008 as % of total	2035E as % of total	2008- 2035E CAGR
Non-OECD							
Non-OECD Europe and Eurasia	5.0	5.3	5.2	5.6	5.8%	5.0%	0.4%
- Russia	2.8	2.9	2.8	2.9	3.3%	2.6%	0.1%
- Other	2.1	2.3	2.4	2.6	2.5%	2.3%	0.8%
Non-OECD Asia	17.1	23.0	26.2	34.4	20.0%	30.7%	2.6%
- China	7.8	12.1	13.6	16.9	9.1%	15.1%	2.9%
- India	3.0	3.8	4.6	7.5	3.5%	6.7%	3.5%
- Other	6.3	7.1	7.9	9.9	7.4%	8.8%	1.7%
Middle East	6.6	7.7	7.7	9.5	7.7%	8.5%	1.4%
Africa	3.2	3.3	3.4	4.0	3.7%	3.6%	0.9%
Central and South America	5.8	6.6	6.9	8.3	6.8%	7.4%	1.4%
- Brazil	2.5	2.9	3.1	3.9	2.9%	3.5%	1.7%
- Other	3.3	3.7	3.9	4.4	3.9%	3.9%	1.1%
Total Non-OECD	37.7	45.9	49.3	61.8	44.0%	55.1%	1.9%
Total World	85.7	93.3	97.6	112.2	100.0%	100.0%	1.0%

Source: EIA, *International Energy Outlook 2011 — Reference Case*

To satisfy the increase in world oil demand, oil production is expected to increase by 26.5 million bpd from 2008 to 2035, according to the EIA. The following table sets forth the historical and projected world oil production volume by region from 2008 to 2035:

(Million barrels per day)	2008	2009	2015E	2020E	2035E	2008 as % of total	2035E as % of total	2008- 2035E CAGR
OPEC	35.6	33.4	38.6	40.8	46.9	41.5%	41.8%	1.0%
- Middle East	24.2	22.5	27.0	28.9	35.2	28.2%	31.4%	1.4%
- North Africa	4.1	3.9	3.5	3.4	3.2	4.8%	2.9%	-0.9%
- West Africa	4.2	4.1	5.3	5.5	5.4	4.9%	4.8%	1.0%
- South America	3.1	2.9	2.9	3.0	3.1	3.6%	2.8%	-0.1%
Non-OPEC	50.0	50.5	54.7	56.8	65.3	58.3%	58.2%	1.0%
OECD	21.0	21.3	21.5	21.7	24.9	24.5%	22.2%	0.6%
- OECD Americas	15.0	15.6	16.9	17.7	21.1	17.5%	18.8%	1.3%
- OECD Europe	5.1	4.8	3.8	3.3	3.0	6.0%	2.7%	-2.0%
- OECD Asia	0.8	0.8	0.8	0.7	0.8	0.9%	0.7%	-0.3%

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(Million barrels per day)	2008	2009	2015E	2020E	2035E	2008 as % of total	2035E as % of total	2008- 2035E CAGR
Non-OECD	29.0	29.2	33.2	35.1	40.4	33.8%	36.0%	1.2%
- Non-OECD Europe and Eurasia.....	12.7	12.9	14.6	15.5	18.0	14.8%	16.0%	1.3%
- Non-OECD Asia.....	7.9	7.7	7.8	7.8	8.5	9.2%	7.6%	0.3%
- Middle East (Non-OPEC)...	1.5	1.5	1.6	1.4	1.1	1.8%	1.0%	-1.3%
- Africa	2.7	2.6	3.0	3.2	3.5	3.2%	3.1%	1.0%
- Central and South America.	4.3	4.5	6.2	7.2	9.4	5.0%	8.4%	3.0%
Total World	85.7	83.9	93.3	97.6	112.2	100.0%	100.0%	1.0%

Source: EIA, *International Energy Outlook 2011 — Reference Case*

Global oil prices have been extremely volatile over the 2005 to 2011 timeframe in response to both macroeconomic and geo-political forces. At the beginning of this period most major grades of crude oil were trading around US\$50 per barrel. With strong global economic growth pushing global oil demand to record levels, oil prices accelerated sharply, reaching US\$150 per barrel in mid 2008. However, in response to the economic slowdown following the 2008-2009 global financial crisis, oil prices dropped to as low as US\$40 per barrel in the 2nd quarter of 2009. Subsequent efforts by the major oil exporting nations to lower production, combined with a recovery in global oil demand, resulted in an improved pricing environment for oil. By the end of 2010 most major grades of oil were being priced around US\$90 per barrel.

Disruptions in global oil supplies caused by the political unrest of some oil-supplying countries, as well as further global oil demand growth, combined to lift oil prices above US\$110 per barrel for many grades of crude oil for most of 2011. The first half of 2012 has seen increasing worries about future global oil demand growth in light of the ongoing financial crisis in the Euro zone. As a result, spot oil prices have at times fallen below US\$90 per barrel for WTI and US\$105 per barrel for Brent.

According to the Spears Report, based on expectations for robust oil supply increases and moderate economic and global demand growth over the mid-term, it is expected that oil prices will remain near their 2012 average through 2015 before rising at a 5.0% CAGR over the 2015 to 2020 time frame.

INDUSTRY OVERVIEW

The following table sets forth the historical and projected oil prices from 2005 to 2020:

		Global Oil Prices* (US\$/bbl)					
					% Change		
Year		Brent	Dubai	WTI	Brent	Dubai	WTI
Historical	2005	54.52	49.35	56.59	42.5%	46.7%	36.4%
	2006	65.14	61.50	66.02	19.5%	24.6%	16.7%
	2007	72.39	68.19	72.20	11.1%	10.9%	9.4%
	2008	97.26	94.34	100.06	34.4%	38.3%	38.6%
	2009	61.67	61.39	61.92	-36.6%	-34.9%	-38.1%
	2010	79.50	78.06	79.45	28.9%	27.2%	28.3%
Projected	2011	111.26	106.18	95.04	39.9%	36.0%	19.6%
	2012	108.50	106.50	95.75	-2.5%	0.3%	0.7%
	2013	110.00	108.00	95.00	1.4%	1.4%	-0.8%
	2014	110.00	108.00	95.00	0.0%	0.0%	0.0%
	2015	110.00	108.00	95.00	0.0%	0.0%	0.0%
	2016	115.50	113.40	97.50	5.0%	5.0%	5.0%
	2017	121.28	119.07	100.00	5.0%	5.0%	5.0%
	2018	127.34	125.02	105.00	5.0%	5.0%	5.0%
	2019	133.71	131.27	110.25	5.0%	5.0%	5.0%
	2020	140.39	137.84	115.76	5.0%	5.0%	5.0%

Source: Spears & Associates

* Nominal dollar

Natural gas has been and continues to be the fuel of choice in many regions of the world in the electric power and industrial sectors, in part because of its lower carbon intensity compared with coal and oil, which makes it an attractive fuel source in countries where governments are implementing policies to reduce greenhouse gas emissions, and also because of its significant price discount relative to oil in many regions. According to BP Statistical Review of World Energy June 2012, worldwide proved natural gas reserves totalled 7,360.9 trillion cubic feet at the end of 2011, while China's proved gas reserves totalled 107.7 trillion cubic feet at the end of 2011.

According to the International Energy Outlook 2011 released by the EIA, the world's natural gas consumption will increase by 58 trillion cubic feet, or 52.4% from 110.7 trillion cubic feet in 2008 to 168.7 trillion cubic feet in 2035. In 2011, world natural gas consumption grew by 2.2%, according to BP Statistical Review of World Energy June 2012. Growth in natural gas consumption is particularly strong in non-OECD countries, where economic growth leads to increased energy demand. China, being the fastest growing economy in the world, is expected to have gas consumption growth from 2.7 trillion cubic feet in 2008 to 11.5 trillion cubic feet in 2035, representing the highest CAGR of 5.5% in the world.

INDUSTRY OVERVIEW

The following table sets forth the historical and projected world natural gas consumption volume by region/country from 2008 to 2035:

(Trillion cubic feet)	2008	2015E	2020E	2035E	2008 as % of total	2035E as % of total	2008- 2035E CAGR
OECD							
OECD Americas	28.8	31.1	32.2	37.1	26.0%	22.0%	0.9%
- U.S.	23.2	25.1	25.3	26.5	21.0%	15.7%	0.5%
- Canada.....	3.4	3.5	3.7	5.0	3.1%	3.0%	1.5%
- Mexico/Chile	2.2	2.5	3.2	5.5	2.0%	3.3%	3.4%
OECD Europe	19.5	19.8	20.4	23.2	17.6%	13.8%	0.7%
OECD Asia	6.2	6.5	6.8	8.0	5.6%	4.7%	1.0%
- Japan	3.7	3.7	3.7	4.0	3.3%	2.4%	0.3%
- South Korea	1.3	1.5	1.6	1.9	1.2%	1.1%	1.5%
- Australia/New Zealand	1.3	1.3	1.5	2.2	1.2%	1.1%	2.1%
Total OECD	54.5	57.4	59.5	68.4	49.2%	40.5%	0.8%
Non-OECD							
Non-OECD Europe and Eurasia	25.0	24.4	24.4	26.6	22.6%	15.8%	0.2%
- Russia	16.8	16.2	16.1	17.4	15.2%	10.3%	0.1%
- Other	8.2	8.1	8.4	9.1	7.4%	5.4%	0.4%
Non-OECD Asia	11.3	17.1	20.8	31.9	10.2%	18.9%	3.9%
- China	2.7	5.3	6.8	11.5	2.4%	6.8%	5.5%
- India	1.5	3.3	3.9	5.1	1.4%	3.0%	4.6%
- Other	7.1	8.5	10.0	15.3	6.4%	9.1%	2.9%
Middle East	11.7	14.7	17.0	24.0	10.6%	14.2%	2.7%
Africa	3.6	4.7	5.9	9.1	3.3%	5.4%	3.5%
Central and South America	4.6	5.0	5.7	8.8	4.2%	5.2%	2.5%
- Brazil.....	0.8	1.1	1.5	3.2	0.7%	1.9%	5.1%
- Other	3.7	3.8	4.2	5.7	3.3%	3.4%	1.6%
Total Non-OECD	56.2	65.8	73.9	100.4	50.8%	59.5%	2.2%
Total World	110.7	123.1	133.4	168.7	100.0%	100.0%	1.6%

Source: EIA, International Energy Outlook 2011 — Reference Case

INDUSTRY OVERVIEW

The following table sets forth the historical and projected world natural gas production volume by region/country from 2008 to 2035:

(Trillion cubic feet)	2008	2009	2015E	2020E	2035E	2008 as % of total	2035E as % of total	2008- 2035E CAGR
OECD								
- U.S.	20.2	20.1	22.4	23.4	26.4	18.4%	15.6%	1.0%
- Canada.....	6.0	5.6	7.0	7.7	9.0	5.5%	5.3%	1.5%
- Mexico.....	1.7	1.8	1.9	1.7	2.1	1.5%	1.2%	0.8%
- Chile.....	0.1	0.0	0.1	0.1	0.1	0.1%	0.1%	2.9%
- Europe	10.6	10.1	8.1	7.5	8.3	9.6%	4.9%	-0.9%
- Asia	1.9	2.0	2.8	3.3	5.9	1.7%	3.5%	4.3%
Total OECD	40.6	39.6	42.3	43.7	51.8	36.9%	30.6%	0.9%
Non-OECD								
- Russia.....	23.4	20.6	23.0	24.9	31.2	21.3%	18.4%	1.1%
- Central Asia.....	5.9	4.5	6.4	6.7	7.9	5.4%	4.7%	1.1%
- Non-OECD Europe.....	1.2	1.2	1.1	1.0	1.4	1.1%	0.8%	0.5%
- China	2.7	2.9	3.1	3.7	7.3	2.5%	4.3%	3.8%
- India	1.1	1.4	2.5	3.0	3.9	1.0%	2.3%	4.6%
- LNG exporters	5.1	5.0	5.5	6.1	8.2	4.6%	4.8%	1.8%
- Other Asia	3.8	3.9	4.5	4.6	5.2	3.5%	3.1%	1.2%
- Middle East	13.5	14.3	19.7	22.3	28.8	12.3%	17.0%	2.8%
- Africa	7.5	7.1	9.7	11.1	14.1	6.8%	8.3%	2.4%
- Central and South America.	5.1	4.9	5.8	6.6	9.5	4.6%	5.6%	2.3%
Total Non-OECD	69.3	66.0	81.3	90.0	117.4	63.1%	69.4%	2.0%
Total World	109.9	105.6	123.6	133.8	169.2	100.0%	100.0%	1.6%

Source: EIA, *International Energy Outlook 2011 — Reference Case*

As the international gas market is not as closely linked as the global oil market, regional gas prices are usually determined by local supply and demand. For this reason, global gas prices have diverged widely over the 2005 to 2011 timeframe. For example, Japanese LNG prices surged in 2011 following the Fukushima Dai-Ichi nuclear power plant disaster and the decision to use LNG-fueled power plants to replace nuclear power. Conversely, gas prices in North America have fallen since 2008 as oil and gas companies have been able to increase production faster (mainly due to the strong supply from shale gas production) than demand has grown.

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According to the Spears Report, based on expectations for moderate economic and global demand growth going forward, it is expected that gas prices in Europe and Asia will remain near current levels through 2015 before rising at a 5.0% CAGR over the 2015 to 2020 timeframe. Prices in the US gas market are expected to begin to recover from the current oversupply situation in the 2013 to 2015 timeframe, and then rise at a 5.0% CAGR over the 2015 to 2020 timeframe. The following table sets forth the historical and projected gas prices from 2005 to 2020:

		Global Gas Prices* (US\$/mmbtu)					
					% Change		
Year		LNG Japan	UK NBP	Henry Hub	LNG Japan	UK NBP	Henry Hub
Historical	2005	6.05	7.38	8.79	-84.2%	-78.1%	-78.8%
	2006	7.14	7.87	6.76	18.0%	6.6%	-23.1%
	2007	7.73	6.01	6.95	8.3%	-23.6%	2.8%
	2008	12.55	10.79	8.85	62.4%	79.5%	27.3%
	2009	9.06	4.85	3.89	-27.8%	-55.1%	-56.0%
	2010	10.91	6.56	4.39	20.4%	35.3%	12.9%
	2011	14.73	9.03	4.01	35.0%	37.7%	-8.7%
Projected	2012	15.00	9.00	2.30	1.8%	-0.3%	-42.6%
	2013	15.00	9.00	3.00	0.0%	0.0%	0.0%
	2014	15.00	9.00	3.50	0.0%	0.0%	0.0%
	2015	15.00	9.00	3.75	0.0%	0.0%	0.0%
	2016	15.75	9.45	3.94	5.0%	5.0%	5.0%
	2017	16.54	9.92	4.13	5.0%	5.0%	5.0%
	2018	17.36	10.42	4.34	5.0%	5.0%	5.0%
	2019	18.23	10.94	4.56	5.0%	5.0%	5.0%
	2020	19.14	11.49	4.79	5.0%	5.0%	5.0%

Sources: Spears & Associates

* Nominal dollars

GLOBAL UPSTREAM OILFIELD SERVICES MARKET

Overview

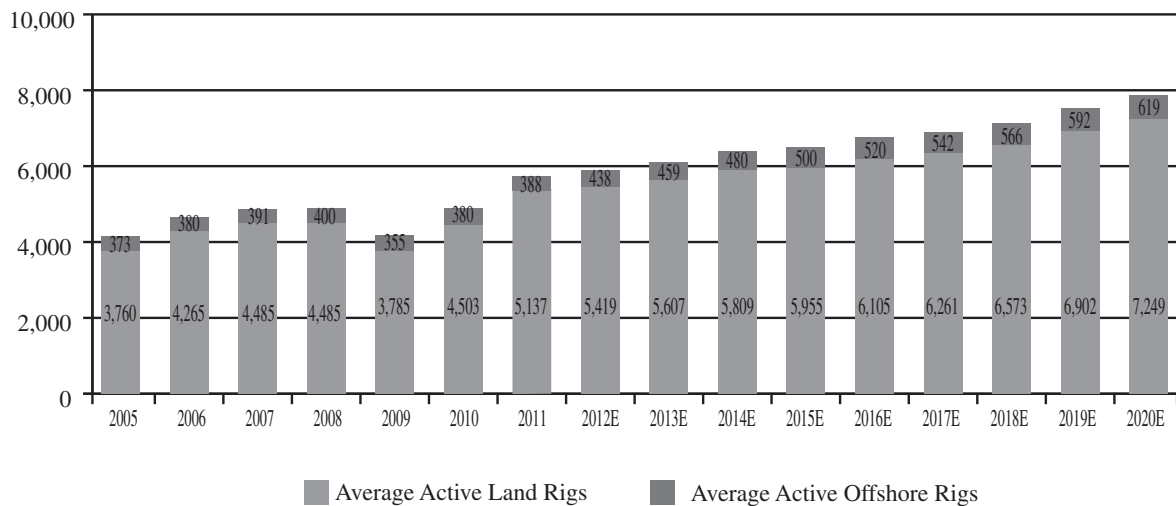
The global upstream oilfield services industry is an over US\$300 billion market that provides a wide array of equipment and services to support oil and gas exploration and production (E&P) activities. The major oil, state-owned national, and independent E&P companies rely on technology, equipment, personnel and capital assets provided by the oilfield service and equipment companies through every phase of the exploration and development process.

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The field development cycle spans from the exploration/discovery of hydrocarbon resources, to the drilling and completion of oil and gas wells, production and ongoing maintenance of wells and reservoirs, and finally the plugging and abandonment of wells and fields. Activity in the field development, thus the demand for oilfield services, is linked to both the number of new wells drilled and the maintenance of existing oil and gas wells.

According to the Spears Report, the global upstream oilfield service industry can be broadly divided into seven segments: reservoir information; contract drilling; drilling services; completion processes; production equipment and services; infrastructure and logistics; and rig equipment.

According to the Spears Report, based on its outlook for world oil prices, global drilling activity is projected to grow at a 4.0% CAGR from an average of 5,525 active land and offshore rigs in 2011 to an average of 7,868 active rigs in 2020. The following chart sets forth the historical and forecast average active land and offshore rigs globally from 2005 to 2020:

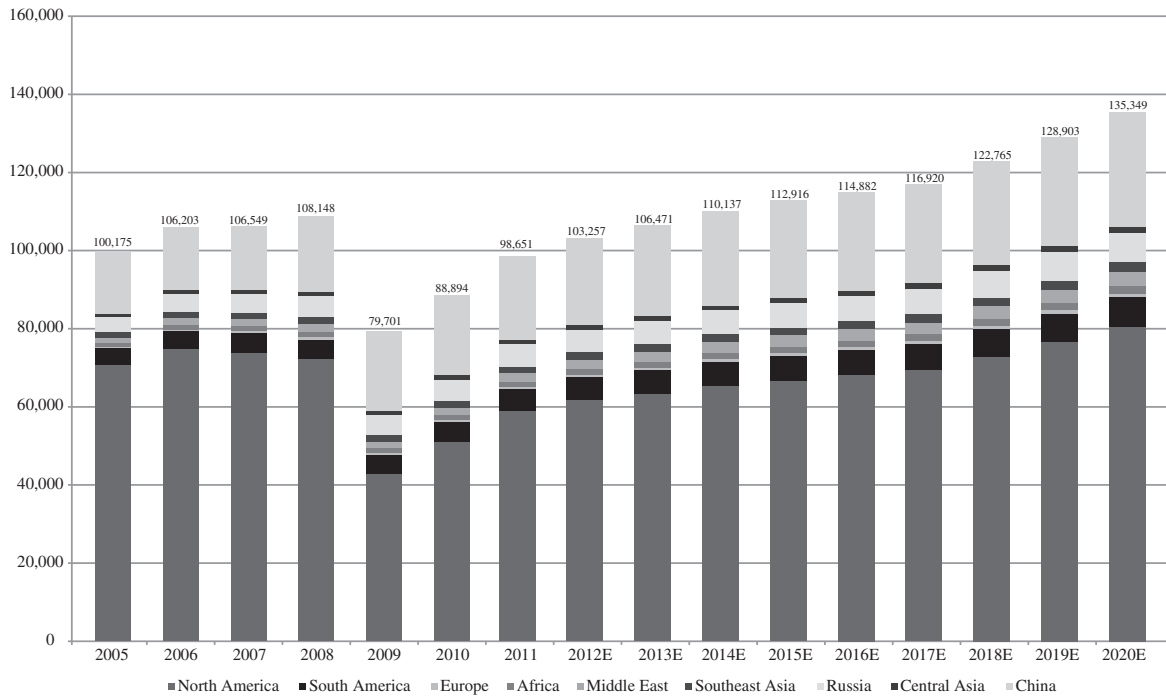


Source: Spears & Associates

INDUSTRY OVERVIEW

Number of new land and offshore wells drilled globally was 98,651 and 3,717 respectively in 2011, and is expected to grow to 135,349 and 6,069 respectively in 2020. North America and China would continue to be the 1st and 2nd most active region of drilling activities. The following two charts set forth the historical and forecast new land wells and offshore wells drilled from 2005 to 2020 by region:

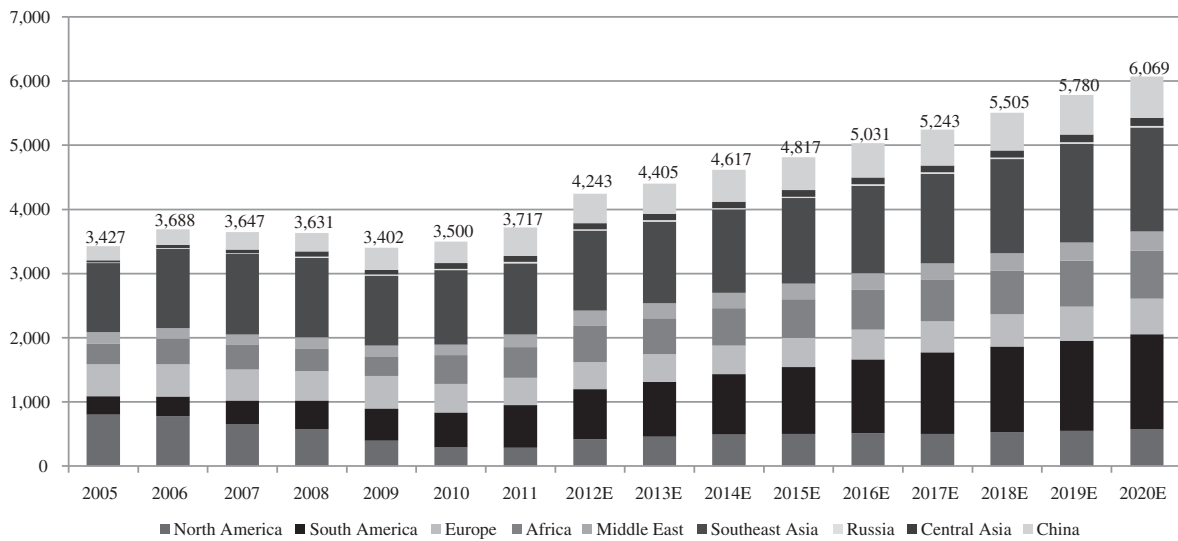
New land wells drilled:



Source: Spears & Associates

INDUSTRY OVERVIEW

New offshore wells drilled:



Source: Spears & Associates

As a result of expected growth in upstream activities, annual global expenditures to drill and complete new land and offshore wells are projected to grow from US\$316.2 billion in 2011 to US\$587.4 billion in 2020, according to the Spears Report.

Global drilling services, completion equipment and services and stimulation services markets

Drilling services, well completion services and stimulation services account for a substantial percentage of the total upstream expenditure incurred to drill and complete wells. According to the Spears Report, it is estimated that in 2011, the global market size of drilling services, completion equipment and services and stimulation services combined amounted to US\$57.6 billion, representing approximately 18% of the total upstream spending to drill and complete land and offshore wells on a global basis.

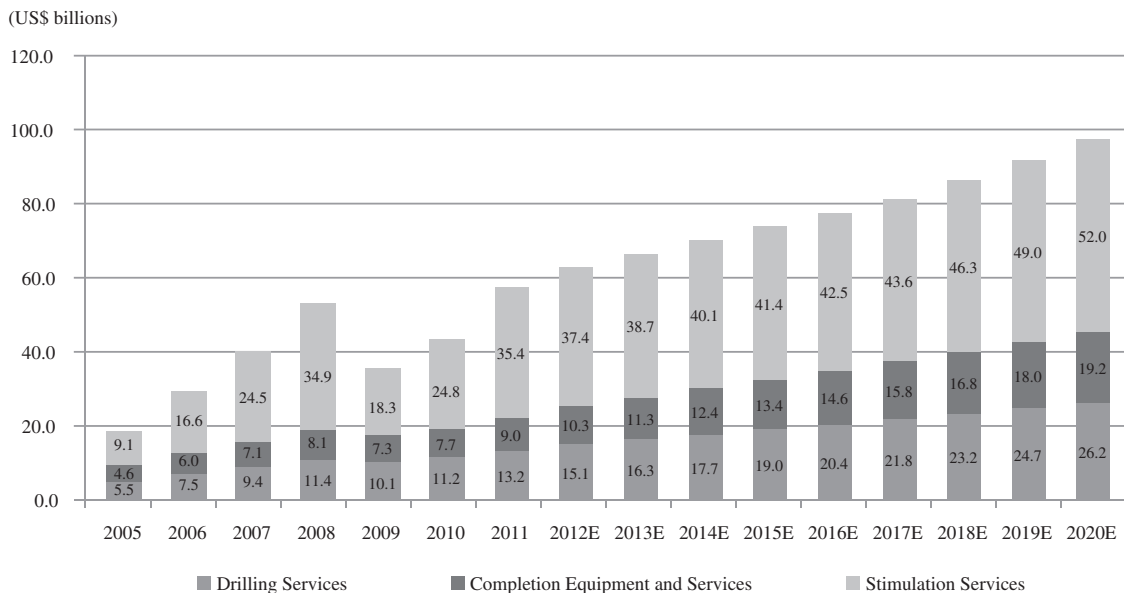
According to the Spears Report, drilling services, completion equipment and services and stimulation services can be generally described as follows:

- Drilling services:** Drilling services are used when conditions warrant the use of specialised equipment to address an unusual situation. Most of the time it involves using mud motors or rotary steerable tools in a wellbore that needs to be drilled at some angle other than vertical, or it may also include the use of turbine drilling for hard and/or abrasive formations. Drilling services revenue are tied directly to the overall level of rig activity. The service and equipment content of any given well varies depending on a number of factors, including well depth, well complexity and location.

INDUSTRY OVERVIEW

- Completion equipment and services:** Completion equipment and services include the tools or systems used to handle a variety of jobs downhole ranging from zone isolation and gravel packing to multilateral completion and well bore cleanout. The equipment includes retrievable and permanent packers, bridge plugs, liner hangers, and all levels of multilateral completion. Also included are expandable tubular, “intelligent” systems and their associated sensors and controls. Sales of packers represent about one-third of the overall completion equipment and services market. Well completion equipment and services revenue are directly related to, but lag, overall drilling activity. The revenue potential of individual wells varies depending on factors like well depth, location and wellbore complexity.
- Stimulation services:** Many oil and gas containing reservoirs require a bath of acid or high pressure injection of fluid and proppant in order to fracture the formation so as to enhance production and allow the well to produce economic quantities of the hydrocarbon. These acid and fracturing jobs are generally referred to as “stimulation”. Stimulation takes place after drilling has been completed. Wells are often fractured when the reservoirs being developed are tight — meaning the rock has limited permeability. Provision of production enhancement services, especially multistage fracturing, requires profound appreciation of geological knowledge, industry experience and high level of expertise and technological application as fine differences in details such as the use of chemicals, the location of tools application and the pace of the process could have a material impact on the productivity. Stimulation revenue are directly related to, but lag, overall drilling activity. The revenue potential of individual wells varies depending on factors like well depth, location and wellbore complexity.

The following chart sets forth the historical and projected market size of global drilling services, completion equipment and services and stimulation services from 2005 to 2020:



Source: Spears & Associates

INDUSTRY OVERVIEW

The following table sets forth the historical and projected market size of global drilling services, completion equipment and services and stimulation services markets by region from 2005 to 2020:

(US\$ billions)

Region/Country	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
North America	12.1	21.5	31.3	43.0	23.9	31.5	43.5	46.5	48.2	50.3	51.7	53.1	54.6	57.3	60.2	63.2
South America.....	1.0	1.2	1.5	1.6	1.8	1.8	2.1	2.5	2.8	3.1	3.4	3.8	4.2	4.4	4.7	4.9
Europe	0.4	0.4	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.7	0.8	0.8	0.9	0.9	1.0	1.0
Africa.....	0.4	0.7	0.7	0.8	0.7	0.9	0.9	1.3	1.3	1.4	1.5	1.6	1.8	1.9	2.0	2.1
Middle East	0.4	0.5	0.6	0.7	0.7	0.6	0.7	0.9	1.1	1.1	1.2	1.3	1.4	1.5	1.5	1.6
Southeast Asia.....	1.0	1.2	1.4	1.6	1.4	1.3	1.4	1.7	1.8	1.9	2.1	2.1	2.4	2.5	2.6	2.7
Russia	0.8	0.9	1.0	1.1	1.0	1.1	1.2	1.2	1.3	1.4	1.4	1.5	1.5	1.6	1.7	1.8
Central Asia.....	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
China	3.1	3.6	3.9	4.8	5.3	5.8	7.0	7.9	9.0	10.0	11.5	12.8	14.1	15.9	17.7	19.7
Total.....	19.3	30.1	41.1	54.3	35.6	43.7	57.6	62.7	66.4	70.2	73.9	77.4	81.2	86.3	91.8	97.4

Source: Spears & Associates

Consultancy services

In addition to the market segments discussed above, some oilfield service companies also provide engineering and project management services to operators during the exploration, development and production process. Consultancy services and/or IPM generally refer to engineering design, procurement, on-site management and supervision and other services. Many IPM assignments are on overseas projects operated by Chinese national oil companies for either new field development or the rehabilitation of mature fields. Very often the customers seeking IPM services lack internal technical or project management skills to deal with complex drilling or production processes and thus rely on external service companies to provide such assistances. In terms of revenue, the value of consultancy services associated with drilling services, completion equipment and services, and stimulation services is tied to the level of drilling activity and the services and equipment content of the well which is a function of factors such as depth, complexity and location. The trend by oil companies towards the increased use of outsourced engineering and project management services is expected to benefit oilfield services providers that can combine experience, engineering skills, advanced technology, and scope of equipment and service offerings.

According to Spears & Associates, information about market size and share for the consultancy services market is not available. Consultancy services are often sold as part of a package that might also include other services such as drilling services, pressure pumping services, integrated project management, etc. As a result, Spears & Associates cannot distinguish between spending on consultancy services and spending on other field services.

INDUSTRY OVERVIEW

CHINA UPSTREAM OILFIELD SERVICES MARKET

Driven by strong economic growth, China has seen a tremendous increase in energy demand over the past decade. According to the Spears Report, China's oil demand is estimated to have totalled 9.8 million bpd in 2011, up 4.7% from 2010, and is forecasted to reach 14.6 million bpd in 2020, representing a 4.5% CAGR. While worldwide oil demand fell in 2008 and 2009 as a result of the global economic slowdown following the financial crisis, China's oil demand growth remained positive, although at a lower level than its average growth rate of 4.9% during the 2005-2007 period. On the supply side, however, China's oil production has not been able to fulfill its growing demand and the gap is widening year on year. According to the Spears Report, China's oil production is estimated to be 4.1 million bpd in 2011, and is forecasted to reach 5.0 million bpd in 2020, representing a 2.2% CAGR.

Growing demand for energy and increasing oil prices has caused significant increase of oil companies' upstream expenditures in exploration and production. China's upstream market principally includes the three major state-owned oil and gas groups, namely CNPC, Sinopec and CNOOC. CNPC and Sinopec are the two major onshore operators in China while CNOOC is the major offshore oil company. According to the Spears Report, planned exploration and production spending by these three Chinese NOCs has increased by 70% in aggregate over the timeframe from 2007 to 2011, and is expected to exceed US\$48 billion in aggregate in 2012. As a result of the increase in upstream spending of oil companies, demand for oilfield services in China is expected to continue to grow. The table below sets forth the planned E&P expenditure of the three Chinese NOCs from 2007 to 2012:

Planned E&P Expenditures of Chinese NOCs (US\$ Billion)

Company	2007	2008	2009	2010	2011	2012E
CNPC	15.1	19.0	14.0	24.7	26.0	27.5
Sinopec	7.0	8.6	6.8	8.2	9.0	9.8
CNOOC	3.9	5.2	6.6	6.5	9.2	11.5
Total	26.0	32.8	27.4	39.4	44.2	48.8

Source: Spears & Associates

Many of the suppliers in the Chinese upstream oilfield services industry are in-house affiliates of the three state-owned oil companies as mentioned above. However, a dynamic, non-state-owned sector has emerged in recent years which serves both domestic and overseas markets. In addition, leading international oilfield equipment and service companies also participate in the Chinese market through subsidiaries and joint ventures.

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China drilling services, completion equipment and services and stimulation services markets

According to the Spears Report, spending on drilling services, completion equipment and services and stimulation services in China was estimated to have amounted to US\$7.1 billion in 2011 and is projected to increase to US\$19.7 billion by 2020, representing a CAGR of 12.0%. The following table sets forth the historical and projected drilling services, completion equipment and services and stimulation services spending in China from 2005 to 2020:

(US\$ billions)	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Drilling Services	0.6	0.7	0.8	1.0	1.1	1.2	1.4	1.6	1.9	2.3	2.8	3.2	3.7	4.1	4.7	5.2
Completion Equipment and Services	0.6	0.6	0.7	0.9	1.0	1.1	1.4	1.6	1.9	2.3	2.7	3.1	3.6	4.1	4.6	5.1
Stimulation Services ...	1.8	2.3	2.4	2.9	3.1	3.5	4.3	4.7	5.2	5.4	6.0	6.4	6.9	7.6	8.5	9.4
Total	3.1	3.6	3.9	4.8	5.2	5.8	7.1	7.9	9.0	10.0	11.5	12.7	14.2	15.8	17.7	19.7

Drilling services, completion equipment and services and stimulation services markets in China are fairly concentrated. According to the Spears Report, the in-house subsidiaries of CNPC and Sinopec are estimated to have captured 80%-90% of the drilling services and completion equipment and services markets and majority of the stimulation market with the remaining markets served by independent domestic private oilfield services companies such as Petro-king along with the China-based subsidiaries of multinational oilfield services firms such as Schlumberger, Halliburton and Baker Hughes. The demand in China for drilling services, completion equipment and services and stimulation services is also highly concentrated. Subsidiaries of CNPC and Sinopec account for approximately 90% of the demand of these services. When the services are needed, the purchasing department of the oil company will solicit bids from multiple sources on its approved vendors list. The selection of services providers is typically made by the oil company's drilling department and procurement department following a competitive bid process.

Drilling, completion, and production services must be delivered under a wide range of technical and operational challenges. Because of this, one useful way to evaluate oilfield service firms is based on whether they primarily serve the low-end or high-end segments of the market. The low-end segment of the market consists of jobs where little or no proprietary technology and/or operational experience is required. Much of the work is relatively low-risk in terms of the types of the conditions encountered downhole (e.g. low temperature and pressure). Conversely, the high-end segment of the market consists of work in which proprietary technology and/or operational experience under the most demanding downhole conditions (e.g. high temperature and pressure) is needed.

The low-end segment of the market has relatively low entry barriers in terms of technology. Oilfield service firms in the low-end segment of the market tend to conduct little if any research and development and instead use off-the-shelf tools and equipment. Companies tend to compete on price, availability, and service and not in terms of technical skills. Firms serving the low-end of the market often work in local markets, so that financial entry barriers also tend to be low.

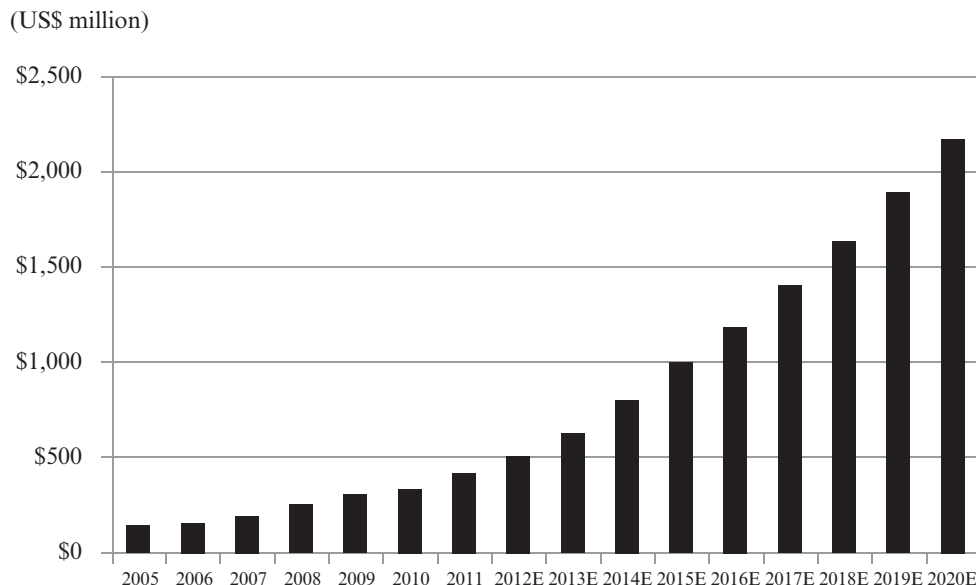
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In contrast, the high-end segment of the oilfield service market has much higher entry barriers in terms of technology and capital. Companies offer proprietary technology and/or operational experience under the most demanding conditions (e.g. high temperature, high pressure, etc.). Firms serving the high-end segment of the market usually conduct their own research and develop their own tools and equipment. Firms serving the high-end segment of the market tend to work in multiple regions; as a result, capital requirements associated with the scale of the enterprise and need to conduct research tend to be high.

High-end drilling services, completion equipment and services and stimulation services segments

Certain segments within the drilling services, completion equipment and services and stimulation services markets are considered to require more advanced technology and expertise, and thus often referred to as high-end markets. For instances, while it is estimated that the in-house subsidiaries of CNPC and Sinopec have captured 80%-90% in aggregate of the overall drilling services market in China, most of these work is associated with conventional directional drilling thus are considered low-tech drilling services. High-end drilling services, however, are often associated with drilling horizontal wells, deep wells, HTHP wells and wells in hard/abrasive formations. Turbine-drilling is one of the high-end services. According to the Spears Report, out of the US\$1.4 billion drilling services market in China in 2011, the high-end segment is estimated to total US\$424 million. Despite a relatively small market at present, Chinese high-end drilling services market segment is projected to grow at a 19.9% CAGR over the 2011 to 2020 timeframe and reaching approximately US\$2.2 billion in 2020, according to the Spears Report. Companies providing high-end drilling services in China include privately-held Chinese firms such as Petro-king, in-house divisions of CNPC and Sinopec and international oil service companies such as Schlumberger, Halliburton and Baker Hughes.

The following chart sets forth the past and projected market size of the Chinese high-end drilling services (from 2005 to 2020):



Source: Spears & Associates

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In recent years both the world and China have seen a sharp increase in the number of horizontal wells drilled. Most of these horizontal wells are associated with the development of unconventional reservoirs (for example, tight and shale fields). Horizontal well drilling requires the use of advanced technology rigs and equipment.

In the Chinese market the primary suppliers of commercial conventional directional drilling services in competition with Petro-king are the in-house divisions of CNPC and Sinopec, along with other non-state-owned Chinese companies. The in-house turbine drilling service companies of CNPC and Sinopec generally do not conduct turbine drilling-related research but instead are supported to some degree by research and development conducted by separate research affiliates of CNPC and Sinopec. In addition, the service area of each of these in-house turbine drilling service companies tends to be confined to a single region or district, which limits the range of turbine drilling applications with which these firms are familiar. As a result, most in-house turbine drilling service companies of CNPC and Sinopec are geared towards providing conventional turbine drilling services. The leading international oilfield service companies — Halliburton, Schlumberger and Baker Hughes — primarily focus on serving high-tech applications with premium-priced services. These firms have been providing turbine drilling services on a commercial basis for over 30 years, and conduct directional drilling operations on thousands of wells around the world each year, providing them extensive experience and know-how in this area. In addition, each of the international service firms spends millions of dollars annually on research, design, and engineering to improve and develop their directional drilling technology (turbines, logging tools, etc.). As a result, these firms are unmatched in terms of experience, technology, personnel, and scale of operations. The primary disadvantage of the international oilfield service firms is their high cost relative to the Chinese market. As a result of the high cost of international oilfield services providers and the fact that in-house divisions of Chinese national oil companies focus on specific areas of products or services, it is believed by Spears & Associates that there is an opportunity for firms such as Petro-king that can combine advanced technology and know-how with prices that are lower than those of the international oilfield service firms to gain market share in the Chinese drilling services market.

The following table sets out an estimate of market share in China in high-end drilling services in 2011 by the privately-held key market players:

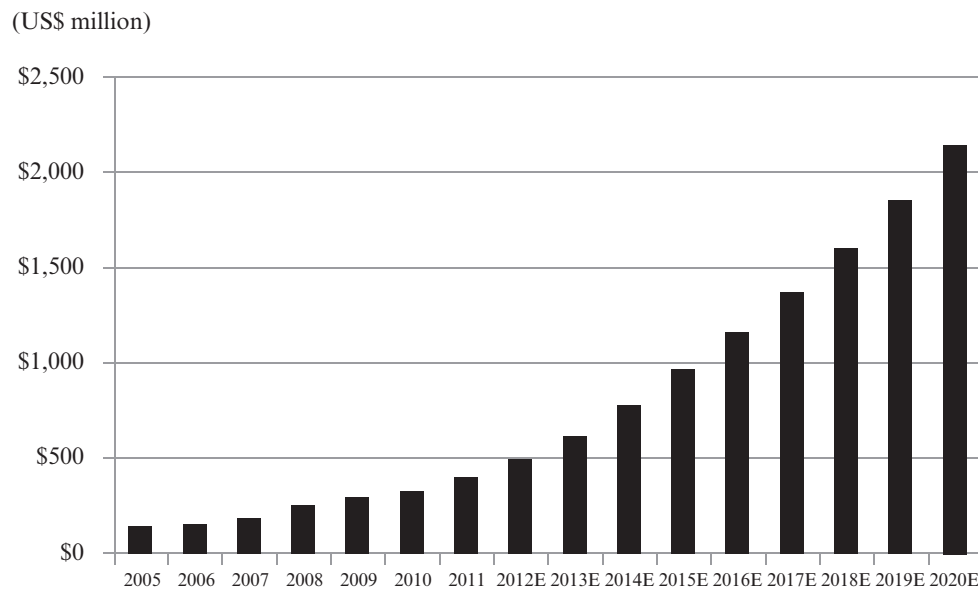
Company	Share
Player A	31-32%
Player B	25-26%
Petro-king	20-21%
Player C	1-2%
Player D	<1%
Others	20-21%
 Total	 100%

Sources: Spears & Associates

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Similar to high-end drilling services, completion equipment and services that are associated with horizontal wells, deep wells, HTHP wells and wells in hard/abrasive formations are considered high-end well completion market. Driven by an increase in horizontal drilling of unconventional gas wells, the high-end Chinese completion equipment and services market is projected to grow from US\$411 million in 2011 to over US\$2.1 billion in 2020, representing a 20.1% CAGR, according to the Spears Report.

The following chart sets forth the past and projected market size of the Chinese high-end completion equipment and services (from 2005 to 2020):



Source: Spears & Associates

Both CNPC and Sinopec have in-house subsidiaries which tend to compete on price and availability on projects of their parent company. These in-house firms are estimated to capture over 80% of the Chinese market for completion equipment and services. At the other end of the market are the leading international oilfield service companies — Halliburton, Schlumberger and Baker Hughes — which are primarily focused on serving high-tech applications with premium-priced services. The international service firms are estimated to capture about 10% of the Chinese market for completion equipment and services. These firms have been providing completion equipment and services for many years, and serve thousands of wells around the world each year, providing them extensive experience and know-how in this area. In addition, each of the international service firms spends millions of dollars annually on research, design, and engineering to improve and develop their completion equipment and services technology. As a result, these firms are unmatched in terms of experience, technology, personnel, and scale of operations. The primary disadvantage of the international oilfield service firms is their high cost relative to the Chinese market. In addition, several independent

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non-state-owned firms, such as Petro-king, compete in the Chinese completion equipment and service market. As a result of the high cost of international oilfield services providers and the fact that in-house divisions of Chinese national oil companies focus on competing on price and availability of their parents' projects, it is believed by Spears & Associates that there is an opportunity for firms such as Petro-king that can combine advanced technology and know-how with prices that are lower than those of the international oilfield service firms to gain market share in the Chinese completion equipment and services market.

The following table sets out an estimate of market share in China in high-end completion equipment and services in 2011 by the key privately-held market players:

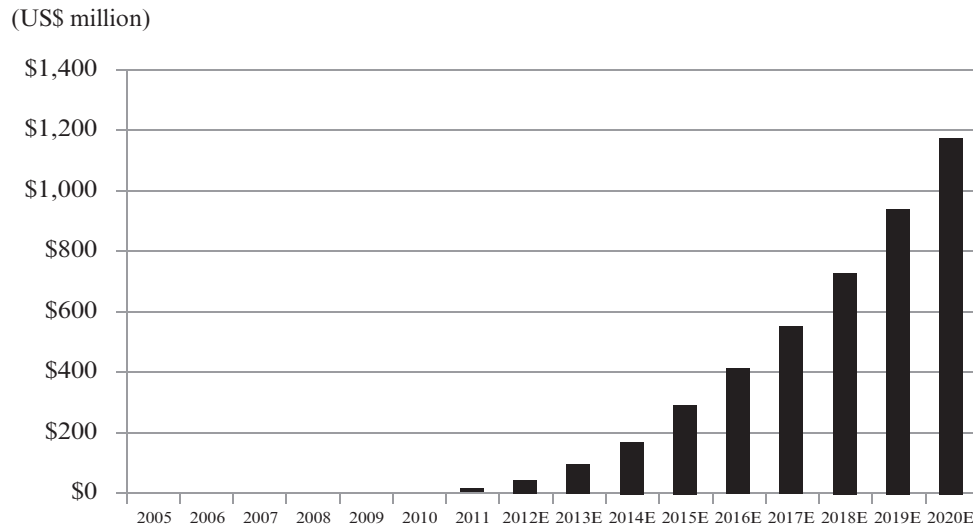
Company	Share
Player A	48-49%
Player B	38-39%
Petro-king	4-5%
Player C	2-3%
Player E.....	<1%
Player D	<1%
Others.....	4-5%
 Total	 100%

Source: Spears & Associates

Multistage hydraulic fracturing on horizontal wells is considered high-end or "critical services" segment of the stimulation services market. Unconventional reservoirs such as tight or shale gas fields is increasingly seen as a key source of future oil and gas production growth both globally and in China. Under the Shale Gas Development Plan (2011-2015) issued by the Chinese government, companies are encouraged to identify and develop shale reservoirs, which requires the technology of horizontal drilling and multistage hydraulic fracturing. As a result, demand for horizontal drilling and hydraulic fracturing services is expected to continue to grow. According to the Spears Report, high-end stimulation services market in China is estimated to have totalled US\$19 million in 2011 and to grow to approximately US\$1.2 billion in 2020. Companies providing high-end stimulation services in China include privately-held Chinese companies such as Petro-king and in-house divisions of CNPC and Sinopec.

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The following chart sets forth the past and projected market size of the Chinese high-end stimulation services (from 2005 to 2020):



Source: Spears & Associates

In China, demand for high-end pressure pumping services is highly concentrated with the in-house subsidiaries of CNPC and Sinopec are estimated to capture approximately 90% of the overall pressure pumping services market in China. These companies tend to compete on price on low-risk projects for their parent company. Companies providing high-end pressure pumping services (i.e., multistage fracturing jobs on horizontal tight gas or shale gas wells) in China also include privately-held Chinese firms. It is estimated that in 2011 there were 300-400 multistage fracturing jobs on horizontal tight gas or shale gas wells in China. It is estimated that in 2011 privately-held Chinese oilfield service firms completed multistage fracturing jobs on approximately 125 horizontal tight gas or shale gas wells in China. As a result of the high cost of international oilfield services providers and the fact that in-house divisions of Chinese national oil companies focus on specific areas of products or services, it is believed by Spears & Associates that there is an opportunity for firms such as Petro-king that can combine advanced technology and know-how with prices that are lower than those of the international oilfield service firms to gain market share in the Chinese pressure pumping services market.

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The following table sets out an estimate of market share in China in high-end stimulation services in 2011 by the key privately-held market players:

Company	Share
Player B	66-67%
Petro-king	26-27%
Player A	4-5%
Player F	1-2%
Player E	<1%
Others	<1%
 Total	 100%

Source: Spears & Associates

The critical factors involved in the provision of high-end oilfield services include the ability to (i) provide a customised and target-orientated project development plan/engineering design which integrates sophisticated design in the relevant service area with application of advanced technology, with the aim to attain optimum operation, enhance production and extend well life, resulting in the appreciation of commercial value of a field; and (ii) complete such development plan with effective and efficient field service operations.

Competition in the high-end segment of the oilfield services industry is based principally on the ability to provide highly customised services, reputation, experience, technology proficiency, geographical knowledge, track record, communication skills, service capacity and reliability.

According to the Spears Report, Petro-king is a leading independent China-based high-end oilfield services providers in terms of technical capability, overseas and offshore oilfield project experience and 2011 revenue, and is one of the few China-based oilfield services companies that have the capability to offer high-end integrated oilfield technology and services. It is estimated by Spears & Associates that, based on its revenue in 2011 and global revenues of independent Chinese oilfield services companies for high-end oilfield services of approximately RMB2.97 billion in 2011⁽¹⁾, Petro-king accounts for about 15% market share of the global revenues of independent Chinese oilfield services companies for high-end oilfield services, and was ranked 3rd amongst the independent China-based high-end oilfield services providers. Based on the same parameters, the two independent China-based high-end oilfield services providers ranked before Petro-king accounted for

⁽¹⁾ *The global revenues of independent Chinese oilfield services companies for high-end oilfield services of approximately RMB2.97 billion in 2011 comprises of the 2011 revenues of the Group, and other PRC independent oilfield services providers. The respective 2011 revenues of certain services providers which are listed companies were extracted from their respective audited financial statements which are public information, and the collective revenues of other PRC independent oilfield services providers have been estimated based on prior experience of the Spears & Associates' research team regarding market concentration typical of the oilfield services market outside North America.*

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approximately 44%⁽¹⁾ and 37%⁽¹⁾, respectively. In addition, based on the number of jobs done in China, Petro-king is one of the major independent Chinese providers of a number of high-end technologies (namely, turbine drilling and multistage hydraulic fracturing, which only a few Chinese independent oilfield services providers have the capability to undertake) in China. According to the Spears Report, the global revenues for both high-end and non high-end oilfield services in 2011 amounted to approximately RMB446.8 billion (equivalent to approximately HK\$554.0 billion), for which it is estimated that independent Chinese oilfield services companies accounted for approximately RMB5.2 billion (equivalent to approximately HK\$6.4 billion, representing approximately 1.2%) while the others, being generally subsidiaries and affiliates of the PRC NOCs and international oilfield service providers, accounted for the remaining RMB441.6 billion (equivalent to approximately HK\$547.6 billion, representing approximately 98.8%). Accordingly, based on our revenue in 2011, we accounted for approximately 8.6% of the RMB5.2 billion revenue attributable to the independent Chinese high-end and non high-end oilfield services companies and approximately 0.1% of the RMB446.8 billion revenue of the entire global revenues of both high-end and non high-end oilfield services.

Overview of selected oilfield techniques

Turbine Drilling

Turbine drilling can be applied successfully in many applications and for many different reasons and the most common application is for drilling in very hard and abrasive rock where conventional rotary drilling or positive displacement motors (PDMs, also known as mud motors) drilling results in poor conventional bit life and poor rates of penetration, which translates into high costs and time consumption.

Turbine drilling is primarily used at depths below 15,000 feet where formations are typically hard and/or abrasive and elevated thermal gradients exist that create an extremely harsh condition. Turbodrills generate more downhole power than PDMs under equal hydraulic conditions due to the efficiency of their unique multistage vane drive system. Turbodrills increase overall drilling efficiency measured by feet per day drilled by increasing the percentage of on-bottom drilling time with improved tool efficiency and reduced number of trips through increased tool reliability and durability. Turbine drilling can either be employed in vertical wells or directional drilling. According to the Spears Report, on a global basis it is estimated that about 60% of turbine use is on directional wells. However, in China the vast majority of turbine drilling has historically been in vertical wells. Going forward it is expected that the Chinese market will see more use of turbine drilling in directional well applications.

According to the Spears Report, Petro-king is one of the few oilfield services providers that have the capabilities to offer turbine drilling and multistage fracturing services, and was the pioneer in introducing turbine drilling to China and has captured dominant share of the turbine drilling market in China. According to the Spears Report, Petro-king pioneered the use of turbine drilling to the Chinese market in 2008 as the first independent China-based firm to offer the use of western turbodrills. Other companies providing turbine drilling services in China include Schlumberger and Baker Hughes.

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Multistage hydraulic fracturing

Well stimulation, also known as hydraulic fracturing, has been performed around the globe for over 50 years. Over time, well completion engineers have discovered that by cracking the reservoir open and creating flow channels out into the pay zone, wells tend to produce oil and gas more quickly. The technique has been broadly adopted across North America and Russia, but to a lesser extent in China.

While conventional reservoirs are typically developed by means of vertical wells, unconventional reservoirs are developed using horizontal wells. In contrast to vertical wells which typically have a single zone which is fractured, the lateral section of a horizontal well is fractured in multiple places. A single horizontal well can have up to 50 places (or “stages”) fractured, depending on lateral length and formation characteristics. According to the Spears Report, it appears that currently in China the typical multistage fracturing job in a horizontal well is a five-to-seven-stage fracturing job, and the largest multistage fracturing jobs being conducted in China currently are up to 17-stage fracturing jobs. Unconventional reservoirs such as tight or shale fields are increasingly seen as a key source of future oil and gas production growth both globally and in China. Horizontal drilling and multistage hydraulic fracturing have been key to increasing oil and gas production from shales. As a result, demand for multistage hydraulic fracturing services is expected to continue to grow.

Application of multistage hydraulic fracturing is gradually gaining its popularity in China with the increasing development of unconventional reservoirs. Companies providing hydraulic fracturing services in China include privately-held Chinese firms such as Petro-king and the in-house divisions of CNPC and Sinopec. However, the in-house hydraulic fracturing service companies of CNPC and Sinopec generally do not conduct fracturing-related research but instead are supported to some degree by R&D conducted by separate research affiliates of CNPC and Sinopec. In addition, the service area of each of these in-house hydraulic fracturing service companies tends to be confined to a single region or district, which limits the range of hydraulic fracturing applications with which these firms are familiar. As a result, most in-house hydraulic fracturing service companies of CNPC and Sinopec are geared towards providing low-tech hydraulic fracturing services including acidising and low-volume single-stage fracturing. In comparison, our Group compares favourably to the in-house hydraulic fracturing service companies of CNPC and Sinopec due to its advanced technology and experience.

MAJOR INDUSTRY TRENDS

Outsourcing

There is a trend among oil companies toward the increased use of outsourced engineering and project management services for field development and production operations. IPM assignments task an outside firm to provide engineering design, procurement, on-site management and supervision services. In addition, IPM assignments may or may not include the use of the IPM company’s own personnel and equipment to conduct drilling, completion and/or production operations.

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Many of IPM assignments are on projects for NOCs; either new field development or the rehabilitation of mature fields may see the application of IPM services. In some cases the oil companies that are customers for IPM services have adopted this approach due to capital spending constraints that inhibit their ability to use NOC in-house personnel and equipment. In other instances the customers for IPM services lack internal technical or project management skills to deal with complex drilling or production processes. In contrast to an exploration/production license granted to an oil company, in no instance does a company providing IPM services assume any geologic risk.

Chinese NOCs often engage external oilfield service companies to provide consultancy services, and to support their internal technical and project management teams to deal with complex drilling or production processes.

Demand for consultancy services from both China and overseas oilfield operators will continue to increase due to a combination of the following factors: (i) the increasing sophistication required to develop oilfields; (ii) the ongoing trend among state-owned oil companies in China to engage China-based oilfield service providers with the technical capability to carry out exploration, development, and production operations; (iii) the need for alternative means for project development given the capital spending constraints which drive the increasing demand for market and technology awareness as well as technological proficiency; and (iv) the language barrier that is often encountered by international oil and gas companies in the Chinese market and the PRC oil and gas companies in the overseas market.

Most importantly, IPM assignments give these oilfield service firms the ability to pull through demand for their in-house products and services at a premium price.

The trend by oil companies toward the increased use of outsourced engineering and project management services is expected to benefit Petro-king due to its combination of experience, engineering skills, advanced technology, and scope of equipment and service offerings. The major western integrated service firms also provide consultancy and IPM services for well construction operations and these firms are pursuing IPM as part of their growth strategies going forward.

Chinese government policies favouring oilfield services industry

China's dynamic economic growth in the past thirty years has made it one of the world's largest energy consumers in the past few years, and it is estimated that energy consumption in China superseded that of the U.S. for the first time in 2009 to become the world's largest energy consumer. The Chinese government's energy policy places an emphasis on sustained exploration and development efforts both at home and abroad as part of its strategy to ensure sufficient energy supply amid the country's rapid economic development and leveling off of domestic crude oil production. China's energy needs are presently met mostly by coal and oil and minimally, by gas. Gas utilisation has become a focus of Chinese government energy policy, which favours an enhanced role for natural gas. Currently natural gas only constitutes about 2% of the entire energy mix in China, considerably lower than the international average. This new policy favouring an enhanced role for gas will generate greater interest in the natural gas industry and China's operators and oilfield equipment and service companies are well positioned to benefit from the resulting opportunities.

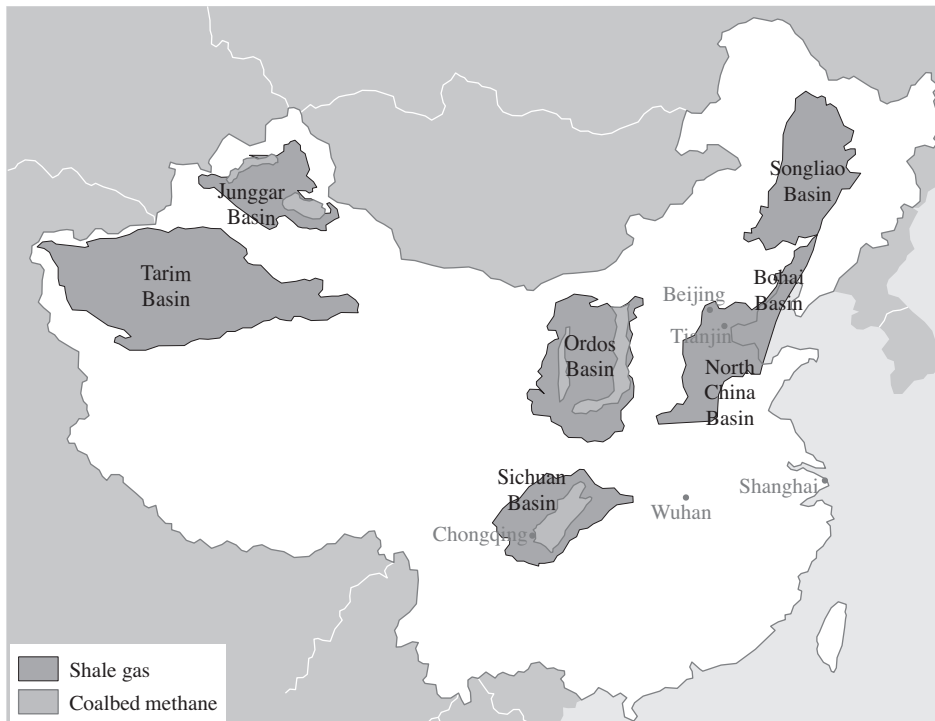
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Outlook for China's development of unconventional gas resources

Low permeability reservoirs are considered by the petroleum industry to be unconventional reserves because oil and gas operators have traditionally focused on conventional or high permeability reserves which tend to be less expensive to develop. Unconventional reserves may contain either oil or gas (or both) and can be found in sandstone, carbonate, shale, or siltstone formations. However, based on the successful development of new and improved drilling and completion technology in the US designed for use in tight and shale reservoirs, in recent years tight and shale gas reservoirs have become the primary focus for unconventional reservoir development.

As the discovery of new, large conventional reservoirs in mature production areas such as China and the U.S. has declined, the petroleum industry in those markets has increasingly turned to the exploration and development of unconventional reservoirs in order to meet the demand for petroleum. In order to better manage its long-term energy needs, China has begun to tap into its potentially huge unconventional oil and gas reserves.

According to EIA, at the end of 2011, China's remaining recoverable resources of unconventional gas totalled almost 50 trillion m³, comprised of 36 trillion m³ of shale gas, 9 trillion m³ of coalbed methane and 3 trillion m³ of tight gas. This is around thirteen times China's remaining recoverable conventional gas resources. China's shale gas resources lie in several large basins spreading across the country, with Sichuan and Tarim Basins having the greatest potential. The main coalbed methane deposits are found in the Ordos, Sichuan and Junggar Basins.



Source: EIA Golden Rules for a Golden Age of Gas

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Output of wells with low permeability reservoirs such as tight and shale gas reservoirs is improved primarily by production enhancement operations (also known as stimulation services), which primarily consists of hydraulic fracturing but also includes acidising and sand control. The low permeability reservoirs are hydraulically fractured in order to improve fluid flow through the formation and increase production.

China has just begun the development of tight and shale gas (each of which is a form of unconventional gas) as compared to the U.S., which has been a lot more advanced in this aspect.

In recent years, the Chinese government has emphasised shale gas exploitation and exploration, taking shale gas as part of the country's new energy strategy. The Chinese government has introduced China's 12th Five-Year Plan on 14 March 2011, which amongst others stipulates the enhancement of oil and gas exploration and development and natural gas production including unconventional gas such as coalbed methane and shale gas in China during the five-year period (2011 to 2015). On 14 March 2012, the NDRC, MOFCOM, Ministry of Land and Resources and Chinese National Energy Administration ("CNEA") jointly issued the Shale Gas Development Plan (2011-2015) (頁岩氣發展規劃) (2011-2015). Under the Shale Gas Development Plan (2011-2015), China plans to (i) produce 6.5 billion m³ of shale gas a year by 2015, and 60-100 billion m³ by 2020; and (ii) focus exploration on discovering 600 billion m³ of proven geological shale gas reserves and 200 billion m³ of recoverable reserves by 2015. Based on the target set under the Shale Gas Development Plan (2011-2015), the Ministry of Land and Resources of the PRC estimated that total investment required for achieving gas production of 100 billion m³ is between RMB400-600 billion. Pursuant to the Shale Gas Development Plan (2011-2015), CNEA will be responsible for the implementation of the plan including (i) investigation and assessment of the shale gas resource potential with increased efforts to develop shale gas industry policy and standards; (ii) setting up of a national shale gas research and laboratory centre, which was subsequently established in Langfang, near Beijing; (iii) completion of a nationwide assessment of shale gas resources with initial focus on 19 shale gas exploration and development bases by 2015 and further expand to other areas by 2020; and (iv) formulating of tax incentives and subsidies policies to encourage oil companies to develop shale gas reserves, and subsequently, CNEA and the Ministry of Finance of the PRC announced 《關於出台頁岩氣開發利用補貼政策的通知》 (Notice on the issuance of policy on subsidy in respect of shale gas exploration and development*) on 1 November 2012, which stipulates that enterprises engaging in shale gas exploration and development would generally be subsidised for their shale gas exploration activities on a basis of RMB0.4 per m³ (which is subject to adjustment) during the period between 2012 to 2015. In October 2012, the Chinese government launched the Natural Gas Development 12th Five-Year-Plan (天然氣發展“十二五”規劃), which again sets out the plan for shale gas development during the five-year period (2011 to 2015), which further reinforces China's objectives to develop its unconventional gas resources of the Shale Gas Development Plan (2011-2015), in respect of among others the target production of shale gas, the target proven geological shale gas reserves to be discovered, development of shale gas industry policy and standards, set up of national shale gas research and laboratory centre and formulating of tax incentives and subsidies policies to encourage oil companies to develop shale gas reserves.

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These government policies (including China's 12th Five-Year-Plan, the Shale Gas Development Plan (2011-2015) and the Natural Gas Development 12th Five-Year-Plan), emphasising development of shale gas reserves, will inevitably drive an increasing trend of producers including NOCs such as Sinopec, CNOOC and CNPC as well as non-NOCs oil and gas companies engaging in technically challenging oilfield projects (as a result of how the unconventional oil and gas reserves are deposited within rock formations and the geological conditions of such formations), which in turn will drive the increase of level of demand for high-end oilfield project services such as directional drilling, coiled tubing and multistage fracturing.

A total of 870,000 square kilometres of shale formations in China has been marked as conforming to the conditions for shale gas production. Most of this area has already been claimed by CNPC, Sinopec, and CNOOC. By October 2011, China had tested or fractured 22 shale oil or gas wells, of which 3 are shale oil wells, 2 are horizontal shale gas wells, and 17 are vertical shale gas wells. Among these wells, 10 wells were drilled by Sinopec, 8 wells were drilled by CNPC and 4 wells were drilled by Yanchang Petroleum (Group) Co. Ltd.

The Ministry of Land and Resources of the PRC has issued five shale gas mineral exploration rights to CNPC, Sinopec and CNOOC before the launch of the second round bidding in September 2012. According to the Spears Report, Sinopec started unconventional gas exploration and development in 2008, and in July 2011 committed to invest US\$90.8 million in exploration of 11 stratigraphic and exploratory wells. Sinopec has selected Jiannan and Huangping blocks among northern Chongqing city, southern Anhui Province and northeast Sichuan Province. One of Sinopec's affiliates (or subsidiaries, as the case may be), Sinopec Exploration South Branch, started shale gas exploration and development in Sichuan Basin in April 2011, while another, Sinopec Jiangnan Oilfield, started shale gas exploration and development in May 2010 and has stage-fractured the first shale gas horizontal well of Sinopec in September 2011. CNOOC started exploring for shale gas in eastern Anhui Province in December 2011. CNPC completed five shale gas exploration test wells by September 2011, and strives to achieve Sichuan Basin shale gas large scale development by 2015.

On 21 January 2013, the Ministry of Land and Resources of the PRC announced that 16 companies had won the second round bidding to explore 19 shale gas blocks in China. There are 14 state-owned firms and two privately-owned firms, which indicated that shale gas development in China has been successfully made open to enterprises other than the three PRC NOCs, such as energy companies like 中國華電集團 (China Huadian Group*), which further reinforces the market expectation of the future development of shale gas in China, and in turn the massively increasing demand for oilfield services such as production enhancement.

However, the rate at which China will be able to increase its production of shale gas could be greatly impacted by a number of "above ground" and "below ground" factors that affect the direct cost of production. The "above ground" factors that affect the cost of production include: the availability of existing pipeline/processing infrastructure for delivery to end-use markets; the availability and cost of adequately trained labour; the availability and cost of equipment such as drilling rigs and pumping equipment; the availability and cost of materials such as water, proppant, etc. used in hydraulic fracturing; and the regulatory framework. The "below ground" factors that affect the cost of production are the geologic features of the fields within the play such as depth, thickness, organic content of the shale, etc. Compared to the US at the same stage of its shale gas development, China

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has fewer of each of the “above ground” resources needed for the exploration and development of its shale gas resources. For example, because one of China’s two biggest shale gas deposits — the Tarim Basin in Xinjiang — is a desert, the shortage of water used in multistage fracturing will add to the cost of drilling and completing wells.

In addition, early indications are that China’s shale gas geology is different from what is typically found in the US. The formations in China within which the shale gas reserves exist are older, deeper, less brittle, and, tonne for tonne, produce less than half of that in the US. Shale gas deposits found in Sichuan Province and the Tarim Basin in Xinjiang Autonomous Region generally contain organic material deposited in ancient marine environments, similar to the way most US shale gas deposits were formed. However, other shale gas areas such as the Ordos Basin and parts of northern China are more likely to hold non-marine deposits containing less methane. In addition, many of China’s shale gas deposits are mixed with clay, which is more difficult to fracture than shale containing more brittle quartz. As a result, these “below ground” factors combine to create a more challenging environment for the development of China’s gas shale resources compared to the US.

Chinese NOCs’ overseas activities

With domestic oil and gas production not expected to keep up with the forecasted increase in domestic oil and gas consumption, China is expected to import increasing amounts of oil and gas going forward. In response, Chinese NOCs have and are expected to continue to aggressively pursue overseas exploration and production projects in order to ensure adequate supplies of oil and gas to meet domestic consumption growth. CNPC has been the most active NOC with regard to overseas projects and Sinopec and CNOOC have also expanded their overseas investments.

From 2005 to 2009, CNPC spent between US\$2 billion and US\$3 billion annually on overseas acquisitions, and spent over US\$6 billion in 2010 for refineries and reserves in Australia, Canada, Singapore and Central Asia. Over the 2011 to 2020 timeframe, CNPC plans to spend at least US\$60 billion on overseas takeovers. By 2020, CNPC plans to triple its overseas oil and gas production and aims that half of its oil and gas production to come from abroad.

Sinopec also expands aggressively in the overseas market. It has been very active in recent years with regard to overseas acquisitions in the upstream petroleum industry. In 2009, Sinopec acquired Calgary-based Addax Petroleum Corp., one of the largest independent producers in West Africa and the Middle East for US\$7.5 billion. Addax Petroleum has operations in Nigeria, Gabon, Cameroon and Iraq. In April 2010, Sinopec acquired ConocoPhillips’ 9% stake in the Canadian oil sand company, Syncrude Canada Ltd for £3 billion. Syncrude is one of the largest producers of crude oil from Canada’s oil sands. It operates a large oil sand mine, utilities plant, bitumen extraction plant and upgrading facility that processes bitumen and produces value-added light, sweet crude oil for domestic consumption and export. In 2010, it produced 107 million barrels of crude oil. In addition, Sinopec purchased a 40% interest in the Brazilian subsidiary of Repsol for US\$7.1 billion in October 2010. Repsol, in partnership with Brazilian state oil company Petrobras, has a stake in some deep-water subsalt blocks off Brazil’s southern coast, including a 25% stake in the BM-S-9 block which holds the Guara and Carioca fields. The Guara field is estimated to hold 1.1 billion to 2 billion barrels of recoverable oil. Repsol Sinopec Brasil is also the operator of the Pão de Açúcar, or Sugar Bread, discovery in Block BM-C-33 in the deepwater Campos Basin, one of the world’s top five discoveries

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in 2012. In all, Repsol Sinopec Brasil estimates that Block BM-C-33 — which is the site of the recent Seat, Gávea and Pão de Açúcar discoveries — contains resources of more than 700 million barrels of light oil and 3 trillion cubic feet of gas. In October 2011, Sinopec acquired 100% of Daylight Energy Ltd. for US\$2.1 billion, its largest acquisition in 2011. Sinopec Daylight Energy holds more than 300,000 acres in the Canadian provinces of Alberta and British Columbia.

CNOOC, while primarily operating in the offshore China oil sector, has increasingly moved into foreign operations in recent years. In October 2010, CNOOC agreed to partner with Chesapeake Energy to jointly develop the Eagle Ford gas shale in South Texas, United States, at a cost of US\$1.08 billion. In March 2011, CNOOC and Total SA each bought a one-third interest in the Ugandan operations of UK-based oil explorer Tullow Oil plc. In 2010, CNOOC produced an average of 0.106 million bpd of oil outside China and 420.6 million cubic feet per day of gas from the overseas markets.

According to the Spears Report, drilling activity in the Middle East, Russia and South America is expected to grow throughout the 2011 to 2020 timeframe. The table below illustrates the historical and projected spending to drill and complete wells in Middle East, Russia and South America from 2005 to 2020:

		Drilling and Completion Spending (US\$ Mil)								
		Land			Offshore			Total		
		Middle East	Russia	South America	Middle East	Russia	South America	Middle East	Russia	South America
Year										
Historical	2005	5,142	4,819	11,225	2,325	250	4,365	7,467	5,069	15,590
	2006	6,350	5,976	13,509	2,491	250	5,038	8,842	6,226	18,547
	2007	7,958	6,705	16,414	2,540	275	6,620	10,498	6,980	23,035
	2008	9,588	7,928	17,537	3,090	605	8,378	12,678	8,533	25,916
	2009	8,651	6,922	17,677	3,598	545	10,539	12,249	7,466	28,216
	2010	8,595	6,852	17,820	3,063	490	10,444	11,658	7,342	28,263
Projected	2011	9,885	7,749	20,829	4,013	554	13,429	13,898	8,303	34,258
	2012	12,186	8,380	24,406	5,108	599	17,201	17,293	8,979	41,607
	2013	13,971	9,063	26,365	5,501	648	20,075	19,472	9,711	46,441
	2014	15,120	9,802	28,442	5,878	701	23,329	20,998	10,503	51,770
	2015	16,198	10,498	30,687	6,283	751	27,136	22,481	11,248	57,824
	2016	17,357	11,243	33,117	6,716	804	31,595	24,073	12,047	64,712
	2017	18,603	12,041	35,747	7,182	861	36,818	25,784	12,902	72,565
	2018	19,533	12,643	37,534	7,541	904	38,659	27,073	13,547	76,193
	2019	20,509	13,275	39,411	7,918	949	40,592	28,427	14,225	80,003
	2020	21,535	13,939	41,381	8,314	997	42,622	29,848	14,936	84,003

Source: Spears & Associates

INDUSTRY OVERVIEW

According to the Spears Report, it is estimated that Chinese NOCs spent approximately US\$1.9 billion in 2011 to drill and complete wells in the Middle East. Of this, approximately 15%, or about US\$275 million, was spent on market segments served by Petro-king and it is estimated that Petro-king captured about 19% of the spending by Chinese NOCs in its served markets in the Middle East in 2011.

Importance of self-manufacturing capabilities of oilfield service tools and equipment

Most leading oilfield service companies not only have developed proprietary technology but also produce their tools and equipment in-house. Some companies design and manufacture some or all of their most important downhole tools and equipment. Many leading oilfield service companies feel that developing proprietary technology allows them to differentiate themselves from the customer's perspective and provides a competitive edge in terms of performance (measured in terms of reliability or dependability), availability, product features, and/or cost control. In turn, the increased competitiveness associated with proprietary tools and equipment provides greater control over market penetration and revenue growth.

OUR COMPETITIVE ADVANTAGES

Our Group is a high-end oilfield services provider, and is one of the few China-based oilfield services companies that have the capability to offer high-end integrated oilfield technology and services. In addition, based on the number of jobs done in China, we are one of the major independent Chinese providers of a number of high-end technologies (namely, turbine drilling and multistage hydraulic fracturing, which only a few Chinese independent oilfield services providers have the capability to undertake) in China. Our in-house manufacturing capabilities also provide us with an important advantage in terms of lower cost, availability, quality, and reliability over competitors lacking such in-house manufacturing capabilities.

It is believed by Spears & Associates that, as a result of the high cost of international oilfield services providers, and the fact that in-house divisions of Chinese national oil companies focus on specific areas of products or services, there is an opportunity for us to gain market share in the Chinese market if we can combine advanced technology and know-how with prices that are lower than those of the international oilfield services firms. Going forward, our combination of experience, advanced technology, and a growing presence both within China and abroad will provide us with a competitive advantage compared to local domestic competitors, particularly with regard to high-end applications (for example, drilling and completing deep wells with HTHP conditions, and multistage fracturing of horizontal wells).

ABOUT THIS SECTION

General

This "Industry overview" section contains information extracted from a commissioned report prepared by Spears & Associates for the purpose of this prospectus, at a fee of US\$30,000. Other key sources used to prepare this section include the BP Statistical Review of World Energy and the EIA.

INDUSTRY OVERVIEW

About Spears & Associates

Spears & Associates has provided market research-based consulting services to the worldwide petroleum industry since 1965, specialising in equipment and services used in exploration, drilling & completion, production, transportation and refining. Current and former clients include petroleum equipment manufacturers, oilfield service firms, oil and gas producers, financial institutions, trade associations, and the US government. Within this market, Spears & Associates provides a wide scope of research and consulting services grouped in the following areas:

- Marketing/Sales — evaluation of market size and growth, market share, customer satisfaction, technology trends, selection criteria, purchasing process, and benchmarking
- Business Development — strategic analysis for mergers and acquisitions, partnering, new technology development and introduction, and competitive analysis
- Finance/Planning — outlook for industry activity and price sensitivity analysis
- Corporate — strategic review, due diligence, and litigation support

Spears & Associates has worked with the following Chinese oilfield service firms since 2008 during their IPO process in Hong Kong: Honghua Group Limited (stock code: 00196), Hilong Holding Limited (stock code: 01623) and SPT Energy Group Inc. (stock code: 01251). In each instance, their work included estimating the size of the relevant Chinese oilfield equipment and service markets served by the client and the share of market captured by the leading players.

Since 2000, Spears & Associates has also evaluated various sectors of the Chinese oilfield equipment and service industry in terms of market size and share for US-based oil service companies.

On a continuous basis for approximately 30 years, part of Spears & Associates' ongoing work has involved tracking and forecasting global (including China) drilling activity. This information, combined with other data they collect on an ongoing basis about the cost to drill and complete wells around the world, has been used to generate estimates of spending by sector in China. Spears & Associates combine this data, along with information they have obtained from prior IPO and non-IPO related work about the market shares held in China by state-owned oilfield service providers and non-PRC oilfield service providers, to estimate the collective China-based revenue of PRC privately-held oilfield service providers.

In addition to its market research and consulting assignments, Spears & Associates produces four publications covering the upstream petroleum industry: the Drilling and Production Outlook (DPO); the Oilfield Market Report (OMR); Pipe Logix; and the Drilling and Completion Services Cost Index (DCS).

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The DPO has tracked and forecasted worldwide drilling and production activity since 1981. It is a quarterly report that follows upstream activity — active rigs, wells and footage drilled, and spending to drill and complete wells — in over 50 countries. The DPO is used by over 100 oilfield equipment manufacturers and service firms and financial institutions to monitor worldwide oilfield activity, making it the most widely followed upstream activity forecast in the petroleum industry.

The OMR is an annual report that tracks worldwide upstream spending by producers for over 30 distinct product and service segments. In each segment the OMR identifies annual turnover for each of the leading vendors. In all, about 250 oilfield equipment and service firms are included in the report. In addition the OMR identifies recent consolidations and technology trends in each segment. The OMR is used by financial institutions and oilfield equipment and service firms to identify market growth and relative performance.

Pipe Logix is a suite of reports that analyse the Oil Country Tubular Goods (the “OCTG”) market. The flagship publication is the Spot Market Price report, which provides average monthly prices for over 30 categories of pipe. The report covers the most popular sizes of tubing, production casing and surface casing. The Key Market Factors report is a concise presentation of the drivers to the OCTG industry. It is issued monthly and provides a history of OCTG shipments, OCTG imports, active rigs, wells drilled and other critical drivers to OCTG pricing. Every other month the Market Review and Outlook details the drivers, prices, imports/exports and provides commentary and other analysis on the business environment of the OCTG industry.

The DCS Cost Index is a quarterly report that tracks and forecasts price changes for products and services used in drilling and completing new wells in the US. It is a tool for producer procurement departments, oilfield service firms, and financial institutions interested in benchmarking and forecasting well costs.

Research Methodology

Over the course of its research, Spears & Associates interviewed approximately 20 people to determine the size of the market, how it is structured, and how it is expected to develop in the future. These interviews were conducted with key industry participants, knowledgeable industry figures such as marketing managers, product managers, and other company executives. Spears & Associates’ research also relied on its proprietary database of oilfield market segment sales and its internal knowledge of oilfield equipment and service markets developed through working with many of the world’s leading oilfield equipment and service companies. The research team also drew on publicly-available information on energy markets and measures of industry activity. The focus of Spears & Associates’ research and interviews were toward the following markets served by our Group: consultancy services, drilling services, completion equipment and services, and stimulation services.

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

This section summarises the principal laws and regulations of the PRC and Singapore relating to the operations of our subsidiaries. As the Group's business operations are based in the PRC and Singapore, and taking into account the fact that the Group's presence in other countries is principally customer-driven and is project-based and that the Group does not intend to establish long-term base or presence in countries other than the PRC and Singapore, disclosing all material rules and regulations in respect of all countries or regions that the Group has covered or currently covers may give rise to confusion to investors that the Group intends to establish long-term presence or base in all those countries or regions.

PRC LAWS AND REGULATIONS ON THE OILFIELD SERVICES INDUSTRY

Industrial policy

《指導外商投資方向規定》 (*the Provisions on Guiding Foreign Investment Direction**) was promulgated by the State Council on 11 February 2002 and became effective on 1 April 2002. Pursuant to *the Provisions on Guiding Foreign Investment Direction*, foreign invested projects fall into four categories: encouraged, permitted, restricted and prohibited projects. Except for the permitted category, the encouraged, restricted and prohibited categories are listed in 《外商投資產業指導目錄》 (*the Foreign Investment Industrial Guidance Catalogue **) as amended from time to time by the NDRC and the MOFCOM.

Pursuant to 《外商投資企業境內投資的暫行規定》 (*the Interim Provisions for Investment in China by Foreign-Invested Enterprises**) promulgated on 25 July 2000 and became effective on 1 September 2000, investment within China by foreign-invested enterprises shall, mutatis mutandis, be handled in accordance with 《指導外商投資方向暫行規定》 (*the Interim Provisions on Guiding Foreign Investment Direction**) which was replaced by *the Provisions on Guiding Foreign Investment Direction* on 1 April 2002 and *the Foreign Investment Industrial Guidance Catalogue*. Foreign-invested enterprises may not invest in fields in which foreign investment is prohibited.

According to the *Foreign Investment Industrial Guidance Catalogue* (as amended in 2007) and *the Foreign Investment Industrial Guidance Catalogue* (as amended in 2011) which were promulgated by the NDRC and the MOFCOM and became effective respectively on 1 December 2007 and 30 January 2012, the core business of our PRC Subsidiaries which include oilfield services in drilling, well completion, well cementing, integrated project management services and production of tools required for drilling, well completion and well cementing, fall within the permitted category for foreign investments on a wholly-owned basis.

PRC LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

General regulations

The PRC government has adopted extensive environmental laws and regulations. There are national and local standards applicable to land rehabilitation, reforestation, emission control, discharge to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. Pursuant to 《中華人民共和國環境保護法》 (*the PRC Environmental Protection Law**) promulgated by the SCNPC that became effective on 26 December

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

1989, the State Environmental Protection Administration is empowered to formulate national environmental quality and discharge standards and monitor the PRC's environmental system at the national level. The environmental protection bureau at the county level and above is responsible for environmental protection within its jurisdiction. Local environmental protection bureaus may set local standards that are stricter than the national standards, in which case enterprises are required to comply with the stricter of the two sets of standards.

Environmental impact appraisal

Pursuant to 《建設項目環境保護管理條例》 (*the Regulations on the Administration of Construction Project Environmental Protection**) promulgated by the State Council that became effective on 29 November 1998, state standards and local standards for the discharge of pollutants must be complied with in building construction projects that generate pollution. The state practises the construction project environmental impact evaluation system. The work of construction project environmental impact evaluation shall be undertaken by units having acquired certificates of corresponding qualifications. And the state practises classified control over construction project environmental protection in accordance with the extent of environmental impact of construction projects in pursuance of the following provisions: (i) a report on environmental impact should be compiled for a construction project that may cause major impact on the environment, giving comprehensive and detailed evaluation of the pollution generated and environmental impact caused by the construction project; (ii) a statement on environmental impact should be compiled for a construction project that may cause light impact on the environment, giving analysis or special-purpose evaluation of the pollution generated and environmental impact caused by the construction project; and (iii) a registration form should be filled out and submitted for a construction project that has slight impact on the environment and necessitates no environmental impact evaluation.

Pollutant discharge

《中華人民共和國環境保護法》 (*the PRC Environmental Protection Law**) requires any enterprise operating a facility that produces pollutants or other hazardous materials to adopt environmental protection measures in its operations and to establish an environmental protection responsibility system. Effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials must be adopted. Any enterprise that discharges pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council. Any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee for excessive discharge according to state provisions and shall assume responsibility for eliminating and controlling the pollution. If an enterprise has caused severe environmental pollution and has failed to eliminate or control the pollution within a required period of time, a fine may be imposed, or the enterprise may be ordered to suspend or close down its operations.

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

Environmental protection and prevention of credit risk

According to 《關於落實環保政策法規防範信貸風險的意見》 (*the Opinion on the Enforcement of the Environmental Protection Laws and Prevention of Credit Risk**) jointly promulgated by the State Environmental Protection Administration of China, the PBOC and the China Banking Regulatory Commission on 12 July 2007, the following irregularities will be addressed as stipulated by the laws: commencement of construction without approval or without appropriate approval, failure to complete the environmental protection facilities at the same time as the production facility and commencement of operations prior to the environmental examination and approval. The above breaches will be reported to the local branch of the PBOC and China Banking Regulatory Commission and financial institutions. Financial institutions shall, based on the applicable regulations on environmental protection and information disclosed by the environmental protection authority, strictly review and supervise the application of loans, loan grants and their use. For applicants who have not passed the environmental assessment examination or environmental examination and approval, there will not be additional credit granted. Environmental departments at all levels shall sanction enterprises if they have conducted any of the following: excessive discharge of pollutants, excessive total discharge level, discharge of pollutants without obtaining the necessary permits, discharges in breach of the levels allowed by the permit, or failure to restore the damaged environment within a prescribed period. These breaches will be reported to the local branch of the PBOC and China Banking Regulatory Commission, banking regulatory department and financial institutions. The financial institutions at all levels, when reviewing enterprises' applications for loans, shall act on the information provided by the environmental protection departments and strengthen the management of loans granted to enterprises which are in violation of the environmental laws.

PRC LAWS AND REGULATIONS ON TAX

The PRC taxes that are levied on our subsidiary in the PRC mainly include enterprise income tax (the “EIT”), VAT and business tax (the “BT”).

PRC EIT

Prior to 1 January 2008, pursuant to 《廣東省經濟特區條例》 (*the Regulations on Special Economic Zones in Guangdong Province**) promulgated by the SCNPC and became effective on 26 August 1980, EIT of the enterprises in Special Economic Zones was 15%.

On 16 March 2007, the National People's Congress passed *the PRC Enterprise Income Tax Law*, with effect from 1 January 2008. *The PRC Enterprise Income Tax Law* adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and provided that the enterprises established prior to 16 March 2007 which previously enjoyed low preferential tax rate in accordance with the tax laws and administrative regulations at the current period may, pursuant to the provisions of the State Council, gradually transit to the tax rate provided herein within five years of the implementation of *the PRC Enterprise Income Tax Law*. *The PRC Enterprise Income Tax Law* also regulates that enterprises granted a Certificate for High and New Technology Enterprises would enjoy the preferential EIT at the rate of 15%. According to 《關於實施企業所得稅過渡優惠政策的通知》 (*the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy**) issued on 26 December 2007, a transition period was given to the enterprises,

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of *the PRC Enterprise Income Tax Law*. For enterprises that were granted 15% EIT preferential treatments before the effectiveness of *the PRC Enterprise Income Tax Law*, EIT would be levied at the rate of 18%, 20%, 22%, 24% and 25% from 2008 to 2012 respectively. The enterprises can choose the more favourable preferential policies where there exist any intersections between the grandfathering preferential policies and the preferential policies as provided under *the PRC Enterprise Income Tax Law* and its implementation regulations, except that the enterprises shall not receive duplicate preferences. After the enterprise has made the choice, no change is allowed.

Our PRC subsidiaries, Petro-king Shenzhen and Shenzhen FST were both established in Shenzhen before promulgation of *the PRC Enterprise Income Tax Law* and are entitled to enjoy the aforesaid transitional preferential EIT treatment. Shenzhen FST was qualified as “High and New Technology Enterprise” in 2010 and enjoyed being taxed at 15% from the year 2010 to 2012.

Pursuant to the *PRC Enterprise Income Tax Law* and 《中華人民共和國企業所得稅法實施條例》 (*the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC**) promulgated by the State Council on 28 November 2007 and became effective on 1 January 2008, a preferential EIT policy was granted to Small and Low-profit Enterprises. For the qualified Small and Low-profit Enterprises, EIT will be levied at the rate of 20%. According to 《關於繼續實施小型微利企業所得稅優惠政策的通知》 (*the Notice on Continuous Implementation of Enterprise Income Tax Preferential Policy for Small and Low-profit Enterprises**) and 《關於小型微利企業所得稅優惠政策有關問題的通知》 (*the Notice on Issues Concerning the Enterprise Income Tax Preferential Policy for Small and Low-Profit Enterprises**) jointly promulgated by the Ministry of Finance and the State Administration of Taxation on 27 January 2011 and 29 November 2011 respectively, from 1 January 2011 to 31 December 2011, for a Small and Low-profit Enterprise whose taxable annual income of the previous year is less than RMB30,000 (inclusive), its income shall be deducted by half to be calculated into taxable income and subject to EIT at a 20% tax rate. From 1 January 2012 to 31 December 2015, for a Small and Low-profit Enterprise whose taxable annual income of the previous year is less than RMB60,000 (inclusive), its income shall be deducted by half to be calculated into taxable income and subject to EIT at a 20% tax rate.

Our PRC subsidiary Dezhou Jiacheng applied for the registration of Small and Low-profit Enterprise through regulatory tax bureau in 2011, and it enjoyed the EIT preferential treatment for Small and Low-profit Enterprise in 2011.

PRC VAT

Pursuant to 《中華人民共和國增值稅暫行條例》 (*the Interim Regulation on the Value Added Tax of the PRC**) promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, and its implementation rules, any entity or individual engaged in the sale of goods, the provision of specified services or the importation of goods in China is generally required to pay VAT on the added value derived during the process of manufacture, sale or service provided. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

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PRC BT

Pursuant to 《中華人民共和國營業稅暫行條例》 (*the Interim Regulation on Business Tax of the PRC**) promulgated by the State Council on 13 December 1993 and amended on 5 November 2008, and its implementation rules, any entity or individual engaged in the taxable labour services, transfer of intangible assets, or sell real estate in China is generally required to pay BT on the business turnover. The taxable labour services refer to the services covered by the levying scope of tax items of the industries of transport, construction, finance and insurance, post and telecommunications, cultural and sports, entertainment and service. For BT payers who engage in service industry in the PRC, the tax rate shall be 5%.

Tax exemption, credit and refund concerning exports

Pursuant to 《財政部國家稅務總局關於進一步推進出口貨物實行免抵退稅辦法的通知》 (*the Notice of the Ministry of Finance and the State Administration of Taxation on Further Promoting Application of Tax Exemption, Credit and Refund concerning Exports**) promulgated on 23 January 2002 and took effect from 1 January 2002, the VAT for sales of export goods shall enjoy tax exemption, credit or refund. Our PRC subsidiary Petro-king Shenzhen enjoys 15% tax refund for its export sales.

PRC LAWS AND REGULATION ON FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign currency exchange

Pursuant to 《中華人民共和國外匯管理條例》 (*the Foreign Currency Administration Rules of the PRC**) promulgated by the State Council on 29 January 1996 and amended on 1 August 2008 and various regulations issued by the SAFE and other PRC regulatory agencies, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of Renminbi into a foreign currency and remittance of such foreign currency outside the PRC.

Dividend distribution

Before the promulgation of *the PRC Enterprise Income Tax Law*, the principal regulations governing distribution of dividends of foreign holding companies included the Company Law promulgated by the SCNPC in 1993 and amended in 1999, 2004 and 2005, 《中華人民共和國外資企業法》 (*the Foreign Investment Enterprise Law of the PRC**) promulgated by the SNPC in 1986 and amended in 2000, 《中華人民共和國外資企業法實施細則》 (*the Administrative Rules under the Foreign Investment Enterprise Law of the PRC**) promulgated by the State Council in 1990 and amended in 2001 and 《中華人民共和國外商投資企業和外國企業所得稅法》 (*the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC**) promulgated on 9 April 1991 and became effective on 1 July 1991 and its implementation rules.

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

Under these laws and regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are also required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. Dividends paid to its foreign investors are exempt from income tax.

Under *the PRC Enterprise Income Tax Law*, an enterprise is classified as either a “resident enterprise” or a “non-resident enterprise”.

Pursuant to *the PRC Enterprise Income Tax Law* and its *Implementation Rules*, “non-resident enterprises” which are established under foreign law with “de facto management bodies” outside the PRC but have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income originating from China, shall pay income tax at the rate of 10% in relation to the income originating from China unless a tax treaty benefit can be claimed. Pursuant to 《關於企業所得稅若干優惠政策的通知》 (*the Notice on some Preferential Policies on Enterprise Income Tax**) promulgated by the Ministry of Finance and the State Administration of Taxation of the PRC on 22 February 2008, accumulative undistributed profits of foreign-invested enterprises, generated before 1 January 2008 and distributed to foreign investors after year 2008 shall be exempt from enterprise income tax.

The PRC and the government of Hong Kong signed 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 (*Arrangement between Mainland and Hong Kong Special Administrative Region for Avoiding Dual Taxation on Income and Preventing Escape of Taxation**) (the “**Arrangement**”) on 21 August 2006. According to the Arrangement, 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. 《關於執行稅收協定股息條款有關問題的通知》 (*The Notice on Issues relating to the Administration of the Dividend Provision in Tax Treaties**) (the “**Notice**”) was promulgated on 20 February 2009 by the State Administration of Taxation of the PRC. The Notice reaffirms the qualification for dividend recipient to enjoy tax preferential treatment of being levied at 5% rate as following: (1) the recipient of the dividend must be a corporation; (2) the recipient’s ownership in the Chinese company must meet the prescribed 25% direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; and (3) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential treatment.

Pursuant to *the PRC Enterprise Income Tax Law* and its *Implementation Rules*, besides enterprises established within the PRC, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and subject to the uniform 25% EIT rate for their global income. Dividend obtained by an eligible PRC resident enterprise from another PRC resident enterprise can be exempted from EIT.

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

Return investment via overseas special purpose companies

On 21 October 2005, the SAFE issued *Circular 75*, with effect from 1 November 2005. According to *Circular 75* (i) a domestic resident, including a domestic resident natural person or a PRC company, must register with the local SAFE branch before it establishes or controls a Special Purpose Vehicles (the “SPV”) for the purpose of conducting overseas equity financing; (ii) when a domestic resident contributes assets or equity interests to an overseas SPV, such domestic resident must register its interests in the overseas SPV or any change to its interest in the overseas SPV with the local SAFE branch; and (iii) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the domestic resident must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. *Circular 75* applies retroactively.

On 20 May 2011, the SAFE issued *Circular 19*, with effect from 1 July 2011. *Circular 19* further clarifies issues concerning the implementation and application of *Circular 75* and simplifies the operational procedures for *Circular 75*.

Under the relevant rules, failure to comply with the registration procedures set forth in *Circular 75* may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject the relevant domestic resident to penalties under PRC foreign exchange administration regulations.

M&A regulations and overseas listings

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry & Commerce of the PRC (the “SAIC”), the CSRC and the SAFE, jointly issued the M&A Rules which became effective on 8 September 2006 and was amended on 22 June 2009. According to the M&A Rules, mergers and acquisitions of domestic enterprises by foreign investors shall be reviewed and approved by the MOFCOM or its local branches. The domestic enterprises or natural persons shall, when they merge or acquire domestic companies having something to do with them in the name of the companies in foreign countries legally established or controlled by them, be submitted to the MOFCOM for approval. An SPV formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC domestic companies or individuals obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange.

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

OTHER RELEVANT PRC LAWS AND REGULATIONS

Work safety and product quality

Pursuant to 《中華人民共和國安全生產法》 (*the Law of the People's Republic of China on Work Safety**) promulgated by the SCNPC and became effective on 1 November 2002, which is applicable to work safety in units that are engaged in production and business activities within the territory in the PRC, production and business units shall (i) abide by *the Law of the People's Republic of China on Work Safety* and other laws and regulations concerning work safety, redouble their efforts to ensure work safety by setting up and improving the responsibility system for work safety and improving the conditions for it to guarantee work safety; (ii) give their employees education and training in work safety to ensure that the employees acquire the necessary knowledge about work safety and are familiar with the relevant rules for work safety and safe operation regulations. Workers operating at special posts in production and business units shall, in accordance with relevant State regulations, receive special training in safe operation, and they shall only be assigned to such posts after obtaining qualification certificate for operation at special posts. In the event of any failure to comply with the aforesaid provision and set it right within a time limit, production and business units shall be ordered to suspend production or business operation for shake-up and may, in addition, be fined for not more than RMB20,000.

The principal legal provisions governing product liability are set out in 《中華人民共和國產品質量法》 (*the Product Quality Law of the PRC**), which was promulgated on 22 February 1993, became effective on 1 September 1993, and amended on 8 July 2000. *The Product Quality Law of the PRC* is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with *the Product Quality Law of the PRC*.

Provisions for import and export goods

Pursuant to 《中華人民共和國對外貿易法》 (*the Foreign Trade Law of the PRC**) which was promulgated by the SCNPC on 12 May 1994 and 《對外貿易經營者備案登記辦法》 (*Measures for the Archival Filing and Registration of Foreign Trade Business Operators**) which was promulgated by the MOFCOM on 25 June 2004 and became effective on 1 July 2004, the PRC adopted a filing and registration system for foreign trade operators engaged in imports and exports of goods or technology, implemented by the Foreign Trade authority under the State Council or its entrusted agencies. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for import and export of goods.

Pursuant to 《中華人民共和國海關法》 (*the Customs Law of the PRC**) promulgated by the SCNPC on 22 January 1987 and amended on 8 July 2000 and related regulations, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the law. Principal regulations on the inspection of import and export commodities are set out in 《中華人民共和國進出口商品檢驗法》 (*the*

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*Law of the People's Republic of China on Import and Export Commodity Inspection**) promulgated by the SCNPC on 21 February 1989 and amended on 28 April 2002 and its implementation rules. According to the aforesaid relevant laws and regulations, the import and export commodities that are subject to compulsory inspection listed in the catalogue compiled by the State administration shall be inspected by the commodity inspection authorities, and the import and export commodities that are not subject to statutory inspection shall be subject to random inspection. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities.

Intellectual property laws and regulations

China has adopted legislation related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory to all major intellectual property conventions, including *the Paris Convention for the Protection of Industrial Property, Madrid Agreement on the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights*.

Regulations on patents

Under the revised 《中華人民共和國專利法》 (*the Patent Law of the PRC**) promulgated on 27 December 2008 and which became effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the “first to file” principle, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system.

Although patent rights are national rights, the Patent Cooperation Treaty to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

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Regulations on trademarks

Both 《中華人民共和國商標法》 (*the Trademark Law of the PRC**) promulgated by the SCNPC in 1982 and amended in 2001, and 《中華人民共和國商標法實施條例》 (*the Regulation on Implementation of Trademark Law of the PRC**) promulgated by the State Council in 2002, give protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten years; where a registered trademark needs to be used after the expiration of its validity term, a registration renewal application shall be filed within six months prior to the expiration of the term.

Under *the Trademark Law of the PRC*, any of the following acts may be regarded as an infringement upon the right to exclusive use of a registered trademark, including (i) using a trademark which is identical with or similar to the registered trademark on the same or similar commodities without authorisation; (ii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iii) forging or manufacturing the marks of a registered trademark of others without authorisation, or selling the marks of a registered trademark forged or manufactured without authorisation; and (iv) causing other damage to the right to exclusive use of a registered trademark of another person.

Violation of *the Trademark Law of the PRC* may result in the imposition of fines, and confiscation and destruction of the infringing commodities.

Trademark license agreements must be filed with the Trademark Office under the SAIC or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

Regulations on domain names

《中國互聯網絡域名管理辦法》 (*The Measures for the Administration of Domain Names for the Chinese Internet**) (the “**Domain Name Measures**”) were promulgated by the Ministry of Information Industry on 5 November 2004 and became effective on 20 December 2004. The Domain Name Measures regulate registrations of domain names with the Internet country code “.cn” and domain names in Chinese.

《中國互聯網絡信息中心域名爭議解決辦法》 (*The Measures on Domain Name Dispute Resolution**) (the “**Domain Name Dispute Resolution Measures**”) were promulgated by the Chinese Internet Network Information Centre on 14 February 2006 and became effective on 17 March 2006. The Domain Name Dispute Resolution Measures require domain name disputes to be submitted to institutions authorised by the Chinese Internet Network Information Centre for resolution.

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Labour protection

《中華人民共和國勞動法》(*the Labour Law of the PRC**) was promulgated by the SCNPC on 5 July 1994 and became effective on 1 January 1995. *The PRC Labour Contract Law* was promulgated by the SCNPC on 29 June 2007 and became effective on 1 January 2008 and 《中華人民共和國勞動合同法實施條例》(*the Implementing Regulations of the PRC Labour Contract Law**) was promulgated by the State Council and became effective on 3 September 2008. The aforesaid laws and their implementing regulations govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and the amendment to, employment contracts. To establish an employment relationship, a written employment contract shall be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

Under applicable PRC laws, rules and regulations, including 《中華人民共和國社會保險法》(*the Social Insurance Law of the PRC**), promulgated by the SCNPC on 28 October 2010 and which became effective on 1 July 2011, 《社會保險費徵繳暫行條例》(*the Interim Regulations on the Collection and Payment of Social Security Funds**) promulgated by the State Council and which became effective on 22 January 1999, 《企業職工生育保險試行辦法》(*the Interim Measures concerning the Maternity Insurance**) promulgated by the Ministry of Labour of the PRC on 14 December 1994 and which became effective on 1 January 1995, 《工傷保險條例》(*the Regulations on Occupational Injury Insurance**) promulgated by the State Council on 27 April 2003 and which became effective on 1 January 2004 and were amended on 20 December 2010, 《失業保險條例》(*the Regulations on Unemployment Insurance**) promulgated by the State Council and which became effective on 22 January 1999, and 《住房公積金管理條例》(*the Regulations on the Administration of Housing Accumulation Funds**) promulgated by the State Council and which became effective on 3 April 1999, and were amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing accumulation funds. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

Our PRC subsidiaries, Petro-king Shenzhen, Shenzhen FST and Sun Oil are located in Shenzhen and are subject to local rules and regulations. Prior to 30 November 2010, local implementation rules and regulations regarding the housing accumulation funds were not established in Shenzhen while 《深圳市社會保險暫行規定》(*the Interim Regulations on Social Insurance in Shenzhen**) and 《深圳市社會保險暫行規定職工養老保險及住房公積金實施細則》(*the Implementing Regulations on the Employees Endowment Insurance and Housing Accumulation Funds of the Interim Regulations on Social Insurance in Shenzhen**) promulgated by Shenzhen Municipal People's Government and which became effective on 1 August 1992 were applicable.

On 30 November 2010, Shenzhen Municipal People's Government issued 《深圳市住房公積金管理暫行辦法》(*the Interim Administration Measures on Housing Accumulation Funds in Shenzhen**), with effect from 20 December 2010, which regulates that an employer should contribute housing accumulation funds for its both Shenzhen and non-Shenzhen resident employees at a rate between 5%

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and 20% of the deposit base. Any employer that fails to register or open the housing accumulation funds may be ordered to undertake within a stipulated time limit, otherwise will be subject to a lump sum fine of RMB10,000 to RMB50,000. In addition, any employer that fails to contribute may be ordered to make good the deficit within a stipulated time limit, failing which, People's court may order for compulsory execution.

SINGAPORE LAWS AND REGULATIONS

Employment law

Workplace Safety and Health Act (Chapter 354A) (“WSHA”)

Under the WSHA, every employer has the duty to take, so far as is reasonably practicable, such measures as are necessary to ensure the safety and health of his employees at work. These measures include providing and maintaining for the employees a work environment which is safe, without risk to health, and adequate as regards facilities and arrangements for their welfare at work, ensuring that adequate safety measures are taken in respect of any machinery, equipment, plant, article or process used by the employees, ensuring that the employees are not exposed to hazards arising out of the arrangement, disposal, manipulation, organisation, processing, storage, transport, working or use of things in their workplace or near their workplace and under the control of the employer, developing and implementing procedures for dealing with emergencies that may arise while those persons are at work and ensuring that those persons at work have adequate instruction, information, training and supervision as is necessary for them to perform their work. More specific duties, including taking effective measures to protect persons at work from the harmful effects of any exposure to any biohazardous material which may constitute a risk to their health, imposed by the Ministry of Manpower (“MOM”) on employers are laid out in the Workplace Safety and Health (General Provisions) Regulations.

Under the WSHA, the Commissioner for Workplace Safety and Health (“CWSH”) may serve a remedial order or a stop-work order in respect of a workplace if he is satisfied that (i) the workplace is in such condition, or is so located that any process or work carried on in the workplace cannot be carried on with due regard to the safety, health and welfare of persons at work; (ii) any person has contravened any duty imposed by the WSHA; or (iii) any person has done any act, or has refrained from doing any act which, in the opinion of the CWSH, poses or is likely to pose a risk to the safety, health and welfare of persons at work. The remedial order shall direct the person served with the order to take such measures, to the satisfaction of the CWSH, to *inter alia* remedy any danger so as to enable the work or process in the workplace to be carried on with due regard to the safety, health and welfare of the persons at work, whilst the stop-work order shall direct the person served with the order to immediately cease to carry on any work indefinitely or until such measures as are required by the CWSH have been taken to remedy any danger so as to enable the work in the workplace to be carried on with due regard to the safety, health and welfare of the persons at work.

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Employment of Foreign Manpower Act (Cap. 91A) (“EFMA”)

The availability and the employment cost of skilled and unskilled foreign workers in the Singapore subsidiaries are affected by the Government’s policies and regulations on the immigration and employment of foreign workers in Singapore. The policies and regulations are set out in, *inter alia*, the EFMA and the relevant Government Gazettes. The employment of foreign workers is also subject to the payment of levies.

Work Injury Compensation Act (Chapter 354) (“WICA”)

The WICA is regulated by the Ministry of Manpower and applies to workmen (referred to as the employee) in all industries in respect of injury suffered by them in the course of their employment and sets out, *inter alia*, the amount of compensation they are entitled to and the method(s) of calculating such compensation. The WICA provides that if personal injury by accident arising out of and in the course of the employment is caused to a workman, the employer shall be liable to pay compensation in accordance with the provisions of the WICA.

Environmental law

Environmental Public Health Act (Chapter 95) (“EPHA”)

The EPHA regulates, *inter alia*, the disposal and treatment of industrial waste and public nuisances. Under the EPHA, the Ministry of Environment (“MOE”) has empowered the Director-General of Public Health to serve a nuisance order on the owner or occupier of the premises on which the nuisance arises. Some of the nuisances which are liable to be dealt with by the MOE and/or its statutory board, the National Environment Agency, summarily under the EPHA include any factory or workplace which is not kept in a clean state and any place where there exists or is likely to exist any condition giving rise, or capable of giving rise to the breeding of flies or mosquitoes, any place where there occurs, or from which there emanates noise or vibration as to amount to a nuisance and any machinery, plant or any method or process used in any premises which causes a nuisance or is dangerous to public health and safety.

Tax law

Corporate income tax

A Singapore tax resident corporate taxpayer is subject to Singapore income tax on:

- income accrued in or derived from Singapore; and
- foreign sourced income received or deemed received in Singapore, unless otherwise exempted.

A corporate taxpayer, subject to certain exceptions, is subject to Singapore income tax on income accrued in or derived from Singapore, and on foreign income received or deemed received in Singapore.

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

The corporate tax rate in Singapore is 17.0% with effect from the year of assessment 2010. Further corporate tax exemption will apply to the first S\$300,000 of a company's chargeable income as follows:

- 75% of up to the first S\$10,000 of a company's chargeable income; and
- 50% of up to the next S\$290,000 of a company's chargeable income.

Foreign income in the form of branch profits, dividends and service fee income received or deemed received in Singapore by a Singapore tax resident corporate taxpayer are exempted from Singapore tax subject to meeting the qualifying conditions. A company is regarded as tax resident in Singapore if the control and management of the company's business is exercised in Singapore.

Individual income tax

An individual taxpayer (both resident and non-resident) is subject to Singapore income tax on income accrued in or derived from Singapore, subject to certain exceptions. Foreign-sourced income received or deemed received by a Singapore tax resident individual is generally exempt from income tax in Singapore except for such income received through a partnership in Singapore. Certain Singapore sourced investment income received or deemed received by individuals is also exempt from tax.

Currently, a Singapore tax resident individual is subject to tax at the progressive rates, ranging from 0% to 20.0%.

A non-Singapore tax resident individual is normally taxed at the tax rate of 20.0% except that Singapore employment income is taxed at a flat rate of 15.0% or at resident rates, whichever yields a higher tax.

An individual is regarded as a tax resident in Singapore if in the calendar year preceding the year of assessment, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he ordinarily resides in Singapore.

Withholding tax

Certain types of payments to non-Singapore resident taxpayers are subject to withholding tax. Generally, under domestic law, tax is to be withheld at tax rate from 10% to 20% depending on the nature of the payment. There is no withholding tax on dividend payments.

Dividend distributions

Dividend paid by a Singapore resident company is considered "one-tier" dividends. Such dividends are tax exempt in the hands of the shareholder. This is regardless of whether the shareholder is a corporate or individual shareholder, and whether the shareholder is a Singapore tax resident or not. There will be no tax credits attached to such dividends. There is no withholding tax on dividend payments to non-resident shareholders.

SUMMARY OF LEGAL AND REGULATORY PROVISIONS

Gains on disposal of shares

Currently, Singapore does not impose tax on capital gains. Any profit from the disposal of shares is not taxable in Singapore unless the seller is regarded by the Inland Revenue Authority of Singapore as having derived gains of an income nature which are sourced in Singapore.

However, there are no specific laws or regulations which deal with the characterisation of gains from disposal of shares. Share disposal gains may be construed to be of an income nature under certain circumstances and hence, subject to tax. The most common instance is where the gains arise from activities which the Inland Revenue Authority of Singapore regards as the carrying on of a trade in Singapore.

Estate duty

No estate duty is leviable in respect of deaths occurring on or after 15 February 2008.

Goods and Services Tax (“GST”)

The sale of shares of a Singapore company by a GST-registered person belonging in Singapore through the SGX-ST, to another person belonging in Singapore, would be an exempt supply not subject to GST. Where shares are sold by the GST-registered person under a contract with a person who belongs in a country outside Singapore and which directly benefits a person who belongs in a country other than Singapore and who is outside Singapore at the time the sale was made, the sale would generally be a taxable supply subject to GST at zero-rate.

GST incurred by a GST-registered person on taxable supplies made to him which is attributable to taxable supplies made by him in the course of or furtherance of business is available as a credit against GST chargeable by the said GST-registered person on taxable supplies made by him in the course of or furtherance of business carried on by him.

Services such as brokerage, handling and clearing charges rendered by a GST-registered person to an investor belonging in Singapore in connection with the investor’s purchase, sale, holding of shares would be subject to GST at the current rate of 7.0%. Similar services rendered to an investor belonging outside Singapore and which directly benefits a person who belongs in a country other than Singapore and who is outside Singapore at the time the services were supplied would generally be subject to GST at zero-rate.

Stamp duty

No stamp duty is payable on the issue of new ordinary shares of a company incorporated in Singapore. In the event that a register of shares is kept in Singapore and where an instrument of transfer is executed in respect of shares registered in such register, stamp duty may be payable on such instrument of transfer at the rate of S\$2.00 for every S\$1,000 or part thereof, computed based on the value of consideration or the market value of the shares registered in Singapore, whichever is higher.

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The purchaser is liable for stamp duty, unless there is an agreement to the contrary. No stamp duty is payable if no instrument of transfer is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore.

Sale of Goods (United Nations Conventions) Act (Cap. 283A)

The Sale of Goods (United Nations Conventions) Act (Cap. 283A) applies, *inter alia*, to contracts of sales of goods between parties whose places of business are in different contracting states. Contracts for the supply of goods to be manufactured or produced are to be considered sales unless the party who orders the goods undertakes to supply a substantial part of the materials necessary for such manufacture or production.

The Sale of Goods (United Nations Conventions) Act does not apply to contracts in which the preponderant part of the obligations of the party who furnishes the goods consists in the supply of labour or other services.

HISTORY AND DEVELOPMENT

HISTORY AND DEVELOPMENT

Introduction

Our history could be traced back to 2002 when Petro-king Shenzhen, one of our major operating subsidiaries, was founded by Mr. Wang and his wife, Ms. Zhou. We commenced the sale of oilfield tools and equipment in 2002, and began to provide high-end integrated oilfield services in the PRC in 2003. Our high-end integrated oilfield services principally consisted of the provision of oilfield project services in drilling and well completion, even when such technologies might still be relatively rarely applied in the PRC at that time. As a result of the form of our services and our business strategy, we quickly established a reputation for the professionalism and level of technology and quality of our services, laying the foundation of our development.

Amid the steady growth of our business in the PRC, we successfully captured the opportunities to extend our horizon to an international context in 2006 by providing oilfield services for an offshore project in Russia, which set the tone for the commencement of expansion of our operations in overseas regions, including Russia, Australia, the Middle East and South America.

Our business experienced rapid growth from 2006 to 2008, largely due to expansion of our operation to overseas regions as well as the increasing oil and gas exploration, development and production activities driven by the rapid increase in international crude oil prices arising from global and Chinese economic growth during that period. Under the leadership of Mr. Wang, the Group withstood adverse financial and economic conditions across the world as a result of the global financial economic crisis starting from the second half of 2008, and continued to attain growth in 2009. In addition, the Group recorded significant growth in 2010 notwithstanding the continuous fluctuations of global financial and economic conditions.

We believe that our history, development, expertise and business strategies have made us an attractive investment prospect. In 2007 and 2010 respectively, Termbray Industries and TCL Corporation, whose stocks are listed on the Stock Exchange and the Shenzhen Stock Exchange respectively, became our Shareholders to further strengthen our shareholders' base. Attributing to such strong shareholders' base, coupled with our experience, reputation and stable management team, the Group has developed into one of the leading independent China-based providers of high-end oilfield technology and services.

HISTORY AND DEVELOPMENT

Business milestone

Important milestone events in our history are set out below:

Year	Event
2002	Petro-king Shenzhen was founded and initiated market development activities. Commenced supply of oilfield tools and equipment.
2003	Petro-king International was founded and initiated market development activities. Commenced provision of high-end integrated oilfield services in the PRC. Commenced provision of consultancy services in the PRC.
2006	Commenced provision of oilfield services in overseas market.
2007	Termbray Industries completed its investment in Petro-king Shenzhen and Petro-king International through a series of transactions, particulars of which are set out in the paragraphs under the title “Termbray Investment” of this section.
2008	Successfully applied multistage fracturing in the PRC. Successfully introduced and applied the use of turbine drilling in the PRC.
2009	Provided consultancy services and initiated market development in the Middle East.
2010	TCL Corporation completed its investment in the Company, particulars of which are set out in the paragraphs under the title “TCL Investment” of this section.
2011	Successfully completed the acquisition of 60% of equity interests in Shenzhen FST.
2011	Successfully completed the acquisition of 45.5% issued shares in Sheraton Investment.
2012	Successfully completed the acquisition of a further 5.5% issued shares in Sheraton Investment to the effect that the Group’s interest in Sheraton Investment increased to 51%.

HISTORY AND DEVELOPMENT

Corporate History

(1) Incorporation of the Company

The Company was incorporated in the BVI with limited liability on 7 September 2007 to act as the holding vehicle of Petro-king Hong Kong for the purpose of the Termbray Investment. It was formerly known as “Termbray Oilfield Services (BVI) Ltd. (添利油田服務(英屬維爾京群島)有限公司)”. Its name was changed to “Termbray Petro-king Oilfield Services (BVI) Limited (添利百勤油田服務(英屬維爾京群島)有限公司)” on 13 March 2008 and was further changed to “Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司)” on 9 August 2012. On 10 September 2007, Termbray Natural Resources was allotted and issued 100 Shares for a consideration of US\$100 and became the sole shareholder of the Company. Subsequent to the allotment and issuance of Shares, the number of issued Shares of the Company was 100. On 31 December 2007, pursuant to the Termbray Investment, the Company allotted and issued 98 Shares and 2 Shares to King Shine and Termbray Natural Resources respectively, for a consideration of HK\$764.4 and US\$2 respectively. Subsequent to such share issuance, the Company was owned by Termbray Natural Resources as to 51% and King Shine as to 49%. Please refer to the paragraphs under the title “Termbray Investment” of this section for details. On 20 October 2010, the Company issued 4,488 Shares and 4,312 Shares to Termbray Natural Resources and King Shine, respectively, for capitalisation of shareholders’ loans and the current account of HK\$146,011,698 and HK\$140,285,750 owing by the Company to Termbray Natural Resources and King Shine, respectively. On the same date immediately after the capitalisation of shareholders’ loans and the current account, pursuant to the investment by TCL Corporation in the Group, the Company allotted and issued 1,000 Shares to TCL HK for a consideration of US dollar equivalent of RMB88.8 million. Please refer to the paragraphs under the title “TCL Investment” of this section for details. Subsequent to the share issuance on 20 October 2010, the Company was owned by Termbray Natural Resources as to 45.9%, TCL HK as to 10% and King Shine as to 44.1%. The ordinary Shares in the Company were altered to Voting Shares and Non-Voting Shares by written resolutions of all Shareholders dated 24 March 2011. On 1 March 2012, TCL HK transferred all of its 1,000 Shares in the Company to Jade Win Investment Limited for a consideration of HK\$103,221,316 (equivalent to approximately RMB83.2 million base on exchange rate as at the Latest Practicable Date). On 21 June 2012, the Company issued 102 Voting Shares to Natural Peak as consideration for the transfer of 55 shares in Sheraton Investment from Natural Peak to Hero Gain (nominee of the Company), being the second tranche of the sale and purchase of the Sheraton Shares. Please refer to the paragraphs under the title “Acquisition of the Sheraton Group” of this section for details. Subsequent to such share issuance and as at the Latest Practicable Date, the Company was owned by Termbray Natural Resources as to 45.4%, Jade Win Investment Limited as to 9.9%, King Shine as to 43.7% and Natural Peak as to 1.0%. The issued Shares of the Company were altered to a single class with voting rights by written resolutions of all Shareholders passed on 18 February 2013. The Company is the listing vehicle and the ultimate holding vehicle of the Group’s various arms of business.

HISTORY AND DEVELOPMENT

(2) Incorporation of our Hong Kong subsidiaries

Petro-king Hong Kong

On 13 September 2007, Petro-king Hong Kong was incorporated as a limited liability company in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each to act as the holding vehicle of each of Petro-king International and Petro-king Shenzhen under the Termbray Investment. Petro-king Hong Kong was formerly known as “Termbray Oilfield Services Limited (添利油田服務有限公司)” and its name was changed to “Petro-king Holding Limited (百勤控股有限公司)” on 3 March 2008. At the time of its incorporation, one share was allotted and issued to Fairweather (Nominees) Limited at par as the subscriber. On 14 September 2007, the Company was allotted and issued 9,999 shares in Petro-king Hong Kong at par for a consideration of HK\$9,999 and the issued share capital of Petro-king Hong Kong was increased to HK\$10,000 divided into 10,000 shares of HK\$1 each. On 17 September 2007, the Company acquired the one subscriber share in Petro-king Hong Kong from Fairweather (Nominees) Limited for a consideration of HK\$1 and became the sole shareholder of Petro-king Hong Kong. Petro-king Hong Kong is the holding vehicle of the Group’s various arms of business.

Petro-king International

On 14 July 2003, Petro-king International was incorporated as a limited liability company in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. Petro-king International was formerly known as “Petro-king (Hong Kong) Oilfield Machinery and Tech. Develop Co., Limited (百勤(香港)石油機械技術開發有限公司)” and its name was changed to “Petro-king International Co., Limited (百勤國際有限公司)” on 11 March 2005. At the time of its incorporation, Petro-king International was owned by Mr. Wang, Ms. Zhou and Ms. Kan Yim Hung (簡豔紅), an Independent Third Party, as the subscribers, as to 85, 14 and one shares, respectively. On 20 December 2007, Mr. Wang, Ms. Zhou and Ms. Kan Yim Hung, transferred their entire shareholding in Petro-king International to King Shine for a consideration in the form of allotment and issuance of an aggregate of 10,000 ordinary shares of US\$0.01 each in King Shine to Mr. Wang, Ms. Zhou, Mr. Zhao, Mr. Zhang Taiyuan (張太元), the vice president of the Company and a shareholder of King Shine, Mr. Zhong Wenxu (仲文旭), who was a shareholder of King Shine until February 2009 and is now an Independent Third Party, Ms. Sun Jinxia (孫金霞), who was a director of the Company and currently is a senior management of the Company and a shareholder of King Shine, and Ms. Yin Zhaohui (尹朝輝), a shareholder of King Shine, pursuant to a sale and purchase agreement dated 6 December 2007. On 31 December 2007, Petro-king Hong Kong acquired from King Shine 51 shares in Petro-king International for a consideration of HK\$240,277,500 and 49 shares in Petro-king International in consideration of the allotment and issuance of 49% of enlarged issued share capital in the Company to King Shine, and became the sole shareholder of Petro-king International. The consideration was agreed based on a profit guarantee provided by Mr. Wang, Ms. Zhou, Mr. Zhao Jindong, Mr. Zhang Taiyuan, Mr. Zhong Wenxu, Ms. Sun Jinxia and Ms. Yin Zhaohui in respect of the consolidated net profits after tax and minority interests but before extraordinary items of Petro-king International and Petro-king Shenzhen derived from the business and operations of Petro-king International and its subsidiaries and associated companies for the two years ended 31 December 2008. On 5 August 2009, Petro-king Hong Kong was allotted and issued a further 4,999,900 shares. As the previous share certificates of Petro-king International were issued to Petro-king Hong Kong

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under its previous name of Termbray Oilfield Services Limited, the previous share certificates were cancelled and a share certificate was reissued to Petro-king Hong Kong for the 5,000,000 shares it held on 24 August 2009. Petro-king International is the holding vehicle of the Group's arms of overseas business.

(3) Incorporation of our PRC subsidiaries

Petro-king Shenzhen

On 26 April 2002, Petro-king Shenzhen was established in Shenzhen with a registered capital of RMB500,000 and was owned by Mr. Wang and Ms. Zhou, as to 50% and 50%, respectively. The registered capital was fully paid up on 17 April 2002. The former name of Petro-king Shenzhen was “深圳市百勤石油機械技術開發有限公司” and its name was changed to “深圳市百勤石油技術有限公司” on 8 June 2006. Petro-king Shenzhen is principally engaged in the provision of oilfield services and supply and installation of oilfield services equipment and tools.

On 12 March 2004, the registered capital of Petro-king Shenzhen was increased from RMB500,000 to RMB1,000,000. The additional capital of RMB500,000 was contributed by Mr. Wang as to 50% and Ms. Zhou as to 50%. As a result, the equity interest of Mr. Wang and Ms. Zhou in Petro-king Shenzhen remained unchanged after the capital increase, and Petro-king Shenzhen continued to be owned as to 50% by Mr. Wang and 50% by Ms. Zhou.

On 23 November 2004, the registered capital of Petro-king Shenzhen was increased from RMB1,000,000 to RMB5,000,000. The additional capital of RMB4,000,000 was contributed by Ms. Sun Jinxia as to RMB100,000, Mr. Zhong Wenxu as to RMB150,000, Ms. Yin Zhaohui as to RMB50,000, Mr. Zhao as to RMB900,000, Mr. Wang as to RMB2,200,000 and Ms. Zhou as to RMB600,000. Subsequent to the capital increase, Petro-king Shenzhen was owned as to 54% by Mr. Wang, 22% by Ms. Zhou, 18% by Mr. Zhao, 3% by Mr. Zhong Wenxu, 2% by Ms. Sun Jinxia and 1% by Ms. Yin Zhaohui.

On 17 January 2006, pursuant to certain equity transfer agreements all dated 27 December 2005:

- Mr. Wang transferred approximately 6.77% and 4.59% of the equity interests in Petro-king Shenzhen to Mr. Huang Bin (黃彬), the then vice president of Petro-king Shenzhen and now an Independent Third Party, and Ms. Yuan Lijie (袁麗杰), an Independent Third Party, respectively, for a consideration of RMB338,500 and RMB229,500 respectively;
- Ms. Zhou transferred approximately 2.61% and 1.87% of the equity interests in Petro-king Shenzhen to Mr. Huang Bin and Ms. Yuan Lijie, respectively, for a consideration of RMB130,500 and RMB93,500 respectively;
- Mr. Zhao transferred approximately 2.13% and 1.54% of the equity interests in Petro-king Shenzhen to Mr. Huang Bin and Ms. Yuan Lijie, respectively, for a consideration of RMB106,500 and RMB77,000 respectively;

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- Ms. Sun Jinxia transferred 0.26% of the equity interests in Petro-king Shenzhen to Mr. Huang Bin for a consideration of RMB13,000; and
- Ms. Yin Zhaohui transferred 0.13% of the equity interests in Petro-king Shenzhen to Mr. Huang Bin for a consideration of RMB6,500.

Subsequent to the equity transfers, Petro-king Shenzhen was owned as to 42.64% by Mr. Wang, 17.52% by Ms. Zhou, 14.33% by Mr. Zhao, 11.9% by Mr. Huang Bin, 8% by Ms. Yuan Lijie, 3% by Mr. Zhong Wenxu, 1.74% by Ms. Sun Jinxia and 0.87% by Ms. Yin Zhaohui.

On 28 June 2007, pursuant to certain equity transfer agreements all dated 20 March 2007:

- Mr. Huang Bin transferred all of his equity interests in Petro-king Shenzhen (representing 8.9% and 3% of equity interests in Petro-king Shenzhen respectively) to Mr. Wang and Mr. Zhao, for a consideration of RMB445,000 and RMB150,000 respectively; and
- Ms. Yuan Lijie transferred all of her equity interests in Petro-king Shenzhen (representing 5% and 3% of equity interests in Petro-king Shenzhen respectively) to Mr. Wang and Mr. Zhang Taiyuan, for a consideration of RMB250,000 and RMB150,000 respectively.

Subsequent to the equity transfers, Petro-king Shenzhen was owned as to 56.54% by Mr. Wang, 17.52% by Ms. Zhou, 17.33% by Mr. Zhao, 3% by Mr. Zhang Taiyuan, 3% by Mr. Zhong Wenxu, 1.74% by Ms. Sun Jinxia and 0.87% by Ms. Yin Zhaohui.

In December 2007, pursuant to the Termbray Investment, each of Mr. Wang, Ms. Zhou, Mr. Zhao, Mr. Zhong Wenxu, Mr. Zhang Taiyuan, Ms. Sun Jinxia and Ms. Yin Zhaohui transferred all of their equity interests in Petro-king Shenzhen to Petro-king Hong Kong for an aggregate consideration of RMB30,000,000 calculated with reference to Petro-king Shenzhen's net asset value as at 31 December 2006 as valued by an independent assets appraisal company. After the transfers, Petro-king Shenzhen became 100% owned by Petro-king Hong Kong and a wholly foreign-owned enterprise.

In May 2009, the registered capital of Petro-king Shenzhen was increased from RMB5,000,000 to RMB20,000,000. The additional capital of RMB15,000,000 was contributed by Petro-king Hong Kong. As a result, the equity interest of Petro-king Hong Kong in Petro-king Shenzhen remained unchanged after the capital increase, and Petro-king Shenzhen continued to be wholly-owned by Petro-king Hong Kong.

Petro-king Huizhou

Petro-king Huizhou was established on 21 September 2012 in Huizhou, Guangdong province, PRC with a registered capital of US\$5,000,000 of which US\$1,599,980 has been and the rest will be contributed by Petro-king Hong Kong. Petro-king Huizhou is wholly-owned by Petro-king Hong Kong. Petro-king Huizhou is principally engaged in the provision of oilfield tools and equipment technology services and research and development.

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(4) Incorporation of our BVI subsidiaries

Hero Gain

Hero Gain was incorporated as a limited liability company in the BVI on 1 July 2010. On 20 July 2010, Petro-king Hong Kong was allotted and issued one share in Hero Gain for a consideration of US\$1 and became the sole shareholder of Hero Gain. Subsequent to such share allotment and issuance, the issued share capital of Hero Gain was US\$1 divided into one share of US\$1 each. Hero Gain was incorporated to act as the holding vehicle for the purpose of the acquisition of the Sheraton Group.

Wellsharp Group

Wellsharp Group was incorporated as a limited liability company in the BVI on 11 April 2008. On 2 July 2008, Ms. Pan Xufang (潘旭芳), the financial controller of Petro-king Shenzhen and a shareholder of King Shine, was allotted and issued 100 shares in Wellsharp Group at par for a consideration of US\$100 and became the sole shareholder of Wellsharp Group, and the issued share capital of Wellsharp Group was US\$100 divided into 100 shares of US\$1 each. On 16 March 2009, Ms. Pan Xufang transferred 100 shares in Wellsharp Group (representing 100% of the issued share capital of Wellsharp Group) to Petro-king International for a consideration of US\$100. After such share transfer, Petro-king International became the sole shareholder of Wellsharp Group. Wellsharp Group was acquired by Petro-king International to act as the holding vehicle of its operating subsidiary conducting business in the Middle East. However, neither Wellsharp Group nor its subsidiary has ever carried out any business in the Middle East.

(5) Incorporation of our Singapore subsidiary

Turbodrill SG

Turbodrill SG was incorporated as a limited liability company in Singapore on 1 September 2011. On 1 September 2011, Petro-king Hong Kong was allotted and issued one ordinary share in Turbodrill SG at par for a consideration of US\$1 and the issued share capital of Turbodrill SG was US\$1 divided into one share of US\$1. After such share issuance, Petro-king Hong Kong became the sole owner of one share in Turbodrill SG (representing 100% of the issued share capital of Turbodrill SG). Turbodrill SG is principally engaged in the manufacturing and repairing of oilfield and gasfield machinery and equipment.

(6) Incorporation of our South American subsidiaries

Petro-king South America

Petro-king South America was incorporated in the BVI as a BVI business company on 16 March 2012. On 16 March 2012, Petro-king Hong Kong was allotted and issued 50,000 shares in Petro-king South America for a total consideration of US\$50,000 and became the sole shareholder of Petro-king South America. On 3 April 2012, Petro-king Hong Kong was further allotted and issued 950,000 shares in Petro-king South America for a total consideration of US\$950,000. Petro-king South America is the holding vehicle of the Group's arms of business in South America.

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Petro-king Venezuela

Petro-king Venezuela was incorporated in Venezuela on 17 September 2012 and on the same date, Petro-king South America and Mr. Guo Wei (郭瑋) were allotted and issued 999,999 shares and one share in Petro-king Venezuela at par for a consideration of Bs 4,299,995.7 (equivalent to HK\$5,304,923) and Bs 4.30 (equivalent to HK\$5.30), respectively. Mr. Guo Wei holds one share on behalf of Petro-king South America.

(7) Incorporation of Kish Islands subsidiary

Expert Oil Services

Expert Oil Services was incorporated as a limited liability company in Kish Island on 5 August 2008. As of its incorporation, the capital of Expert Oil Services was 150 million Rials in cash and Expert Oil Services was owned as to 98% of its shareholding by Wellsharp Group and 2% of its shareholding by Mr. Yang Yingwei (楊映煒). It was formerly known as “Petro-King Oil Services Kish” and changed its name to “Expert Oil Services Kish” on 22 October 2008. Expert Oil Services was incorporated to principally act as a technical consultancy and service centre with import and export licence for oilfields exploration and development together with products sale. Expert Oil Services has not carried out any business since its incorporation.

(8) Acquisitions of Shenzhen FST and Dezhou Jiacheng

Shenzhen FST

On 20 January 2006, Shenzhen FST was established in Shenzhen with a registered capital of RMB500,000 and was owned by Mr. He Jianhui (何建輝) and Ms. Chen Hongli (陳紅利), as to 60% and 40%, respectively. The registered capital had been fully paid up by the time of the establishment of Shenzhen FST in January 2006. Shenzhen FST is principally engaged in the provision of inspection and examination services for well completion and tools equipment used under the wellhead system, and sale of wellhead control and examination panels, equipment and device.

On 1 August 2006, the registered capital of Shenzhen FST was increased from RMB500,000 to RMB3,500,000. The additional capital of RMB3,000,000 was contributed by Mr. He Jianhui as to RMB2,500,000 and by Ms. Chen Hongli as to RMB500,000. After the capital increase, Shenzhen FST was owned as to 80% by Mr. He Jianhui and 20% by Ms. Chen Hongli.

On 30 October 2006, pursuant to an equity transfer agreement dated 24 October 2006, Mr. He Jianhui transferred 60% and 20% of the equity interests in Shenzhen FST to Ms. Chen Hongli and Mr. Ding Hua (丁華), an Independent Third Party, respectively, for a consideration of RMB1 and RMB1 respectively. Based on our records, the transfer was intended to increase Shenzhen FST’s chance of success in a tender for certain projects. After the transfer, Shenzhen FST was owned as to 80% by Ms. Chen Hongli and 20% by Mr. Ding Hua.

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On 26 August 2009, pursuant to an equity transfer agreement dated 18 August 2009, Mr. Ding Hua transferred all of his equity interests in Shenzhen FST (representing 20% of the equity interests in Shenzhen FST) to Mr. He Jianhui for a consideration of RMB1. After the transfer, Shenzhen FST was owned as to 80% by Ms. Chen Hongli and 20% by Mr. He Jianhui.

On 27 May 2011, pursuant to an equity transfer agreement dated 19 May 2011, Ms. Chen Hongli transferred 4% of equity interests in Shenzhen FST to Mr. Zhang Yanwu (張燕舞), an Independent Third Party, for a consideration equivalent to the amount of capital contributed for such portion of equity interests, being RMB140,000. The consideration was determined taking into account the fact that it served as an incentive offered to Mr. Zhang Yanwu, who was one of the senior management of Shenzhen FST. After the transfer, Shenzhen FST was owned as to 76% by Ms. Chen Hongli, 20% by Mr. He Jianhui and 4% by Mr. Zhang Yanwu.

On 10 June 2011, pursuant to an equity transfer agreement dated 31 May 2011 (as amended and supplemented), Petro-king Shenzhen acquired 60% of the equity interests in Shenzhen FST from Ms. Chen Hongli for a consideration of RMB50,400,000. The consideration was determined based on Shenzhen FST's business performance and a profit guarantee provided by Ms. Chen Hongli for the two years ended 31 December 2011. The Directors consider such consideration to be reasonable and on normal commercial terms (although when compared to the purchase consideration paid by Mr. Zhang Yanwu for the respective 4% equity interest in Shenzhen FST, it was relatively lower) because (a) the consideration by Mr. Zhang Yanwu had taken into account the fact that it served as an incentive to Mr. Zhang Yanwu for his services as one of the senior management of Shenzhen FST, and (b) Ms. Chen Hongli provided the profit guarantee for the two years ended 31 December 2011. The total after-tax net profit of Shenzhen FST for the two years ended 31 December 2011 has met the profit guarantee provided by Ms. Chen Hongli. After the acquisition, Shenzhen FST was owned as to 60% by Petro-king Shenzhen, 16% by Ms. Chen Hongli, 20% by Mr. He Jianhui and 4% by Mr. Zhang Yanwu.

On 20 April 2012, the registered capital of Shenzhen FST was increased from RMB3,500,000 to RMB10,000,000. The additional capital of RMB6,500,000 was contributed pro-rata to its respective shareholding by Petro-king Shenzhen as to RMB3,900,000, Ms. Chen Hongli as to RMB1,040,000, Mr. He Jianhui as to RMB1,300,000 and Mr. Zhang Yanwu as to RMB260,000, respectively. The equity interest of Petro-king Shenzhen, Ms. Chen Hongli, Mr. He Jianhui and Mr. Zhang Yanwu in Shenzhen FST remained unchanged after the capital increase.

Incorporation of Shenzhen FST Bao'an Branch

Shenzhen FST established a branch in Bao'an district, Shenzhen on 25 July 2012 ("**Shenzhen FST Bao'an Branch**"). Shenzhen FST Bao'an Branch was established to carry out the business of manufacture and sales of wellhead control and examination equipment and device. It had not carried out any business as at the Latest Practicable Date.

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Incorporation of Huizhou FST

On 14 August 2012, Huizhou FST was established in Huizhou, Guangdong province, PRC with a registered capital of RMB10,000,000, which was fully contributed by Shenzhen FST. Huizhou FST is wholly-owned by Shenzhen FST. It was established to carry out sales and lease of equipment and provision of drilling and well completion services. As at the Latest Practicable Date, Huizhou FST had not commenced its actual business operation yet.

Dezhou Jiacheng

On 3 April 2007, Dezhou Jiacheng was established in Dezhou, Shandong Province, PRC with a registered capital of RMB2,000,000 and was owned by Ms. Gu Li (谷麗) as to 60% and Ms. Li Xiaowei (李曉薇) as to 40%. The registered capital had been fully paid up by the time of the establishment of Dezhou Jiacheng. Dezhou Jiacheng is principally engaged in the research, production, sale and after-sale services of drilling equipment, well cementing and well completion precision components, parts and tools.

On 20 May 2008, the registered capital of Dezhou Jiacheng was increased from RMB2,000,000 to RMB10,000,000. The additional capital of RMB8,000,000 was contributed by Ms. Gu Li as to 16.25% by cash and 德州嘉誠經貿有限公司 (Dezhou Jiacheng Trading Co., Ltd.*) as to 83.75% by contribution of land use right.⁽¹⁾ After the capital increase, Dezhou Jiacheng was owned as to 67% by Dezhou Jiacheng Trading Co., Ltd., 25% by Ms. Gu Li and 8% by Ms. Li Xiaowei.

On 18 October 2008, pursuant to two equity transfer agreements both dated 4 September 2008, Dezhou Jiacheng Trading Co., Ltd., an Independent Third Party, transferred 58% and 9% of equity interests in Dezhou Jiacheng to Ms. Gu Li, an Independent Third Party, and Ms. Li Xiaowei, an Independent Third Party, respectively, for a consideration of RMB5,800,000 and RMB900,000 respectively. The consideration amounts were mutually agreed by Dezhou Jiacheng Trading Co., Ltd. and Ms. Gu Li and Ms. Li Xiaowei respectively with reference to the then net assets of Dezhou Jiacheng. After the equity transfers, Dezhou Jiacheng was owned as to 83% by Ms. Gu Li and 17% by Ms. Li Xiaowei.

On 3 April 2009, pursuant to two equity transfer agreements both dated 2 April 2009, Petro-king Shenzhen acquired 83% and 17% of the equity interests in Dezhou Jiacheng from Ms. Gu Li and Ms. Li Xiaowei respectively for an aggregate consideration of RMB6,000,000. The consideration amount was based on the net asset value of Dezhou Jiacheng as at 20 March 2009. After the acquisitions, Dezhou Jiacheng became a wholly-owned subsidiary of Petro-king Shenzhen.

⁽¹⁾ In March 2009, Dezhou Jiacheng contributed this land use right to the registered capital of its subsidiary, 德州嘉美工貿有限公司 (Dezhou Jiamei Industry and Trading Co., Ltd.*), and in the same month transferred the entire equity interests in this subsidiary to Ms. Gu Li and Ms. Gu Shuang (谷爽) for a total consideration of RMB4,690,000 before the Group acquired a majority of interest in Dezhou Jiacheng.

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(9) Acquisition of the Sheraton Group

Sheraton Investment was incorporated as a limited liability company in the BVI on 9 June 2010 to act as the holding vehicle of the Sheraton Group. On 24 June 2010, Mr. Albert Wong was allotted and issued 45 shares in Sheraton Investment (representing 100% of the issued share of Sheraton Investment) with no par value for a total consideration of US\$45. On 29 December 2010, Mr. Albert Wong was further allotted and issued 555 shares in Sheraton Investment for a total consideration of SGD256,000.41. After such share issuances, Mr. Albert Wong became the sole owner of 600 shares in Sheraton Investment (representing 100% of the issued share of Sheraton Investment) and Sheraton Investment was wholly-owned by Mr. Albert Wong. On 30 December 2010, Mr. Albert Wong transferred 600 shares (representing 100% of the issued share capital of Sheraton Investment) in Sheraton Investment to Natural Peak for a total consideration of SGD600, and Sheraton Investment became a wholly-owned subsidiary of Natural Peak, which in turn is wholly-owned by Mr. Albert Wong.

Star Petrotech was incorporated as a company limited by shares in Singapore on 4 February 2009. The former name of Star Petrotech was “Star Petroleum Engineering Pte. Ltd.” and its name was changed to “Star Petrotech Pte. Ltd.” on 18 February 2009. At the time of its incorporation, the issued share capital of Star Petrotech was SGD2 divided into two shares of SGD1 each and Mr. Albert Wong was the sole shareholder of Star Petrotech. Energy Technology Group Inc., an Independent Third Party, acquired two shares from Mr. Albert Wong on 21 July 2009 and was allotted and issued 174,998 shares and 225,000 shares in Star Petrotech on 21 July 2009 and 16 September 2009, respectively. On 27 August 2010, pursuant to a share transfer form also dated 27 August 2010, Sheraton Investment acquired 400,000 ordinary shares in Star Petrotech (representing 100% issued shares in Star Petrotech) from Energy Technology Group Inc. for a total consideration of SGD256,000 and became the sole shareholder of Star Petrotech. Star Petrotech is principally engaged in the design, development and manufacturing of oilfield products.

H-Star Petrotech was incorporated as a limited liability company in Hong Kong on 10 December 2010 to act as the holding company of Sun Oil. At the time of the incorporation of H-Star Petrotech, Sheraton Investment was allotted and issued 10,000 shares of HK\$1 each in H-Star Petrotech at par for a consideration of HK\$10,000, and the issued share capital of H-Star Petrotech was HK\$10,000 divided into 10,000 shares of HK\$1 each. Since then, there has been no change in the issued share capital and shareholding of H-Star Petrotech. Sheraton Investment is currently the sole shareholder of H-Star Petrotech.

On 8 April 2011, Sun Oil was established in Shenzhen with a registered capital of US\$1,000,000 and was wholly-owned by H-Star Petrotech. H-Star Petrotech made contributions of US\$150,075, US\$34,970, US\$399,975, US\$99,975 and US\$99,975 towards the registered capital of Sun Oil on 25 July 2011, 2 September 2011, 27 December 2011, 18 April 2012 and 22 August 2012 respectively. As a result of such contributions, H-Star Petrotech paid up an aggregate of US\$784,970 of the registered capital. The contribution of the remaining registered capital of US\$215,030 will have to be made before 8 April 2013. Sun Oil is principally engaged in the production and sale of well completion precision components, parts and tools.

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Pursuant to the agreement in relation to the subscription and sale and purchase of shares entered into between Sheraton Investment, Natural Peak, the Company and Mr. Albert Wong dated 24 January 2011 (as amended by a supplemental agreement dated 21 June 2012 between the same parties) (the “**Sheraton Agreement**”), the following transactions took place as a result of which the Company agreed to purchase and subscribe for up to 55% interest in the Sheraton Group:

- the Company, through its wholly-owned subsidiary Hero Gain, subscribed for 400 new shares in Sheraton Investment on 11 February 2011 for a consideration of SGD488,888 as mutually agreed in the Sheraton Agreement (the “**Subscription of Sheraton Shares**”). The consideration was agreed as a result of arm’s length negotiations between the parties with reference to the capital injection of SGD400,000 by the founder of Star Petrotech. Subsequent to the Subscription of Sheraton Shares, Hero Gain became interested in 40% of the issued share capital of Sheraton Investment; and
- Natural Peak agreed to sell and the Company agreed to purchase an aggregate of 150 shares in Sheraton Investment (representing 15% of the issued share capital of Sheraton Investment after the Subscription of Sheraton Shares) in three tranches (the “**Sale and Purchase of Sheraton Shares**”). The consideration for each tranche of the Sale and Purchase of Sheraton Shares would be such number of Shares allotted and issued or to be allotted and issued (as the case may be) to Natural Peak at the completion of the relevant tranche as calculated with reference to the net profit of the Sheraton Group and the Group (excluding the Sheraton Group) for a particular financial year. In other words, the consideration for the first tranche, second tranche and third tranche of the Sale and Purchase of Sheraton Shares was or would be calculated with reference to the years ended 31 December 2010, 2011 and 2012, respectively.

In particular, the number of Shares or Voting Shares (as the case may be, depending on the time of completion of the relevant termination will reference to the Amendment of Memorandum) allotted and issued or to be allotted and issued (as the case may be) as the relevant consideration for the relevant tranche shall be calculated in accordance with the following formula:

$$\frac{\text{Relevant Amount}}{\text{Petro-king Group Adjusted Net Profits}} \times \text{Total number of issued Shares}$$

but in the event that the audited consolidated accounts of the Group for the relevant financial year is not ready within 90 days after the end of such relevant financial year, then the number of Shares to be allotted and issued to in respect of such relevant financial year shall be calculated as follows (subject to adjustment as more particularly set out in the Sheraton Agreement):

$$\frac{\text{Relevant Amount}}{\text{Petro-king Group Adjusted Unaudited Net Profits}} \times \text{Total number of issued Shares}$$

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Where:

- (a) *Relevant Amount* is the total amount in respect of the relevant financial year calculated as follows:

$$\frac{\text{Adjusted Net Profits of the Sheraton Group} \times \text{Relevant Percentage}}{1.35}$$

where:

Adjusted Net Profits is the audited consolidated Operating Profits after minority interests and taxation in respect of the relevant financial year prepared in accordance with Hong Kong Financial Reporting Standards.

Operating Profits shall mean profits excluding (i) fair value gain or loss arising from valuation of property or non-competition clause or any financial assets and liabilities; (ii) staff expenses in relation to granting of share options (if any); and (iii) non-recurring gain or loss.

Relevant Percentage is 20%, 20% and 15% for the years ended 31 December 2010, 2011 and 2012 respectively.

Petro-king Group is the Group excluding the Sheraton Group.

- (b) *Petro-king Group Adjusted Net Profits* is the audited consolidated Operating Profits of the Petro-king Group as adjusted after excluding such audited consolidated Operating Profits as are attributable to the minority shareholders of the Petro-king Group and after including 55% of the audited consolidated Operating Profits derived by the Sheraton Group in the relevant financial year.
- (c) *Petro-king Group Adjusted Unaudited Net Profits* is the unaudited consolidated Operating Profits of the Petro-king Group as adjusted after excluding such unaudited consolidated Operating Profits as are attributable to the minority shareholders of the Petro-king Group and after including 55% of the consolidated Operating Profits derived by the Sheraton Group for the year ended 31 December 2011.

provided that (i) if the Adjusted Net Profits of the Sheraton Group for any financial year is zero or negative, then no Share shall be issued for that financial year and in that case the consideration for the relevant tranche shall be HK\$1; and (ii) if the Adjusted Net Profits of the Sheraton Group for any financial year is positive and the Petro-king Group Adjusted Net Profits of the same financial year is zero or negative, then the relevant consideration shall be such number of Shares or Voting Shares (as the case may be) that equals to 10% of the issued Shares as at the completion date of the relevant tranche minus the aggregate number

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of Shares previously issued and allotted to Natural Peak (the “**Remaining Shares**”), provided always that for the avoidance of doubt if the Remaining Shares equals to zero, then no Shares shall be issued to Natural Peak and the relevant consideration shall automatically become HK\$1.

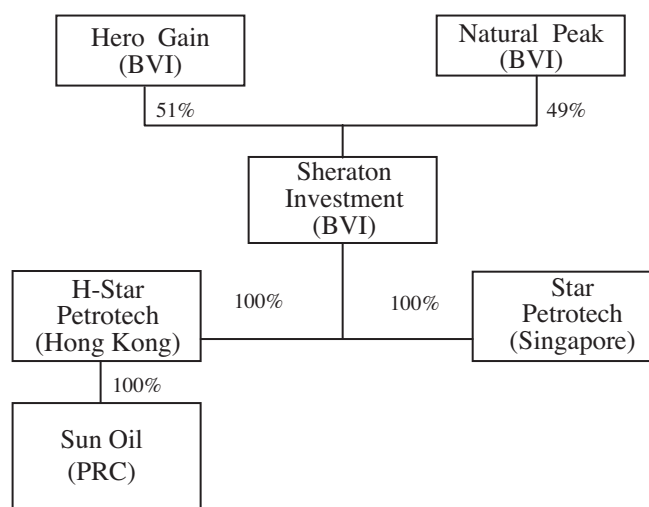
Notwithstanding the foregoing, (i) if, in respect of a tranche of the Sale and Purchase of Sheraton Shares, Natural Peak was not entitled to issuance of any Shares based on the agreed formulae, then the consideration for that tranche of the Sale and Purchase of Sheraton Shares would be HK\$1; and (ii) the aggregate number of Shares to be issued to Natural Peak under the Sale and Purchase of Sheraton Shares shall not exceed 10% of the issued Shares of the Company at all times.

The first tranche of the Sale and Purchase of Sheraton Shares involved the transfer of 55 shares in Sheraton Investment to Hero Gain and was completed on 15 July 2011 for a consideration of HK\$1 (as Natural Peak was not entitled to issuance of any Shares based on the agreed formulae). The second tranche of the Sale and Purchase of Sheraton Shares involved the transfer of 55 shares in Sheraton Investment to Hero Gain and was completed on 21 June 2012 in consideration of the issuance of 102 Voting Shares to Natural Peak (representing approximately 1% of the issued share capital of the Company as at 21 June 2012 and the Latest Practicable Date). The third tranche of the Sale and Purchase of Sheraton Shares would involve the transfer of 40 shares in Sheraton Investment and it is contemplated by the Company that it would complete in the second quarter of 2013.

After completion of the second tranche of the Sale and Purchase of Sheraton Shares, Sheraton Investment was owned by Hero Gain as to 51% and Natural Peak as to 49%. Natural Peak has undertaken to the Company that it shall not, and shall procure its ultimate beneficial owners not to, amongst others, transfer, dispose of or pledge its Shares until six months from the Listing Date. Given that Natural Peak is a company wholly owned by Mr. Albert Wong, each of Mr. Albert Wong and Natural Peak is a substantial shareholder of Sheraton Investment, thus each of Mr. Albert Wong and Natural Peak is a connected person of the Group. In the event that the Company is required to issue Share(s) as consideration for the third tranche of the Sale and Purchase of Sheraton Shares to Mr. Albert Wong or Natural Peak, this may constitute connected transaction for the Company. The Company will comply with the relevant requirements of the Listing Rules, if required.

HISTORY AND DEVELOPMENT

The following chart sets out the shareholding and corporate structure of the Sheraton Group as at the Latest Practicable Date:



(10) Termbray Investment

In October 2007, Mr. Wang, Ms. Zhou, Mr. Zhao, Mr. Zhang Taiyuan, Mr. Zhong Wenxu, Ms. Sun Jinxia, Ms. Yin Zhaohui (collectively, the “**PRC Vendors**”), Termbray Industries, the Company and Petro-king Hong Kong entered into a number of agreements that stipulated the following transactions step by step with a view to accomplishing the investment by Termbray Industries in 51% interest in each of Petro-king International and Petro-king Shenzhen:

1. Pursuant to an acquisition agreement dated 10 October 2007 entered into between the PRC Vendors and Petro-king Hong Kong, each of the PRC Vendors agreed to sell and Petro-king Hong Kong agreed to purchase, all of their equity interests in Petro-king Shenzhen for a consideration of RMB30,000,000 calculated with reference to Petro-king Shenzhen’s net asset value as at 31 December 2006. On 19 December 2007, 深圳市貿易工業局 (Shenzhen Bureau of Trade and Industry*) approved this acquisition. After the acquisition, Petro-king Shenzhen became a foreign-invested company with 100% equity interest owned by Petro-king Hong Kong, which was a subsidiary indirectly wholly-owned by Termbray Industries on and before the date of acquisition approval;
2. Pursuant to an agreement dated 10 October 2007 for the sale and purchase of shares in Petro-king International entered into between the PRC Vendors, Ms. Kan Yim Hung, the Company, Petro-king Hong Kong and Termbray Industries, it was agreed that the following series of transactions would occur in the following sequence:
 - (1) Corporate reorganisation of Petro-king International under which Mr. Wang, Ms. Zhou and Ms. Kan Yim Hung agreed to transfer all of their shares in Petro-king International to King Shine which was held as at the date of transfer as to 5,528 shares by Mr. Wang, as to 1,752 shares by Ms. Zhou, as to 1,733 shares by Mr. Zhao, as to

HISTORY AND DEVELOPMENT

300 shares by Mr. Zhang Taiyuan, as to 87 shares by Mr. Zhong Wenxu, as to 300 shares by Ms. Sun Jinxia and as to 300 shares by Ms. Yin Zhaohui, to the effect that King Shine became the sole shareholder of Petro-king International (the “**Petro-king International Reorganisation**”);

- (2) Subsequent to the Petro-king International Reorganisation, sale and purchase of 51% interest in Petro-king International under which King Shine agreed to sell, and Petro-king Hong Kong agreed to purchase, 51 shares in Petro-king International (representing 51% of the issued share capital of Petro-king International) for a consideration of RMB225,000,000 (the “**Petro-king International Initial Acquisition**”); and
- (3) Upon completion of the Petro-king International Initial Acquisition, sale and purchase of 49% interest in Petro-king International under which King Shine agreed to sell, and Petro-king Hong Kong agreed to purchase, 49 shares in Petro-king International (representing 49% of the issued share capital of Petro-king International) in consideration of (i) the allotment and issuance by the Company, which was the holding company of Petro-king Hong Kong, to King Shine such number of Share representing 49% of the issued share capital of the Company for a consideration of HK\$7.8 per Share; and (ii) the assignment of 49% of the non-interest bearing shareholders’ loan advanced to the Company from Termbray Industries and/or its subsidiaries in such amount outstanding as at completion of the Petro-king International Initial Acquisition (the “**Petro-king International Final Acquisition**”).

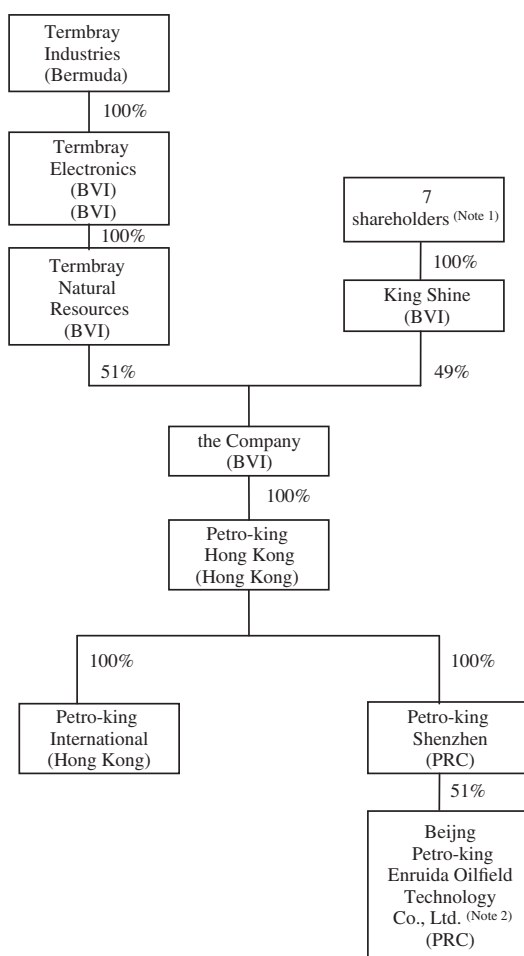
Immediately before Termbray Investment, Termbray Natural Resources, as the sole shareholder of the Company, held 100 Shares in the Company. For the purpose of Termbray Investment, on 31 December 2007, the Company issued and allotted (i) 2 Shares to Termbray Natural Resources for cash at a total consideration of US\$2 and (ii) 98 Shares to King Shine as consideration shares in the Petro-king International Final Acquisition at a total consideration of HK\$764.40. The Petro-king International Reorganisation, the Petro-king International Initial Acquisition and the Petro-king International Final Acquisition were completed on 20 December 2007, 31 December 2007 and 31 December 2007 respectively. After the Termbray Investment, Termbray Industries (indirectly via its wholly-owned subsidiaries) and King Shine respectively became interested in 51% and 49% Shares in the Company, which through its wholly-owned subsidiary Petro-king Hong Kong became interested in 100% of shares and equity interests in Petro-king International and Petro-king Shenzhen respectively.

As advised by our PRC Legal Adviser, mergers and acquisitions of domestic enterprises by foreign investors shall be reviewed and approved by the MOFCOM or provincial commercial authority according to the M&A Rules. The transaction in relation to the transfer by the PRC Vendors of all of their equity interests in Petro-king Shenzhen to Petro-king Hong Kong was approved on 19 December 2007. The transaction has been approved by the provincial competent commercial authority “**深圳市貿易工業局**(Shenzhen Bureau of Trade and Industry*)” as per the provisions of the M&A

HISTORY AND DEVELOPMENT

Rules. Both the transaction price basis and the consideration payment were in compliance with the provisions of the M&A Rules. As the PRC Vendors did not have any interests or have any control on Petro-king Hong Kong and its shareholding companies on and before the aforesaid acquisition approval date (i.e., there was no connected relationship between the transaction parties at that stage) and the acquisition consideration was fully paid in cash rather than equities or shares, the transaction was neither an acquisition between affiliated parties nor an acquisition based on the equities payment, and thus does not fall into the category which should be submitted to the MOFCOM for approval.

The following chart sets out the shareholding structure of the Group immediately after the Termbray Investment:



HISTORY AND DEVELOPMENT

Notes:

1. King Shine was beneficially owned by 7 shareholders as set out below.

<u>Shareholders of King Shine</u>	<u>Shareholding interest in King Shine Approximate (%)</u>
Mr. Wang	55.28%
Ms. Zhou.....	17.52%
Mr. Zhao	17.33%
Mr. Zhang Taiyuan	3.00%
Mr. Zhong Wenxu.....	3.00%
Ms. Sun Jinxia	3.00%
Ms. Yin Zhaohui.....	0.87%

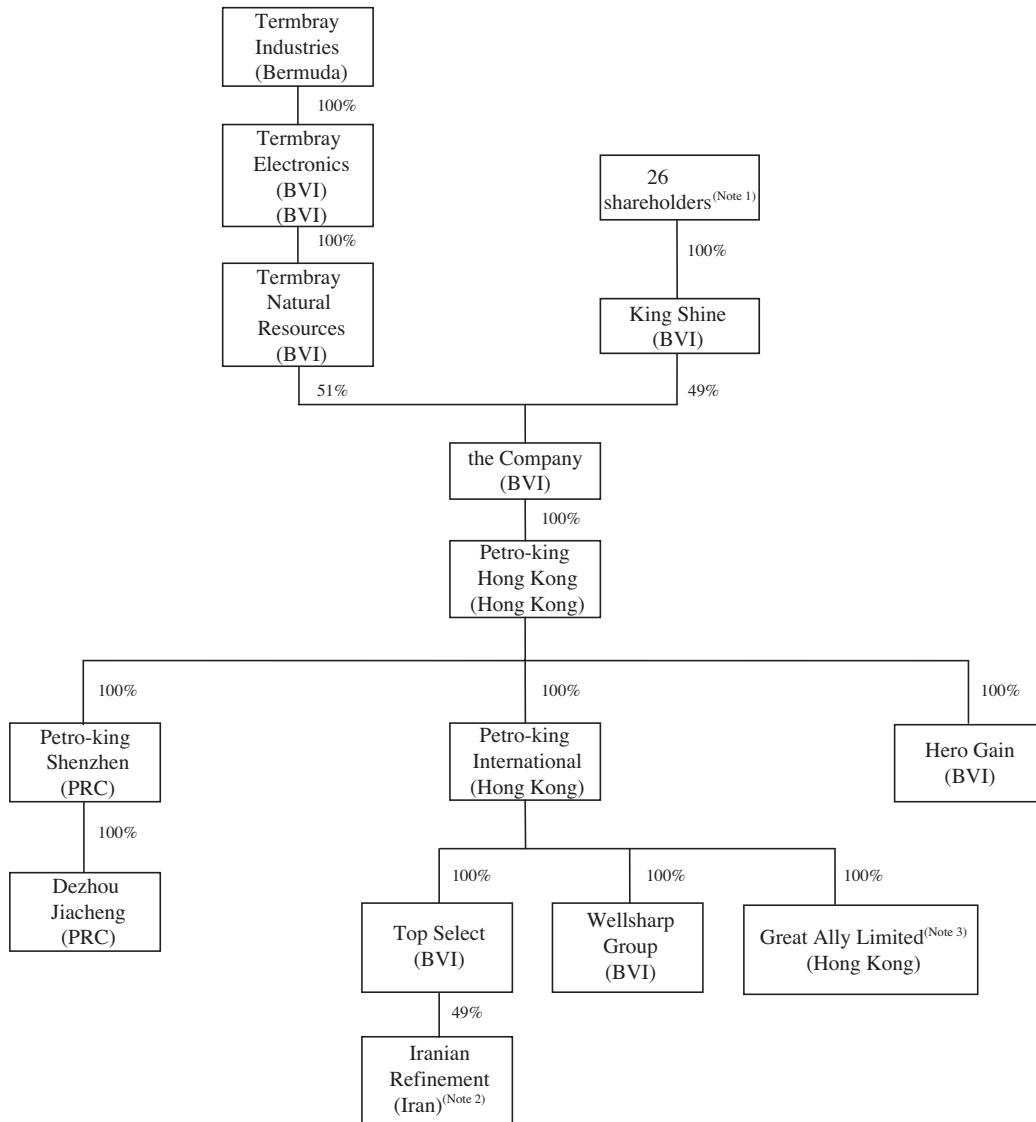
2. 北京百勤恩瑞達石油技術有限公司 (Beijing Petro-king Enruida Oilfield Technology Co., Ltd.*) was incorporated on 5 April 2006 by Petro-king Shenzhen, 北京恩瑞達科技有限公司 (Beijing Enruida Technology Co., Ltd.*) and Mr. Shang Yong (商勇). Its principal business activities were sales and provision of technical services of equipment and tools which were mainly used in drilling, well completion, well cementing and down hole operations. Petro-king Shenzhen initially owned 48% of the equity interests in Beijing Petro-king Enruida Oilfield Technology Co., Ltd. and subsequently increased its equity interests to 51%. Beijing Petro-king Enruida Oilfield Technology Co., Ltd. was established by its shareholders to explore new markets, but then Petro-king Shenzhen intended to focus more on carrying out its own business and after mutual agreement between the shareholders of Beijing Petro-king Enruida Oilfield Technology Co., Ltd., it was deregistered on 11 October 2010.

(11) TCL Investment

On 20 October 2010, pursuant to a subscription agreement entered into between the Company, TCL HK, King Shine and Termbray Natural Resources dated 3 September 2010 (as supplemented by a first supplemental agreement dated 28 September 2010 and a second supplemental agreement dated 29 June 2012), TCL HK subscribed for 1,000 Shares (representing 10% of the enlarged issued share capital of the Company) for a consideration of US dollar equivalent of RMB88.8 million. After the TCL Investment, Termbray Industries (indirectly via its wholly-owned subsidiaries), TCL Corporation (indirectly via TCL HK) and King Shine respectively became interested in 45.9%, 10% and 44.1% of the total issued Shares of the Company, which through its wholly-owned subsidiary Petro-king Hong Kong was interested in 100% of shares and equity interest in Petro-king International, Petro-king Shenzhen and Hero Gain respectively. Proceeds of the TCL Investment were used for the Group's working capital. On 1 March 2012, TCL HK transferred all of its 1,000 Shares in the Company to Jade Win Investment Limited for a consideration of HK\$103,221,316 (equivalent to approximately RMB83.2 million base on exchange rate as at the Latest Practicable Date). Jade Win Investment Limited has undertaken to the Company that it shall not, and shall procure its ultimate and intermediate beneficial owners not to, amongst others, transfer, dispose of or pledge its Shares until six months from the Listing Date.

HISTORY AND DEVELOPMENT

The following chart sets out the shareholding structure of the Group immediately before the TCL Investment:



HISTORY AND DEVELOPMENT

Notes:

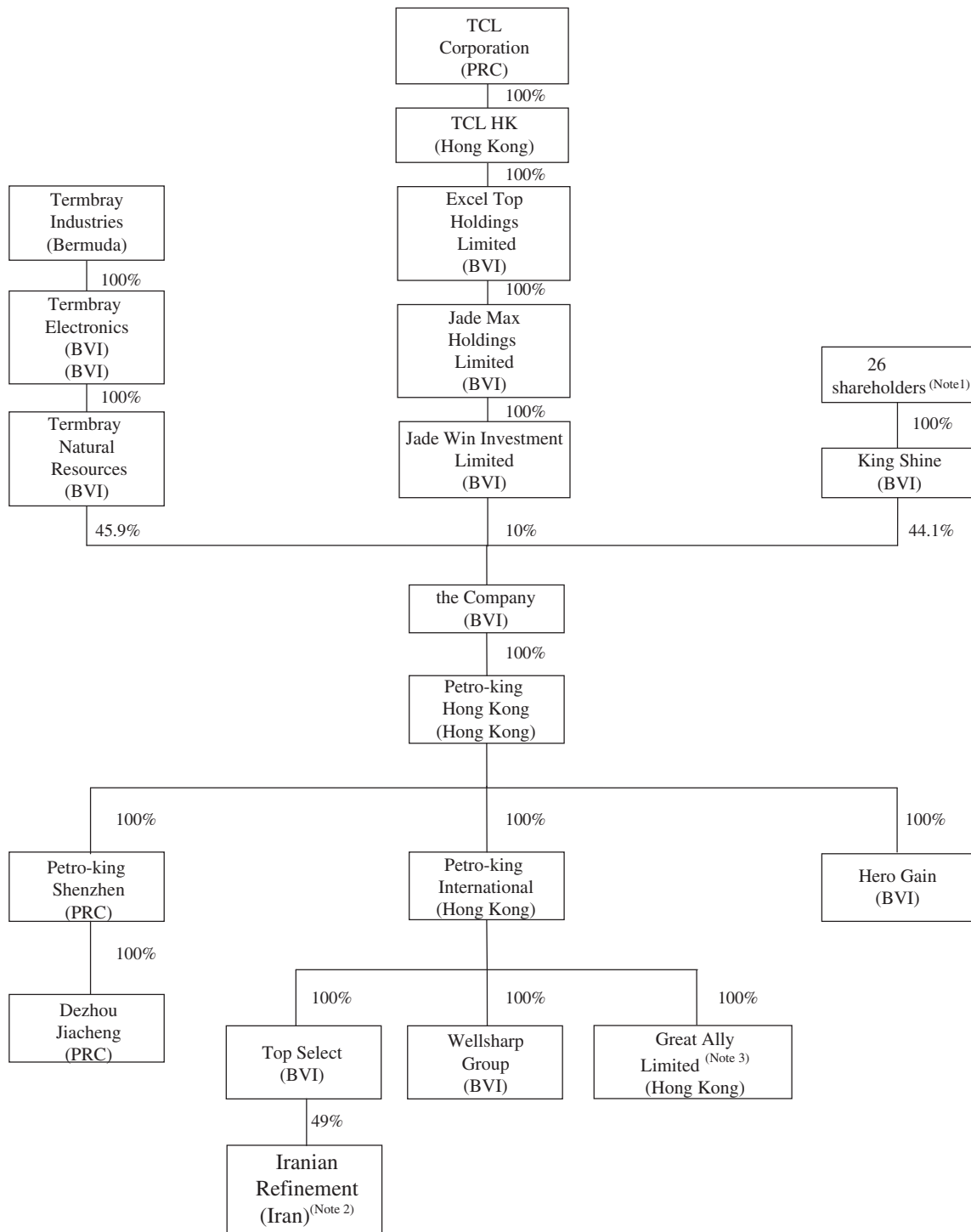
1. King Shine was beneficially owned by 26 shareholders as set out below.

Shareholders of King Shine	Shareholding interest in King Shine Approximate (%)
Mr. Wang	44.83%
Ms. Zhou.....	17.21%
Mr. Zhao	14.08%
Mr. Zhang Taiyuan	2.95%
Ms. Sun Jinxia	2.95%
Huang Yu	2.95%
20 shareholders (comprising senior management and employees of the Group)	15.03%

2. Iranian Refinement was incorporated in Iran on 3 March 2009, which was owned as to 49% of its shareholdings by Mr. Yang Yingwei (as set out below), 25.5% by Mr. Ehsan Naghipour and 25.5% by Mr. Pedram Fathiyeh. Considering the Group's potential business in Iran and the benefit of having a local entity in Iran, on 1 April 2010, the Group acquired 49% shareholdings in Iranian Refinement from Mr. Yang Yingwei, a 0.20% shareholder of King Shine and a past employee of the Group responsible for the Yadavaran Project and, an Independent Third Party, through its subsidiary, Top Select, at a consideration of 14,700,000 Rials (approximately US\$1,470), which was based on the initial capital contribution that Mr. Yang Yingwei made to Iranian Refinement. After the share transfer, Iranian Refinement was owned as to 49% by Top Select, 25.5% by Mr. Ehsan Naghipour and 25.5% by Mr. Pedram Fathiyeh. Iranian Refinement is engaged in provision of oilfield technology and services including trading of tools and equipment. The Group disposed of its entire interests in Top Select (which held 49% interest in Iranian Refinement) on 9 November 2012.
3. Great Ally Limited was incorporated on 12 June 2008 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each to carry out certain overseas project of our Group. At the time of its incorporation, one share was allotted and issued at par to Harefield Limited, an Independent Third Party, as the subscriber. 99 shares were allotted and issued to Mr. Lee Tommy, our Non-executive Director, as nominee on trust for and on behalf of Petro-king International as beneficiary. On the same date, Harefield Limited transferred its one share in Great Ally Limited to Mr. Lee Tommy as nominee on trust for and on behalf of Petro-king International as beneficiary. Accordingly, as at 7 July 2008, Petro-king International beneficially owned 100% of the total issued shares in Great Ally Limited. As the project which Great Ally Limited was established to carry out was finally cancelled and Great Ally Limited had not ever conducted any business, it was deregistered on 3 June 2011.

HISTORY AND DEVELOPMENT

The following chart sets out the shareholding structure of the Group immediately after the TCL Investment:



HISTORY AND DEVELOPMENT

Notes:

1. King Shine was beneficially owned by 26 shareholders as set out below. Please refer to note 1 on page 153 in this section for details.
2. Please refer to note 2 on page 153 of this section for details of Iranian Refinement.
3. Please refer to note 3 on page 153 of this section for details of Great Ally Limited.

(12) Disposal of Top Select

Top Select was incorporated as a limited liability company in the BVI on 2 January 2009. On 27 March 2009, Petro-king International was allotted and issued 10,000 shares of US\$1 each in Top Select at par for a consideration of US\$10,000 and became the sole shareholder of Top Select. On 11 August 2010, Petro-king International was allotted and issued 210,000 shares in Top Select at par for a consideration of US\$210,000 and the issued share capital of Top Select was increased from US\$10,000 to US\$220,000. After such share issuance, Petro-king International became the sole owner of 220,000 shares in Top Select (representing 100% of the issued share capital of Top Select). Top Select was principally engaged in the provision of oilfield services in the Middle East. On 2 May 2011, it established a branch in Syria, which was to carry out business of supplying and offering of services and equipment for oil and gas companies.

On 9 November 2012, Petro-king International and Mr. Yang Yingwei (楊映煒) entered into a sale and purchase agreement, pursuant to which Petro-king International agreed to sell and Mr. Yang Yingwei agreed to purchase 220,000 shares of US\$1 each in Top Select, being the entire issued share capital of Top Select, for a consideration of HK\$4,280,000. The consideration was determined on arm's length with reference to the net asset value of Top Select as valued by an independent valuer, which amounted to approximately US\$661,000.

HISTORY AND DEVELOPMENT

The following table sets out a breakdown of the fair value of net assets of Top Select as at 31 October 2012:

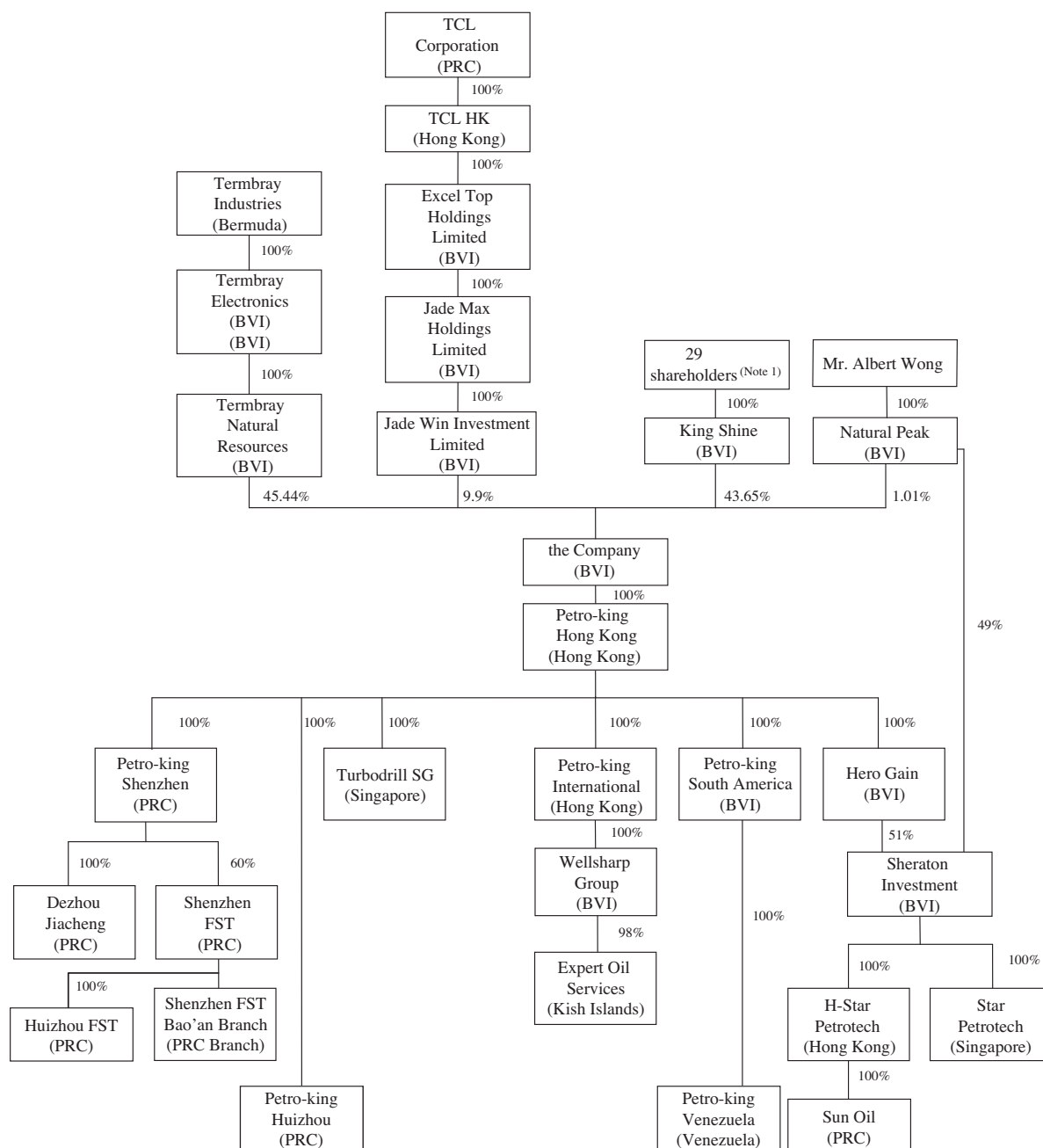
	As at 31 October 2012 <i>(USD'000)</i> <i>(approx.)</i>
Total assets	
Bank balances and cash.....	434
Trade and other receivables and prepayments	10,905
Inventories	1,262
Property, plant and equipment	621
Total Assets	<u>13,222</u>
Total Liabilities	
Trade and other payables.....	<u>(12,561)</u>
Total Liabilities	<u>(12,561)</u>
Net Asset Value	661

The consideration represented an approximate 16.5% discount to the independent valuation of Top Select, which was a result of the negotiation between Mr. Yang Yingwei and the Group after considering the uncertainty and risks in carrying out the business in Iran and Syria (being two of the countries that are the subject of sanctions laws and regulations in various jurisdictions). The sale and purchase agreement provided, among other things, that: (a) Mr. Yang Yingwei represented and warranted to Petro-king International that he would bring no claim whatsoever against Petro-king International or its affiliates in respect of any losses, liabilities or damages suffered or incurred by him in connection with or arising from Top Select's officers or its past, present or future activities in, or relating to, Iran, Syria or elsewhere; and (b) Mr. Yang Yingwei confirmed and acknowledged that, upon completion, Petro-king International and its affiliates will not have any further liabilities or obligations (contingent or otherwise) arising from any contracts entered by Top Select and that Mr. Yang Yingwei would procure all such actions that were necessary to give effect to it.

The disposal by the Group of Top Select was completed on 9 November 2012 and the consideration was settled on 13 November 2012 by Mr. Yang Yingwei through, as confirmed by him, his personal liquid assets. In addition, as advised by our legal advisers, the relevant counterparties of the contracts entered into by Top Select will not have any rights to seek for compensation, damages, losses or specific performance against the Group upon and after the Disposal.

HISTORY AND DEVELOPMENT

The following chart sets out the shareholding and corporate structure of the Group as at the Latest Practicable Date:



HISTORY AND DEVELOPMENT

Note:

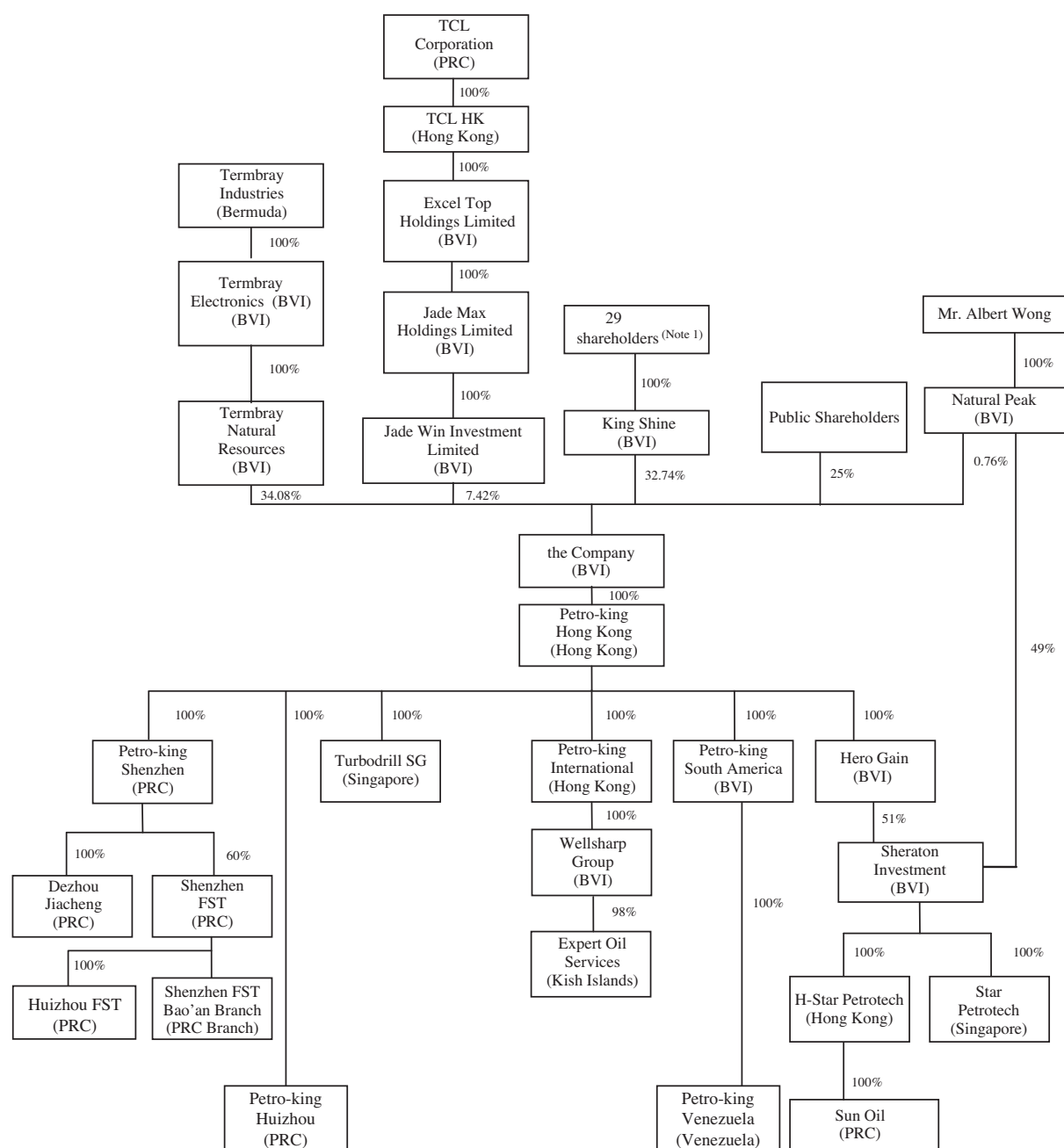
1. King Shine is beneficially owned by 29 shareholders as set out below, of which 2 shareholders, being Mr. Wang and Mr. Zhao, are our Directors and 4 shareholders, being Mr. Du Heli, Ms. Sun Jinxia, Mr. Zhang Taiyuan and Mr. Xie Qingfan, are senior management of the Group.

Shareholders of King Shine	Shareholding interest in King Shine Approximate (%)
Mr. Wang	41.19%
Ms. Zhou.....	17.21%
Mr. Zhao	14.08%
Zhang Taiyuan (張太元)	2.95%
Sun Jinxia (孫金霞).....	2.95%
Huang Yu (黃瑜)	2.95%
Du Heli (杜鶴立).....	2.27%
Yuan Fucan (袁夫存).....	2.04%
Ma Jin (馬津).....	1.96%
Xie Qingfan (謝慶繁)	1.96%
Yin Zhaohui (尹朝輝).....	0.98%
Lu Jian (陸健).....	0.98%
Tang Kaifu (唐開福).....	0.98%
Shi Junyi (史軍義).....	0.98%
Pan Xufang (潘旭芳).....	0.98%
Chen Jianwei (陳健偉)	0.91%
Huang Long (黃龍).....	0.49%
Chen Yijun (陳義軍).....	0.49%
Lai Li (賴力).....	0.49%
Chen Yuesheng (陳越勝).....	0.49%
Deng Naixian (鄧乃賢).....	0.49%
Qin Zhijian (秦志堅).....	0.45%
Chen Yang (陳洋).....	0.40%
Tian Weidong (田偉東).....	0.32%
Huang Huoyao (黃火堯).....	0.29%
Ling Jianwei (凌健偉).....	0.29%
Yang Yingwei (楊映煒).....	0.20%
Wu Xuexing (吳學興).....	0.10%
Gao Yan (高燕)	0.10%

Pursuant to Circular 75, Circular 19 and other PRC laws with respect to the shareholdings of King Shine's 29 shareholders in the Company and overseas investments, they are required to apply for registration with SAFE Shenzhen branch and obtain the foreign exchange registration certificates. On 31 August 2012, the 29 shareholders of King Shine completed the registration with SAFE Shenzhen branch and all of them have obtained the foreign exchange registration certificates in accordance with Circular 75.

HISTORY AND DEVELOPMENT

The following chart sets out the shareholding and corporate structure of the Group upon completion of the Global Offering and the Capitalisation Issue:



Note:

- Please refer to note 1 on page 158 of details of shareholders of King Shine.

HISTORY AND DEVELOPMENT

COMPLIANCE WITH THE RELEVANT PRC LAWS AND REGULATIONS

As advised by our PRC Legal Adviser, the incorporation and each change in shareholding of our PRC subsidiaries have obtained necessary approval and registration and has complied with relevant PRC legal requirements.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone placing agreements with the following investors (the “**Cornerstone Investors**”, and each of them a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe (or in the case of Value Partners Hong Kong Limited, procure certain investment or collective investment fund(s) and/or managed account(s) managed or advised by it (the “**Cornerstone Investor Fund**” to subscribe) at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of Shares) that may be purchased for an aggregate amount of US\$35 million (equivalent to HK\$271.6 million) (the “**Cornerstone Investment**”). Assuming an Offer Price of HK\$2.78, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 97,695,000 representing approximately (i) 9.77% of the Shares in issue upon the completion of the Global Offering (assuming that the Over-allotment Option is not exercised); or (ii) 9.42% of the Shares in issue upon completion of the Global Offering (assuming that the Over-allotment Option is fully exercised). Assuming an Offer Price of HK\$3.09 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be approximately 87,894,000, representing approximately (i) 8.79% of the Shares in issue upon the completion of the Global Offering (assuming that the Over-allotment Option is not exercised); or (ii) 8.47% of the Shares in issue upon completion of the Global Offering (assuming that the Over-allotment Option is fully exercised). Assuming an Offer Price of HK\$3.39, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 80,115,000 representing approximately (i) 8.01% of the Shares in issue upon the completion of the Global Offering (assuming that the Over-allotment Option is not exercised); or (ii) 7.72% of the Shares in issue upon completion of the Global Offering (assuming that the Over-allotment Option is fully exercised).

Each of the Cornerstone Investors and the Cornerstone Investor Fund is an independent third party, is independent with each other, is not our connected person, and is not an existing shareholder of our Company. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors (or the Cornerstone Investor Fund, as the case may be) will be disclosed in the allotment results announcement to be issued by the Company on or around 5 March 2013.

The Cornerstone Investment forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors (or the Cornerstone Investor Fund, as the case may be) will rank *pari passu* in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company. Other than the subscription pursuant to the respective cornerstone investment agreements, none of the Cornerstone Investors or the Cornerstone Investor Fund will subscribe for any Offer Shares under the Global Offering. Immediately upon the completion of the Global Offering, none of the Cornerstone Investors or the Cornerstone Investor Fund will have any board representation in our Company, nor will any of the Cornerstone Investors or the Cornerstone Investor Fund become our substantial shareholder. The Offer Shares to be subscribed for by the Cornerstone Investors (or the Cornerstone Investor Fund, as the case may be) will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus.

CORNERSTONE INVESTORS

CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Investment. The information on our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Investment:

Minmetals Capital (H.K.) Limited

Minmetals Capital (H.K.) Limited, incorporated in Hong Kong, is a wholly-owned subsidiary and a financial investment arm of China Minmetals Corporation (中國五礦集團公司). China Minmetals Corporation is an international metals and mining corporation primarily engaged in exploration, mining, smelting, processing and trading for metals and minerals. China Minmetals Corporation also has subsidiaries engaged in the business of finance, real estate, and mining and metallurgic technology. China Minmetals Corporation controls nine listed companies in the PRC and abroad, with total assets amounting to approximately RMB242.1 billion as at the Latest Practicable Date. In 2011, China Minmetals Corporation achieved operating revenue of RMB355.2 billion and total profit of RMB12.8 billion, ranking No.169 amongst the Fortune Global 500 and No.4 amongst metal companies.

Minmetals Capital (H.K.) Limited has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of Shares) which may be purchased with an aggregate amount of US\$10 million (equivalent to approximately HK\$77.6 million) at the Offer Price. Assuming an Offer Price of HK\$2.78, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Minmetals Capital (H.K.) Limited would subscribe for would be 27,913,000 representing approximately 2.79% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.09, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Minmetals Capital (H.K.) Limited would subscribe for would be 25,113,000 representing approximately 2.51% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.39, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Minmetals Capital (H.K.) Limited would subscribe for would be 22,890,000 representing approximately 2.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Golden Prosperity Development Limited

Golden Prosperity Development Limited is incorporated in Hong Kong, and is a wholly-owned subsidiary and the financial investment arm of Sinosteel International Holding Company Ltd. (“Sinosteel International”). Sinosteel International, incorporated in Hong Kong, is wholly owned by Sinosteel Corporation Limited (中國中鋼股份有限公司) (“Sinosteel Corporation”). Sinosteel International’s principal business is to participate in the international operation of the core business

CORNERSTONE INVESTORS

and product of Sinosteel Corporation, to optimise overseas assets and operating structure and to manage business and capital operation of overseas organisations of Sinosteel Corporation. Sinosteel Corporation is mainly engaged in, amongst others, developing, processing, trading and logistics of metallurgical resources.

Golden Prosperity Development Limited has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of Shares) which may be purchased with an aggregate amount of US\$2 million (equivalent to approximately HK\$15.5 million) at the Offer Price. Assuming an Offer Price of HK\$2.78, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Golden Prosperity Development Limited would subscribe for would be 5,582,000 representing approximately 0.56% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.09, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Golden Prosperity Development Limited would subscribe for would be 5,022,000 representing approximately 0.50% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.39, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Golden Prosperity Development Limited would subscribe for would be 4,578,000 representing approximately 0.46% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Value Partners Hong Kong Limited

Value Partners Hong Kong Limited has agreed to procure certain investment or collective investment fund(s) and/or managed account(s) managed or advised by Value Partners Hong Kong Limited or its subsidiary (the “**Investor Funds**”) to subscribe for such number of Shares (rounded down to the nearest whole board lot of Shares) which may be purchased with an aggregate amount of US\$10 million (equivalent to approximately HK\$77.6 million) at the Offer Price. Assuming an Offer Price of HK\$2.78, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Value Partners Hong Kong Limited would subscribe for would be 27,913,000 representing approximately 2.79% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.09, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Value Partners Hong Kong Limited would subscribe for would be 25,113,000 representing approximately 2.51% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.39, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Value Partners Hong Kong Limited would subscribe for would be 22,890,000 representing approximately 2.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Value Partners Hong Kong Limited (together with other subsidiaries under Value Partners Group Limited (“Value Partners”), was established in 1999. It acts as investment manager or investment advisor to certain investment funds. It is a wholly-owned subsidiary of Value Partners Group Limited,

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a company listed on the Stock Exchange (stock code: 806). Value Partners is one of Asia's largest independent asset management firms headquartered in Hong Kong. Value Partners manages absolute return long-biased funds, long-short hedge funds, exchange-traded funds, quantitative funds, as well as fixed income and credit funds for institutional and individual clients in Asia Pacific, Europe and the United States.

Clarion Valley Capital Ltd

Clarion Valley Capital Ltd is a boutique investment firm with main focus into the Association of South East Asian Nations ("ASEAN") and North Asia markets. Clarion Valley Capital Ltd is a long term investor and its investment products ranges from equities, fixed income and selected hybrids.

Clarion Valley Capital Ltd has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of Shares) which may be purchased with an aggregate amount of US\$4 million (equivalent to approximately HK\$31.0 million) at the Offer Price. Assuming an Offer Price of HK\$2.78, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Clarion Valley Capital Ltd would subscribe for would be 11,165,000 representing approximately 1.12% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.09, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Clarion Valley Capital Ltd would subscribe for would be 10,045,000 representing approximately 1.00% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$3.39, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Clarion Valley Capital Ltd would subscribe for would be 9,156,000 representing approximately 0.92% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Everbright Private Equity

Everbright Inno Investments Limited ("EIL") and CSOF Inno Investments Limited ("CSOF"), (collectively "Everbright Private Equity"), have agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of Shares) which may be purchased with an amount of US\$2.9 million (equivalent to approximately HK\$22.5 million) and US\$6.1 million (equivalent to approximately HK\$47.3 million) at the Offer Price, respectively. Assuming an Offer Price of HK\$2.78, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that EIL and CSOF would subscribe for would be 8,185,000 and 16,937,000, respectively, representing approximately 0.82% and 1.69% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised, respectively. Assuming an Offer Price of HK\$3.09, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that EIL and CSOF would subscribe for would be 7,364,000 and 15,237,000, respectively, representing approximately 0.74% and 1.52% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised, respectively. Assuming an Offer Price of HK\$3.39, being the

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high-end of the Offer Price range set out in this prospectus, the total number of Shares that EIL and CSOF would subscribe for would be 6,712,000 and 13,889,000, respectively, representing approximately 0.67% and 1.39% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised, respectively.

EIL and CSOF, both incorporated in British Virgin Islands, are wholly-owned by Windsor Venture Limited (“WVL”) and China Special Opportunities Fund III, L.P. (the “CSO Fund”), respectively. WVL is a company incorporated in British Virgin Islands and the CSO Fund is an exempted limited partnership registered in the Cayman Islands. Both EIL and CSOF are managed by the private equity team of China Everbright Limited (“Everbright”), which is incorporated in Hong Kong and listed on the Main Board (stock code: 00165). Leveraging the reputation of Everbright and the extensive network and expertise of the private equity team of Everbright, the CSO Fund focuses on sectors with high growth potential in China.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (1) the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the relevant parties) by no later than the time and date as specified therein; and
- (2) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company and the Joint Lead Managers, it will not (and if applicable, will procure any entity to which it has transferred the Shares as permitted under the relevant cornerstone placing agreement (as more particularly set out in the following sentence) not to), whether directly or indirectly, at any time during a period of six months following the date of commencement of dealings in the Shares on the Stock Exchange, dispose of (as defined in the relevant cornerstone investment agreement) any of the Shares subscribed by it or any direct or indirect interest in any company or entity holdings any of the Shares pursuant to the relevant cornerstone investment agreement. Each Cornerstone Investor (other than the Investor Funds) may transfer the Shares so subscribed to a wholly-owned subsidiary of such Cornerstone Investor, provided that such wholly-owned subsidiary agrees to be subject to the restrictions on disposals imposed on such Cornerstone Investor.

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OVERVIEW

We are a leading independent⁽²⁾ China-based provider of high-end⁽³⁾ oilfield services in terms of technical capability, overseas and offshore project experience, and our revenue in 2011.⁽⁴⁾ It is estimated by Spears & Associates that we accounted for approximately 15% of the global revenues of independent Chinese oilfield services companies for high-end oilfield services in 2011, and we ranked 3rd amongst the independent China-based high-end oilfield services providers⁽⁵⁾. According to the Spears Report, the global revenues for both high-end and non high-end oilfield services in 2011 amounted to approximately RMB446.8 billion (equivalent to approximately HK\$554.0 billion), for which it is estimated that independent Chinese oilfield services companies accounted for approximately RMB5.2 billion (equivalent to approximately HK\$6.4 billion, representing approximately 1.2%) while the others, being generally subsidiaries and affiliates of the PRC NOCs and international oilfield service providers, accounted for the remaining RMB441.6 billion (equivalent to approximately HK\$547.6 billion, representing approximately 98.8%). Accordingly, based on our revenue in 2011, we accounted for approximately 8.6% of the RMB5.2 billion revenue attributable to the independent Chinese high-end and non high-end oilfield services companies and approximately 0.1% of the RMB446.8 billion revenue of the entire global revenues of both high-end and non high-end oilfield services. We are one of the few China-based oilfield services companies with the capability to offer high-end integrated oilfield service.⁽³⁾ We specialise in technically challenging projects which require high level of technical expertise, geological understanding and technological proficiency to accomplish, such as HTHP oilfields, high H₂S concentration oilfields, oil and gas fields with low permeability (tight and shale fields for instance), and offshore projects. We are one of the major oilfield services providers of a number of high-end technologies (namely turbine-drilling and multistage fracturing, which only a few Chinese independent oilfield services providers have the capability to undertake) in China in terms of number of jobs/wells completed.⁽³⁾ Certain members of our senior management as well as our founder, Mr. Wang, were amongst the key technical experts certified for their contribution to the offshore extended reach drilling (or ERD) project at the South China Sea which recorded the world's longest horizontal displacement and China's deepest measured depth in late 1990s, and to date we are still providing services for offshore projects at the South China Sea. We are also one of the few independent China-based oilfield services providers which have accomplished offshore projects⁽⁴⁾, and the pioneer in introducing turbine drilling to China with dominant share of the current turbine drilling market in China.⁽⁵⁾

⁽²⁾ In the context of describing the Group or other oilfield service providers/companies in this prospectus, the word "independent" means "non-government-owned" or "non-state-owned"

⁽³⁾ According to the Spears Report, certain segments of oilfield services are considered to require more advanced technology and expertise, and are thus often referred to as "high-end" markets. For instances, horizontal wells, drilling services and completion equipment services that are associated with deep wells, HTHP wells and wells in hard and/or abrasive formations are generally considered high-end markets and multi-stage fracturing on horizontal tight and shale oil or gas wells is considered high-end segment of stimulation services market.

⁽⁴⁾ Reference: Spears Report

⁽⁵⁾ Based on global revenues of independent Chinese oilfield services companies for high-end oilfield services of approximately RMB2.97 billion in 2011 (which is an estimate of Spears & Associates comprising of the 2011 revenues of the Group, and other PRC independent oilfield services providers. The respective 2011 revenues of certain services providers which are listed companies were extracted from their respective audited financial statements which are public information, and the collective revenues of other PRC independent oilfield services providers have been estimated based on prior experience of the Spears & Associates' research team regarding market concentration typical of the oilfield services market outside North America).

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We provide high-end services and products across various stages in the life of an oil or gas field, including the provision of services in well evaluation and appraisal, drilling, casing, well completion, well production, well workover, production enhancement and well abandonment, as well as the supply of oilfield services tools and equipment. Amongst our available services, we principally focus on the provision of consultancy services; oilfield project services in drilling, well completion and production enhancement; and oilfield services tools and equipment. Two critical factors involved in the provision of our high-end oilfield services is our ability to (i) provide a customised and target-orientated project development plan/engineering design which integrates sophisticated design in the relevant service area with application of advanced technology, with the aim to attain optimum operation, enhance production and extend well life, resulting in the appreciation of commercial value of a field; and (ii) to complement such development plan by effective and efficient field service operations.

Our consultancy services consist of IPM services and supervisory services in specific technical areas within a particular project. We generally assist our customers to design and manage oilfield projects (usually by beginning with engineering a project development plan) under our IPM services, while we assist our customers to monitor the execution of oilfield services in accordance with an existing project development plan under our supervisory services. Our consultancy services cover various stages in the life of an onshore or offshore oil or gas field, and are generally engaged for projects located in technically challenging areas. During the Track Record Period, we had worked on 41 consultancy services projects, of which 13 and 28 were located in PRC and overseas respectively. We undertook our first overseas offshore consultancy project in 2006 when we were engaged to provide IPM services at the Veni Oilfield located at the Sea of Okhotsk (which was to the east of Sakhalin Island), Russia, for which we continued to provide services in 2012. We also provided consultancy services for an offshore ERD well project undertaken by CNOOC-Agip-Chevron-Texaco Operators Group (or CACT, 51% owned by CNOOC with the remaining owned by international oil companies, namely Agip and Chevron) at the South China Sea, as well as for the Yadavaran Oilfield, which according to the Spears Report is, relative to Sinopec's other exploration and development projects in the Middle East, the largest in the Middle East in terms of capital expenditure as of the Latest Practicable Date.

Under our oilfield project services, we assist our customers to conduct the required processes for operating the specific technical areas such as drilling, well completion and production enhancement. During the Track Record Period, in terms of number of wells, we had completed 413 oilfield project services jobs, which included 220 drilling jobs, 93 well completion jobs and 100 production enhancement jobs, and out of all of these 10 were for offshore wells. Our landmark drilling projects include the application of turbine drilling at Yuanba Oilfield, Sichuan⁽⁶⁾ at a starting depth of approximately 3,200 m at an average ROP of up to 1.72 m/h, which as recognised by our customer was the record high ROP under similarly challenging conditions at the material time in China. Following the successful execution of our Yuanba Oilfield project, the customer had expressed its view of turbine

⁽⁶⁾ *In China, one of the more technically challenging areas for operators and oilfield service firms in terms of drilling, completion, fracturing and production operations is the Sichuan Basin. At depths in excess of 3,048 m, the geology in the Sichuan Basin consists of rock formations that are both dense and brittle. In addition, formation temperatures are high (around 150°C) and high pressure (around 15,000 psi) and gas reserves in this area contain high concentrations of H₂S, representing safety issue. (Reference: Spears Report)*

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drilling being the preferred technology for drilling under the challenging conditions at Yuanba area. In 2012, we also successfully applied our proprietary oil-based drilling mud for a shale gas field at Fuye Oilfield, Chongqing, PRC. The unique formula of constituents of our drilling mud enhances buoyancy and stability, and is acknowledged by our customer to be particularly suitable for drilling against collapse-prone and water-sensitive rock formations such as those in horizontal wells and extended reach drilling wells. Our landmark well completion projects include the operation of a deep well under HTHP conditions and of high H₂S concentration, at Yuanba Oilfield, Sichuan (more particularly, of depth up to 5,000 m, subsurface temperature of up to 157°C, subsurface pressure of up to approximately 20,350 psi and concentration of H₂S of 3.7% to 4.2%). We also provided well completion services for an onshore multilateral well with dual branches of TAML grade 4 at Tahe Oilfield, Xinjiang, China. Our landmark production enhancement projects include the application of 3-stage multistage fracturing for reservoirs of a tight gas field at Xinchang Gasfield, Sichuan, PRC in 2008 and the application of 17-stage multistage fracturing for the reservoirs of an oilfield at Honghe Oilfield, Zhengjin, Gansu, PRC in 2012.

For further information on our services and our landmark projects, please refer to the section headed “Competitive strengths — B. Our technological proficiency” and the relevant subsections under “Principal services and products” of this “Business” section.

Our services, level of technical expertise and capabilities and service quality are well recognised by our customers. Over the years, we received numerous accolades awarded by a number of our customers (such as Sinopec, CACT and EOG (China)) for our services across a wide range of areas in the oilfield services industry.

We also manufacture and sell certain oilfield services tools and equipment. The products we manufacture range from precision completion and production enhancement tools such as safety valves and packers to surface flow control equipment such as wellhead control panels. A number of our products attained certificates awarded by API, including safety valves, packers, control systems for subsurface tools, casing centralisers, lock mandrels and actuators.

Due to our extensive experience, technical capabilities and understanding of customers’ need, since our establishment, we have built a long and established relationship with the subsidiaries and joint ventures of Sinopec, CNPC and CNOOC, and have worked in close cooperation with them in their PRC and overseas expansion. For each of the three years ended 31 December 2011 and the nine months ended 30 September 2012, the consolidated turnover generated from our cooperation with the subsidiaries and joint ventures of the three PRC NOCs represented approximately 83.8%, 97.5%, 91.9% and 82.9% of our total turnover for the relevant periods respectively. With the projected rapid increase in demand for high-end oilfield services in China, and the expected continuation in the aggressive pursuit of overseas oilfield exploration and production projects by the three PRC NOCs, we expect the turnover generated from our cooperation with them to continue to represent a substantial portion of our total turnover going forward. Our established and successful relationships with the three PRC NOCs have also enabled us to compete effectively with international competitors and establish new business relationships with different NOCs located in the Middle East and South America.

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In addition to the three PRC NOCs, we also provide oilfield services to other oil and gas companies. The following are the three categories of our key customers and scope of services we have provided to them:

- PRC oil and gas companies (which include NOCs), such as Sinopec, CNPC and CNOOC (including CACT), mainly for our oilfield project services for their local projects and/or for consultancy services and/or oilfield project services for their overseas projects
- International oil and gas companies, such as ConocoPhillips and Shell, mainly for our consultancy services for their projects in China
- Overseas regional oil and gas companies (which include non-PRC NOCs), such as Venineft (a 74.9% subsidiary of Rosneft, a Russian state-owned petroleum company, with the remaining 25.1% interest held by Sinopec), PDVSA (a Venezuelan state-owned petroleum company) and EOG (China) for a variety of our services for their local and overseas projects

The following table sets out a breakdown of our revenue generated from the three categories of our key customers for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011		2012	
	<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>		<i>HK\$</i>	
	<i>million</i>		<i>million</i>		<i>million</i>		<i>million</i>		<i>million</i>	
	<i>(approx)</i>	%	<i>(approx)</i>	%	<i>(approx)</i>	%	<i>(approx)</i>	%	<i>(approx)</i>	%
	<i>(unaudited)</i>									
PRC oil and gas companies.....	240.2	83.8	544.3	97.5	514.3	91.9	412.3	94.2	473.6	82.9
International oil and gas companies	2.7	0.9	9.2	1.6	7.7	1.4	5.8	1.3	3.0	0.5
Overseas regional oil and gas companies	43.4	15.1	—	0.0	—	0.0	—	—	50.9	8.9

We have extensive and long-term experience in working with reputable international oilfield services providers. In particular, we are recognised by, amongst others, Baker Hughes as their preferred business partner based on our leading technical capabilities and quality standard (in terms of service quality, efficiency, safety and reliability) in the industry.

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We achieved strong revenue growth during the Track Record Period. Our revenue grew from approximately HK\$286.7 million in 2009 to approximately HK\$559.5 million in 2011, representing a CAGR of approximately 39.7%. A breakdown of revenue by our business lines for each of the years ended 31 December 2009, 2010 and 2011, and the nine months ended 30 September 2011 and 2012 is set out below:

	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011		2012	
	<i>HK\$ million (approx)</i>	%	<i>HK\$ million (approx)</i>	%	<i>HK\$ million (approx)</i>	%	<i>HK\$ million (approx)</i>	%	<i>HK\$ million (approx)</i>	%
	<i>(unaudited)</i>									
Consultancy services										
IPM services	69.0	24.1	37.8	6.8	41.3	7.4	25.6	5.9	34.7	6.1
Supervisory services.....	11.6	4.0	15.2	2.7	12.8	2.3	9.6	2.2	12.3	2.2
Oilfield project services										
Drilling	19.3	6.7	74.3	13.3	139.5	24.9	106.3	24.3	116.1	20.3
Well completion	68.5	23.9	419.3	75.1	284.8	50.9	276.4	63.2	74.1	13.0
Production enhancement	19.1	6.7	5.8	1.0	46.3	8.3	3.7	0.8	293.6	51.4
Manufacturing and sales of tools and equipment	99.2	34.6	5.9	1.1	34.8	6.2	15.9	3.6	40.3	7.0
Total	286.7	100.0	558.3	100.0	559.5	100.0	437.5	100.0	571.1	100.0

Our geographical coverage expanded to various continents of the world since we commenced our business in China in 2002. Our major breakthrough came in 2006 when we were engaged to provide IPM services for the overseas offshore project at Veni Oilfield, Sakhalin, Russia that was operated by Venineft Russia. Since our overseas venture in 2006, we have continued to expand and develop our international presence, with services and products provided over an ever greater geographical area, including China, Russia, Australia, the Middle East, Western Africa, Caribbean Sea and South America. With our focus on developing the PRC market and the rapid increase in demand for high-end oilfield services (in the business segments in which we principally operate) in China, China became our single largest market in terms of revenue during the nine months ended 30 September 2012. For each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, revenue attributable to our overseas operations amounted to approximately HK\$236.1 million, HK\$451.3 million, HK\$398.3 million and HK\$148.5 million, respectively, while revenue attributable to our operations in China amounted to approximately HK\$50.6 million, HK\$107.0 million, HK\$161.2 million and HK\$422.6 million, respectively.

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The following table shows the revenue generated from segments of oilfield project services and consultancy services by geographical area according to location of the customers' oilfields and revenue generated from segment of manufacturing and sales of tools and equipment by geographical area according to location of the customers:

	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011		2012	
	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%
							<i>(unaudited)</i>			
China.....	50.6	17.7	107.0	19.1	161.2	28.8	64.9	14.8	422.6	74.0
Iran.....	71.9	25.1	436.9	78.3	368.5	65.9	346.2	79.1	41.8	7.3
Syria.....	0.4	0.1	13.5	2.4	26.6	4.7	24.7	5.6	6.5	1.1
Russia.....	59.1	20.6	—	—	0.7	0.1	—	—	45.2	7.9
Australia.....	23.4	8.2	—	—	—	—	—	—	—	—
Algeria.....	75.7	26.4	—	—	—	—	—	—	—	—
Venezuela.....	—	—	—	—	—	—	—	—	20.7	3.6
Turkmenistan.....	—	—	—	—	—	—	—	—	22.5	4.0
Others ^(Note)	5.6	1.9	0.9	0.2	2.5	0.5	1.7	0.5	11.8	2.1
Total.....	<u>286.7</u>	<u>100.0</u>	<u>558.3</u>	<u>100.0</u>	<u>559.5</u>	<u>100.0</u>	<u>437.5</u>	<u>100.0</u>	<u>571.1</u>	<u>100.0</u>

Note: Other countries mainly included The Republic of Trinidad and Tobago, Kazakhstan, Myanmar and Singapore.

The increase of the Group's revenue attributable to its China segment from the nine months ended 30 September 2011 to the nine months ended 30 September 2012 resulted from the increase of the level of activities in more technically challenging regions and the development of unconventional gas resources in China during that period. We will continue to go to any countries or regions where oilfield projects are initiated by the oil and gas companies and provide the relevant oilfield services required by them. Therefore, the recent upsurge in investment in the oil and gas sector in China has on the other hand proven to be a great opportunity for the Group to further entrench its presence in China.

The Group's revenue attributable to Iran and Syria was on a decreasing trend from 2010, falling to approximately HK\$48.3 million for the nine months ended 30 September 2012 (which represents approximately 8.5% of the Group's total revenue for the nine months ended 30 September 2012). Our Directors believe that the termination of our business in Iran will not affect the Group's business relationship with Sinopec in other geographical areas as the Directors consider that (a) the counterparty in Iran is only one of the many affiliates of Sinopec, while Sinopec is a large group which has different subsidiaries and affiliates undertaking different projects in various countries/regions; (b) the subsidiaries and affiliates of Sinopec enjoy relative autonomy in selecting oilfield service provider; and (c) we have been continuing to perform contracts which were entered into with the subsidiaries or affiliates of Sinopec during the nine months ended 30 September 2012 and other ongoing contracts. Accordingly, the Group's presence and operations in Iran and Syria are principally

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customer-driven and are project-based. It follows from the above analysis that the disposal of Top Select by the Group and the cessation of undertaking business activities in connection with Iran or Syria would not have any material adverse financial, operational or reputational impact on the Group's business and financial position.

The following map illustrates our geographical coverage worldwide.



Our business focus

Our business or service focus is on the nature of services we provide to our customers, i.e. our various types of consultancy services and oilfield projects services, but is not confined to any one particular subset of oilfield project services or on the location and jurisdiction in which we offer our business or services. This can be demonstrated by our wide exposure and operation in various geographical regions around the world over the Track Record Period. Geological factors which determine the availability of exploitable resources, rather than geographical limits, are the key considerations for the oil and gas industry. As an oilfield services provider, we would offer our oilfield services to the oil and gas companies, who compete on natural resources around the globe and would go to wherever there are available resources, in any countries or regions. We do not initiate oilfield projects or determine the location of oilfield development, and will go to where those projects are initiated by the oil and gas companies and provide the relevant oilfield services required by them.

Accordingly, the fluctuation of product mix and the geographical movement of the Group was mainly a result of variation in demand by our customers in light of (a) the different phases of development of the particular oilfields; (b) the different geological conditions of the particular oilfield which require the corresponding levels of skills and technology; and (c) the particular types of services and the level of technological skills offered by the Group.

Geological considerations

Production enhancement, drilling and well completion are all key service subsets of oilfield services involved in the oil and gas development cycle and are directly related to each other. Their applications and timing of application depends largely on the geological formation of the reservoir and the phase of development of the particular oilfield. In essence, production enhancement is applied as an additional step before well completion to fracture the reservoir formation before oil extraction from rock formations that have low permeability, with a view to enhancing production of hydrocarbons. For instance, unconventional oil and gas (which includes shale and tight gas) reserves are scattered around within rock formations that have low permeability and has traditionally been considered difficult or costly to produce. Production enhancement technique such as multistage fracturing serves to increase production rate across different sections of low permeability of a well and provide a solution enabling a relatively more economical development and production of such reserves.

In the typical field development cycle, oil and gas companies would first develop the easiest reservoirs and then move on to more challenging targets. Therefore, with all other things being equal, operators prefer to develop high permeability formations since these formations tend to yield higher-producing wells.

However, the case of China and the US, as the discovery of new, large conventional reservoirs with high permeability within the country has declined, the petroleum industry in those markets has increasingly turned to the exploration and development of unconventional reservoirs in order to meet the demand for petroleum. Also, China's energy demand growth will drive oil and gas companies to increase their development in more technically challenging regions, such as north-western China where wells are generally located under formations that often have been compressed for a long time, are comprised of particles small in size and thus have low permeability. According to EIA, at the end of 2011, China's remaining recoverable resources of unconventional gas totalled almost 50 trillion m³, which is around thirteen times China's remaining recoverable conventional gas resources. Accordingly, the need to meet its huge ongoing, and forecast growth in, energy demand will drive China to proceed with expanding its development of unconventional reservoirs within its territories, for which extensive production enhancement work is required to improve production levels due to the low permeability of the geological formations of the oil and gas reservoirs there. As such, there is an expected increase in the level of oilfield project activities (and in particular, production enhancement services) in regions in China which are known to be rich in hydrocarbon, but at which the current overall level of oilfield development is relatively low because exploring and developing wells there is technically challenging.

On the other hand, according to the Spears Report, many countries other than the US and China which hold shale gas reserves lack unconventional resource development due to a combination of factors, which includes the presence of more highly desirable formations such as formations with high permeability. For instance, countries such as Syria and Iran tend to have the type of high porosity and high permeability reservoirs, which generally do not require production enhancement in order to produce at an economically attractive flow rates, and which corresponds with the greater demand for our well-completion services when we were operating in those respective countries.

Government strategy and policy considerations

The oilfield services industry was also largely influenced by government strategy and policy in respect of oil and gas fields development. China continues to lead the world's economic growth and energy demand growth. As discussed in previous section, given that the discovery of new, large conventional reservoirs in mature production areas such as China and the U.S. has declined, the petroleum industry in those markets has increasingly turned to the exploration and development of unconventional reservoirs in order to meet the demand for petroleum. In order to better manage its long-term energy needs, China has begun to tap into its potentially huge unconventional oil and gas reserves (as demonstrated by China's 12th Five-Year-Plan, the Shale Gas Development Plan (2011-2015), and the Natural Gas Development 12th Five-Year-Plan. Please refer to the section headed "Industry overview — Major industry trends — Outlook for China's development of unconventional gas resources" on page 110 of this prospectus for details). As a reference, under the Shale Gas Development Plan, China plans to produce 6.5 billion m³ of shale gas a year by 2015, and 60-100 billion m³ by 2020.

Given the size of China's shale gas resource base, the priority assigned by Chinese government policy to finding and developing shale gas reserves, and based on the experience of developing shale gas reservoirs in the US, it is expected that there will be more investment from producers including NOCs such as Sinopec, CNOOC and CNPC as well as non-NOCs oil and gas companies in exploring and developing wells with unconventional gas reserves, which in turn will drive the increase of level of demand for services such as directional drilling, horizontal drilling, coiled tubing and multistage fracturing given how the unconventional oil and gas reserves are deposited within rock formations and the geological conditions of such formations.

Further expectation on the trend of increasing demand for high-end oilfield services, and particularly production enhancement services, is supported by the expected investment by Sinopec in the future. Sinopec initiated the "Five Grand Campaigns" in late 2011 with a purpose to raise domestic oil and gas output, with the Ordos Basin being included as one of these key campaigns. The Ordos Basin is known to the world as a huge tight and shale gas basin and a typical reservoir with low permeability, low pressure and low output, thereby driving huge demands for production enhancement technology for stimulation. According to public information, Sinopec had planned to explore and develop 420 wells in the Ordos Basin in 2012, and will invest RMB21 billion in oil fields for annual production of 3 million tonnes of oil and gas. Based on the knowledge of the Company, Sinopec has undergone three phases of bidding in respect of production enhancement services in Ordos Basin in March, July and November 2012 respectively which were open to public tender by the industry players. It follows from the above analysis that there is expectation amongst market players in the industry that the level of demand for provision of production enhancement services, particularly multistage fracturing services, and other high-end oilfield services will continue to increase in the foreseeable future.

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Impact of the foregoing factors to our oilfield project services

The above analysis is demonstrated by the strong growth of the Group's business in production enhancement as from the fourth quarter of 2011 in China as compared to the preceding years during the Track Record Period when the Group had a larger scale of operation in the Middle East countries. This trend was mainly driven by the need of China to develop its unconventional reservoirs, for which extensive production enhancement work is required to improve production levels due to the low permeability of the geological formations of the oil and gas reservoirs in China, as compared to countries such as Iran and Syria which tend to have more high porosity and high permeability reservoirs, and generally do not require production enhancement in order to produce economically at an attractive flow rates. The Group's revenue attributable to its production enhancement services amounted to approximately HK\$46.3 million in 2011 and increased to approximately HK\$293.6 million during the nine months of 2012. The Group completed a total of 147 and 166 wells for production enhancement (of which 123 and 132 were multistage fracturing jobs) in 2012, and during the four years up to 31 December 2012, in which 132 and 147 were related to Ordos Basin, respectively, with the remaining principally attributable to other various regions in which Sinopec operated such as the Sichuan Basin. Importantly, the Group has been providing production enhancement services for tight gas/oil and shale gas wells to 8 subsidiaries or affiliates of Sinopec in 9 different regions since 2008. The Group has been retained by its customers with repeated orders from 2008 to 2012 which demonstrates the recognition of our Group's services by these customers and their long term relationship. In the three phases of bidding undergone by Sinopec in respect of Ordos Basin as referred to in previous section, the Group ranked second in terms of the number of awarded wells and was awarded with 40 wells in each of these biddings (and therefore a total of 120 wells). Services for some of the wells won under the third bidding are expected to be completed in the first half of 2013.

In addition, in January 2013, the Group entered into a strategic alliance framework agreement with 中國華電工程(集團)有限公司 (China Huadian Engineering Co., Ltd, "**Huadian**"), a subsidiary of 中國華電集團 (China Huadian Group, "**Huadian Group**"), pursuant to which the Group will be the preferred partner to provide relevant oilfield project services to Huadian with respect of certain fields for which Huadian won the bid. According to the Ministry of Land and Resources of the PRC, Huadian Group has won the bid for 4 blocks in China's second round of auction of 19 shale gas blocks' exploration rights, and according to other public information, Huadian Group is the biggest winner in the auction. It is expected that Huadian Group will have huge demand on oilfield project services including production enhancement for its shale gas fields.

In view of the PRC's government policies on the development of unconventional gas, the impact of energy demand growth in China to the oil and gas companies and their investment orientation, and the proven track record of the Group in the provision of production enhancement services, it is expected that there will be positive impact on the demand for our oilfield project services, particularly the production enhancement and therefore the Group's business in production enhancement is sustainable.

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Other than production enhancement services, we also recorded significant revenue in the other business segments and geographic areas where we had operations, for example well completion projects in Venezuela and Turkmenistan. In respect of well completion services, we were mainly engaged in preparation work and initial work during the first three quarters in 2012 and we recorded approximately HK\$74.1 million during the first nine months in 2012. However, as we completed these projects in the fourth quarter of 2012, we estimate that the revenue in respect of the well completion projects, including contribution from our projects in Venezuela and Turkmenistan, completed in 2012 will be on more or less the similar level as 2011. Generally, the profit margin of well completion and production enhancement segment is more or less in line with each other and for the nine months ended 30 September 2012, our profit margin of production enhancement was slightly higher than that of well completion segment.

There had been a consistent revenue mix of the Group's various business lines during the Track Record Period, namely (i) IPM services and supervisory services under consultancy services; (ii) drilling, well completion and production enhancement services under oilfield project services; and (iii) the provision of tools and equipment.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success in the oilfield services industry and distinguish us from our competitors:

A. Our strong market position as a leading independent China-based provider of high-end oilfield services in the global market

We are a leading independent China-based provider of high-end oilfield services in terms of technical capability, overseas and offshore project experience, and our revenue in 2011. We are also one of the few China-based oilfield services companies with the capability to offer high-end integrated oilfield services. We specialise in technically challenging projects which require high level of technical expertise, geological understanding and technological proficiency to accomplish, such as HTHP oilfields, high H₂S concentration oilfields, oil and gas fields with low permeability (tight and shale fields for instance), and offshore projects. We are one of the major oilfield services providers of a number of high-end technologies (namely turbine-drilling and multistage fracturing, which only a few Chinese independent oilfield services providers have the capability to undertake) in China in terms of number of jobs/wells completed. Since the commencement of our oilfield project services business in 2003, we have consistently provided oilfield services and products to our customers in respect of a wide range of onshore and offshore technically challenging wells in major oilfields in both China and overseas such as Yuanba Oilfield, Daniudi Gasfield, Tahe Oilfield, Yadavaran Oilfield, and Veni Oilfield. The services provided include drilling and completing deep and HTHP wells and multistage fracturing of horizontal wells, through which we have accumulated extensive experience in operating oilfield services projects located in diverse geographical locations and layouts, and in applying diverse oilfield services-related technology to endeavour to maximise commercial value at these oilfields. We have achieved numerous technical breakthroughs which are set out under the section headed "B. Our technological proficiency" of this "Business — Competitive strengths" section. During the Track Record Period, in terms of number of wells, we had completed 413 oilfield project services jobs, which included 220 drilling jobs (in 40 of which we applied turbine drilling),

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93 well completion jobs (of which at least 62 were HTHP wells and/or wells of high concentration of H₂S) and 100 production enhancement jobs (of which 74 were multistage fracturing jobs). During the Track Record Period, we had also completed 28 IPM services projects while we had undertaken 19 supervisory services projects (of which 13 had been completed and six were still ongoing as at 31 December 2012). We are one of the few independent China-based oilfield services providers which have accomplished offshore projects. We were also one of the few oilfield services providers that have the capabilities to offer turbine drilling and multistage fracturing services, and we were the pioneer in introducing turbine drilling to China and have captured dominant share of the turbine drilling market in China.

Our services, level of technical expertise and capabilities and service quality have been well recognised by our customers. Over the years, we received numerous accolades awarded by a number of our customers (such as Sinopec, CACT and EOG (China)) for our services. We are also recognised by, amongst others, Baker Hughes as their preferred business partner based on our leading technical capabilities and quality standard (in terms of service quality, efficiency, safety and reliability) in the industry.

Since our first overseas project in Russia in 2006, we have now successfully operated or served in many other overseas regions/countries including the Middle East, Australia, Western Africa, Caribbean Sea and South America. The diverse background of our personnel, our strong communication and analytical skills and our in-depth knowledge and experience of working in overseas oilfields have allowed the Group to compete effectively with other global players in the market, especially in oilfields where the three PRC NOCs are involved, as we believe that we have the competitive advantage of having an in-depth understanding of their operational norms gathered through years of working in close cooperation with them.

In view of the expected growth in global oil and gas consumption in the next couple of decades, and considering that a great deal of technically less challenging wells have already been explored and developed over the years, it is anticipated that the number of more and more technically challenging oil or gas fields to be explored and developed will increase in the future. As such, we believe that our leading position in the market, our recognised capabilities, proven experience in domestic and overseas operations and personnel with international background and strong expertise in the oilfield services industry will put us in a significantly better position to capture new business opportunities and benefit from this growth.

B. Our technological proficiency

We value the importance of technology and place strong emphasis on our awareness and anticipation of improvement on market technology and the introduction, development and application of advanced technology. We focus on providing high-end oilfield services, such as applying the technology of turbine drilling, as well as completing HTHP wells and wells of high H₂S concentration and applying multistage fracturing for horizontal wells. We believe that we are one of the major oilfield services providers of a number of high-end technologies (namely, turbine drilling and

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multistage fracturing, which only a few Chinese independent oilfield services providers have the capacity to undertake) in terms of number of jobs completed in China. Our technical expertise, market and technology awareness, in-depth geological understanding, our experience and technological proficiency enable us to establish ourselves in the high-end market.

We have achieved numerous milestones in respect of our technology application in oilfield project services over the years. For example, we successfully applied swell packer completion and multilateral well completion at Tahe Oilfield, Xinjiang, PRC in 2003 to 2005, multistage fracturing at Xinchang Gasfield, Sichuan, PRC in 2008. We were also the pioneer in offering turbine drilling services in China and successfully applied turbine drilling at Yuanba Oilfield, Sichuan, PRC, in 2008⁽⁷⁾.

Our proficiency in technology application complements our technical expertise and in-depth geological understanding for accomplishment of a number of technically challenging projects. The following is a list of our landmark projects:

Year	Location of operations	Particulars of challenges/focal points
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Consultancy services:

2003	South China Sea, PRC	<ul style="list-style-type: none">This was an offshore ERD well project. Offshore projects present a number of technical and operational challenges. Drilling and completion challenges are posed by high temperatures and pressures that are commonly encountered in offshore fields. Production challenges include those posed by the impact of cold water temperature on the movement of oil and gas in wells and flowlines. Logistic challenges to supply equipment, material, and personnel to offshore facilities are linked to the distance to onshore bases. Deepwater activities present challenges as a set of conditions such as high underwater pressure, strong underwater current and fluctuating temperature require higher level of skills in operations, which altogether generally add greater complexity to operations
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⁽⁷⁾ Reference: Spears Report

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Year	Location of operations	Particulars of challenges/focal points
2006-2009, 2012	Veni Oilfield, Sakhalin, Russia	<ul style="list-style-type: none"> • The project represented our first overseas consultancy project • We had to overcome the difficulty of completing the projects within a limited timeframe (which was critical due to seasonality that resulted from weather conditions), which was made more arduous because of rough sea conditions at the Sea of Okhotsk. Accordingly, sophisticated project development plan and management is required to control timing • We successfully managed the completion of drilling of two offshore wells within a period of six months
2009-2012	Yadavaran Oilfield, Iran	<ul style="list-style-type: none"> • According to the Spears Report, relative to Sinopec's other exploration and development projects in the Middle East, the Yadavaran project is believed to be Sinopec's largest in the Middle East in terms of capital expenditure as of the Latest Practicable Date • The project was technically challenging because the wells for which we provided IPM services were deep wells of high temperature and high H₂S concentration which were highly corrosive
Drilling services:		
2008	Yuanba Oilfield, Sichuan, PRC	<ul style="list-style-type: none"> • The geological conditions for drilling were tough at Yuanba Oilfield • The wells for which we operated were deep wells. The depth at which we had to operate drilling was up to approximately 5,000 m • Despite the adverse operating conditions, we achieved an average ROP of up to 1.72 m/h for the Yuanba 224 Well, which as recognised by our customer was the record high ROP under similarly challenging conditions at the material time in China

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Year	Location of operations	Particulars of challenges/focal points
2011	Yuanlu Oilfield, Sichuan, PRC	<ul style="list-style-type: none"> • The geological conditions for drilling were tough at Yuanlu Oilfield, Sichuan • The wells for which we operated were deep wells in hard formation • Despite the operating conditions, we achieved an average ROP of 1.95 m/h, which as recognised by our customer was the record high ROP under similarly challenging conditions at the material time in China
2012	Fuye Oilfield, Chongqing, PRC	<ul style="list-style-type: none"> • We successfully applied our proprietary oil-based drilling mud for a shale gas field. Due to our unique formula of constituents which contributes to buoyancy and stability of wellbores, our oil-based drilling mud is acknowledged by our customer to be particularly suitable for drilling against collapse-prone and water-sensitive rock formations such as those in horizontal wells and extended reach drilling wells
Well completion services:		
2003-2005	Tahe Oilfield, Xinjiang, PRC	<ul style="list-style-type: none"> • Sophisticated well completion design, particularly in respect of the mechanical support and hydraulic isolation at the branch point, is required for multilateral well. The level of sophistication depends on the geology of the rock formations at the relevant oilfield.⁽⁸⁾ The more collapse-prone the rock formation is, the higher level of sophistication is required. The multilateral well at Tahe Oilfield for which we provided services was a TAML grade 4 multilateral well • It was the first onshore TAML grade 4 multilateral well with dual branches in China • The depth of the well was approximately 5,200 m, which was the deepest onshore multilateral well with dual branches in China at the material time

⁽⁸⁾ Reference: *Spears Report*

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Year	Location of operations	Particulars of challenges/focal points
2008-2011	Yuanba Oilfield, Heba Oilfield, Hejia Oilfield, Sichuan, PRC	<ul style="list-style-type: none"> • Technical challenges were as follows: <ul style="list-style-type: none"> - The wells for which we operated were deep wells. The depth at which we had to operate well completion was up to approximately 7,400 m - The downhole conditions were HTHP, with subsurface temperature of 152°C to 157°C, subsurface pressure of approximately 14,950 psi to approximately 20,350 psi - The concentration of H₂S was high, from 3.7% to 4.2% • We have been complimented by our customer to have successfully and safely accomplished the task, and to have established the precedent of high quality and efficient well completion in a safe manner under HTHP and of high H₂S concentration conditions in the north-eastern area of Sichuan, PRC
2009-2012	Yadavaran Oilfield, Iran	<ul style="list-style-type: none"> • According to the Spears Report, relative to Sinopec's other exploration and development projects in the Middle East, the Yadavaran project is believed to be Sinopec's largest in the Middle East in terms of capital expenditure as of the Latest Practicable Date • Technical challenges were as follows: <ul style="list-style-type: none"> - The wells for which we operated were deep wells. The depth at which we had to operate well completion was up to approximately 4,500 m - The downhole conditions were subject to high temperature, with subsurface temperature of 132°C to 140°C - The concentration of H₂S was as high as 3.77%

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Year	Location of operations	Particulars of challenges/focal points
Production enhancement service:		
2008	Xinchang Gasfield, Sichuan, PRC	<ul style="list-style-type: none"> • Our first application of multistage fracturing for a tight gas field • The reservoirs of the gas field had horizontal length of 600 m and had relatively low permeability. We had to conduct a 3-stage multistage fracturing to increase the production rate to reach 100,000 m³ per day
2010	Daniudi Gasfield, Ordos, Inner Mongolia, PRC	<ul style="list-style-type: none"> • The reservoirs of the gas field had horizontal length of 200 m and had relatively low permeability. We had to conduct a 5-stage fracturing to increase the production rate to reach 230,000 m³ per day
2012	Honghe Oilfield, Zhengjin, Gansu, PRC	<ul style="list-style-type: none"> • The reservoirs of the oil field had horizontal length of 1,401 m and had relatively low permeability. We had to conduct a 17-stage multistage fracturing to increase the production rate to reach 18 tonnes per day

Our technological proficiency can only be achieved with the support of an experienced team of technical professionals. Members of our management team have diverse and strong international background with substantial experience and expertise in the oilfield services industry. Certain members of our senior management were amongst the key technical experts certified for their contribution to the extended reach offshore oil drilling project at the South China Sea which recorded the world's longest horizontal displacement and China's deepest measured depth in late 1990s. In addition, we have 241 engineers as at the Latest Practicable Date, of whom 77 have worked overseas, 39 have experience in offshore oilfield projects and 90 have working experience in international oil and gas companies or NOCs. As at the Latest Practicable Date 45 of our 241 engineers work for our technology development department, which is headed by our managing director, Mr. Du Heli. While our research has always focused on the development of technological skills and knowledge, in recent years we have also started to extend our research focus to cover the improvement and development of oilfield services tools, particularly so after our acquisitions of a majority interest in each of Shenzhen FST and Sheraton Investment in June 2011 and June 2012, respectively. For example, in 2012, we successfully developed our proprietary oil-based drilling mud, which we applied a unique formula of constituents to increase buoyancy and stability. It was acknowledged by our customer that our proprietary oil-based drilling mud was particularly suitable for drilling against collapse-prone and water-sensitive rock formations such as those in horizontal wells and extended reach drilling wells. As at the Latest Practicable Date, we owned nine patents in the PRC.

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Given the in-depth knowledge and expertise of our qualified and experienced personnel in our technology development department, we have the capabilities of effectively developing and applying advanced and appropriate technology which may not be as commonly applied in the PRC and as a result allowing us to improve and introduce new services. As such, we believe that we are more technologically adept in the market segments we principally operate when compared to our domestic competitors. Given the significance of various aspects of expertise and proficiency in providing high-end oilfield services focusing on the high-end part of the spectrum enables us to price our services at a higher rate to reflect, among others, the importance of our value to the projects, and to generate a relatively higher operating profit margin than other industry players who do not offer the same level of high-end services. For the year ended 31 December 2011 and the nine months ended 30 September 2012, our operating profit margin was approximately 20.7% and 16.2% respectively.

C. Our ability to provide effective and successful consultancy services

Over the years, we have built an effective and successful consultancy services team providing IPM services and supervisory services to oilfield operators both in China and the overseas markets. During the Track Record Period, we had successfully completed 28 IPM services projects, respectively, while we had undertaken 19 supervisory services projects (of which 13 had been completed while six were still ongoing as at 31 December 2012), and have demonstrated our ability to adapt and effectively apply our experience to different operating environment. According to the Spears Report, Chinese NOCs often engage external oilfield service companies to provide consultancy services, and to support their internal technical and project management teams to deal with complex drilling or production processes. Our consultancy services have also often been used for PRC projects undertaken by overseas companies, where the projects are located in technically challenging areas. We believe that demand for consultancy services from both China and overseas oilfield operators will continue to increase due to a combination of the following factors: (i) the increasing sophistication required to develop oilfields; (ii) the ongoing trend by state-owned oil companies to engage China-based oilfield services providers with the requisite technical capabilities to carry out the exploration and production process; (iii) the needs for alternative means for project development given the capital spending constraints which drive the increasing demand for market and technology awareness as well as technological proficiency; and (iv) the language barrier that is often encountered by international oil and gas companies in the Chinese market and the PRC oil and gas companies in the overseas market. For the reasons stated above, we believe that we have a competitive edge over our international competitors, especially in respect of the Chinese market or overseas expansion of PRC customers, as most of our personnel are bilingual (in Chinese and English) and have profound appreciation of Chinese culture given their background and experience.

We believe that our capabilities and our track record in respect of our services in drilling, well completion and production enhancement have made us one of the top choices for IPM services and supervisory services for both existing and potential customers. As disclosed in previous sections, we have extensive experience in providing a wide range of high-end oilfield services and applying diverse oilfield services-related technology. We therefore believe that we also have the competitive edge over the majority of the other independent Chinese oilfield service providers that provide a more limited range of services and with less extensive experience.

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By providing IPM services, we are able to take an early involvement in project design and management which enables us to build in-depth relationship with customers. This relationship puts us in an advantageous position in securing subsequent contracts for oilfield project services. During the Track Record Period, revenue generated from our oilfield project services in projects for which we also provided IPM services amounted to approximately HK\$65.7 million, HK\$411.8 million, HK\$356.2 million and HK\$60.3 million, respectively, accounting for approximately 61.5%, 82.5%, 75.7% and 12.5% of our revenue attributable to our oilfield project services for the same periods, respectively.

D. Our established relationship with key customers and leading international oilfield services providers

We have established close and long-term relationship with our key customers, many of which are subsidiaries or joint ventures of Sinopec, CNPC and CNOOC (all leading state-owned oil and gas groups in China). As at the Latest Practicable Date, we had been conducting business with Sinopec, CNPC and CACT (which is 51% owned by CNOOC) for 10 years, eight years and nine years, respectively. We have also developed business relationship with many international and regional oil and gas companies and NOCs such as Venineft (a 74.9% subsidiary of Rosneft), PDVSA (a Venezuelan state-owned petroleum company), Shell, ConocoPhillips and EOG (China). We believe that our close relationship with key customers provides us with a competitive advantage to secure future contracts and grow with them both locally and as they expand overseas. Over the years, we received numerous accolades awarded by a number of our customers (such as Sinopec, CACT and EOG (China)) for our services across a wide range of areas in oilfield services industry.

We have extensive and long-term experience in working with reputable international oilfield services providers. In particular, we are recognised by, amongst others, Baker Hughes as their preferred business partner, based on our leading technical capabilities and quality standard (in terms of service quality, efficiency, safety and reliability) in the industry. For years, we have proven successful in combining internationally advanced technologies and tools with our in-depth understanding of PRC customers and geology to provide tailored services to our customers. For example, by introducing fracturing packers from a well-known international supplier of packers, we successfully conducted 65 multistage fracturing jobs for wells in China in the first nine months in 2012 and in particular, we conducted a 17-stage multistage fracturing job at Honghe Oilfield, Zhengjin, Gansu, China. We have also applied Halliburton's well completion tools and equipment for years to complete technically challenging wells, and we had completed over 20 technically challenging wells in Sichuan, which are of HTHP conditions and of high H₂S concentration, as at the Latest Practicable Date. In addition, by applying turbine drilling technology of a well-known international oilfield service provider, we successfully completed the drilling operation for a well at Yuanba Oilfield, Sichuan up to 5,000 m at an average ROP of up to 1.72 m/h for Yuanba 224 Well in 2008 and was the record high ROP under similarly challenging conditions at the material time in China.

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E. Our experienced, stable, motivated and highly incentivised management team with dedicated technological expertise in the oilfield services industry

We have an experienced, stable, motivated and highly incentivised management team with diverse yet strong international background and substantial experience and expertise in the oilfield services industry, some of whom have been involved in the industry since graduating from respective institutes or universities with the relevant certification. Our founder, Chairman and chief executive officer, Mr. Wang, our managing director, Mr. Du Heli, and our executive Director, Mr. Zhao were amongst the key technical experts certified for their contribution to the extended reach offshore oil drilling project at the South China Sea which recorded the world's longest horizontal displacement and China's deepest measured depth in the late 1990s. Mr. Wang and a number of our senior management team members graduated from petroleum institutes or universities with degrees in petroleum or oilfield services-related disciplines. Our senior management team is headed by Mr. Wang, who has more than 18 years of experience in the oil and gas industry and is responsible for formulating our corporate development strategy and overall business operations of the Group. Mr. Wang is supported by other members of the senior management team who used to serve in executive positions in NOCs or international service providers, such as CNOOC, Weatherford, CNPC, ConocoPhillips and other major enterprises in the industry. Other members of our management team also have strong industry background with relevant industry experience ranging from 11 years to 38 years. We are therefore well positioned to benefit from the expertise, experience and network of our senior management when we conduct our business. Although competition for recruiting qualified and experienced personnel is intense in our industry, under the leadership of Mr. Wang, we have generally been able to attract qualified and experienced talents with international oilfield experience to join us as our business expanded and retain the core members of our management team since our inception. Most of our senior management members have been working for us from the day they joined to now or even since the establishment of our Group. In addition, our management team is assisted by 241 engineers, of whom 77 have worked overseas, 39 have experience in offshore oilfield projects and 90 have experience have work experience in international oil and gas companies or NOCs as at the Latest Practicable Date. The industry experience, knowledge, and stability of our senior management team have significantly contributed to the success of our operations and our business growth, and is instrumental to our long-term development. Furthermore, we believe that our management team and staff are highly incentivised, as immediately prior to the Global Offering, our current management team and staff through King Shine and Natural Peak beneficially own 44.66% of the Shares.

F. Our vertical integration of manufacture and sales of tools and equipment

We believe that we are one of the few independent China-based providers of high-end oilfield services that have in-house capabilities of developing and manufacturing oilfield services tools and components. In 2009, we expanded our business offerings when we vertically integrated into our business the manufacture and sales of tools and equipment, and as at the Latest Practicable Date, our range of products mainly included packers, safety valves and wellhead control panels. This not only enabled us to broaden our revenue streams, but also provided us with an important advantage in terms of lower costs, availability, quality and reliability over competitors lacking in-house manufacturing capabilities. With our in-house capabilities, we are able to better manage the lead time of our delivery of oilfield services tools and equipment as well as our services, provide more choices to our customers, and better customise our tools and equipment for their needs and different circumstances.

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We focus on the manufacture of selected tools which are essential for an oilfield project or for which there is a demand on an ongoing and recurring basis (such as safety valves and packers), and equipment which serves to address safety concern and increase efficiency and hence for which there is a trend of increasing demand (such as wellhead control panel). We have obtained certificates awarded by API for a number of our products, including safety valves, packers, control systems for subsurface tools, casing centralisers, lock mandrels and actuators.

BUSINESS STRATEGIES

We aim to become a leading provider of high-end oilfield services that can compete with the largest international oilfield services companies having significant presence in a number of products and service lines in various regions. We plan to achieve such goal through adopting and implementing the following strategies:

A. We will further extend our presence in China and continue our overseas expansion

In view of the rapid increase in demand for high-end oilfield services (in the business segments in which we principally operate) in China, and our focus on developing the PRC market, China became our single largest market in terms of revenue during the nine months ended 30 September 2012. We will further extend our presence in China and will maintain China as one of our largest markets in the near-to mid-term. We will continue to build on and to further develop our business relationship with oil and gas companies such as Sinopec, CNPC and CNOOC to secure even more oilfield services opportunities in areas in China where we already have presence (such as the south-western, north-western and north-eastern area) and to acquire more opportunities in northern China and new opportunities in central China where we currently do not have presence. We will also further enhance our market reputation as a technologically advanced oilfield services provider to expand our customer base from primarily subsidiaries and joint ventures of Sinopec, CNPC and CNOOC to other PRC state-owned oil and gas companies and PRC private-owned oil and gas companies.

Working in close cooperation with our key customers, we intend to further extend our geographical coverage to grow our business and diversify our revenue sources. In particular, we will continue to work in close cooperation with Sinopec, CNPC and CNOOC as they pursue their overseas oilfield exploration and production projects considering that leading PRC NOCs are encouraged to continue their efforts to acquire more oil and gas resources outside China under the PRC government's current oil and natural resources strategy as mandated in the Natural Gas Development 12th Five-Year-Plan. In addition to expansion through our key customers, we also intend to expand our customer base to other foreign oil and gas companies with a view to further extending our operations to areas where we have not yet covered. We have identified South America as one of the next major areas of our overseas development, as we believe that the expected increase in market demand and price for oil and gas over the next decade or so will spur the development of oil and gas fields via the utilisation of more advanced and efficient techniques in certain countries which were traditionally known to be challenging and uneconomical to exploit and as such, will require our high-end services. In order to support and execute our expansion plans, we will recruit more business development and technical personnel to accomplish our marketing efforts both in the PRC and overseas. We expect to actively initiate the hosting of regular presentations on the application of advanced oilfield technologies for oil and gas companies and participate in official sponsorships (such as providing

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scholarships to young talents in the oil and gas industry or funding to major oil universities, and initiating marketing activities or events) in areas where our identified potential customers or target projects are located, in order to establish and develop business relationship with oil and gas companies.

B. We will further strengthen our existing consultancy and oilfield project services

- **IPM services:** we plan to further develop our IPM services, for which we believe there is an increasing demand in both China and the overseas markets for the reasons set forth under the section headed “Competitive strengths — C. Our ability to provide effective and successful consultancy services” on page 183 of this “Business” section. We intend to strengthen our IPM servicing team by recruiting more IPM-experienced personnel. We plan to further explore and promote our services in regions where we have proven track record in providing consultancy services by assigning part of our IPM personnel to actively establish, develop and manage relationships with oil and gas companies with a presence in such regions. Our professionals and track record in drilling, well completion and production enhancement services are reputable in the market for our experience and technological excellence. We will continue to use this reputation to our advantage and facilitate the growth of our consultancy servicing business. We believe that the successful expansion of our IPM servicing business will help to expedite the growth of our oilfield project servicing business.
- **Turbine-drilling:** we believe that there is an increasing demand for the use of turbine-drilling in China considering that the number of less technically challenging wells has declined as many of them have been explored and developed over the years. Therefore, the anticipated energy consumption growth which drives increasing world demand for oil and gas will eventually lead to increasing exploration and development of technically challenging wells where the rock formations are tough for which turbine-drilling usually maximises cost-efficiency. We plan to recruit more engineers to further strengthen our capacities and capabilities in this practice area in China, and continue to promote the efficiency and economic benefits of turbine-drilling (especially for wells where the formation is tough) using our extensive experience and proven track record. In particular, we will seek opportunities in hosting seminars in relation to drilling for potential customers during which we will share our experience together with the benefit of applying turbine-drilling.
- **Production enhancement:** we believe that there is an increasing demand for production enhancement services as (i) market demand for oil and gas will consistently remain at a high level; (ii) oil and gas companies may be exposed to supply shortage if they do not explore more means of optimum operation of their oil and gas fields or extend their operation to areas with challenging operating conditions, particularly so under the conditions that the production rate of the developed wells is decreasing as a result of aging; (iii) there are fewer technically less challenging wells available globally; and (iv) production enhancement represents an important solution for optimal field production and for oilfield services in oil and gas fields with low permeability (such as tight and shale fields). We also believe that there will be an increasing level of unconventional gas field

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exploration and development activities in China as the known quantity of unconventional gas reserves in China is significantly more than the country's known conventional natural gas reserves. The increasing trend is also expected as the Chinese government has emphasised on, and has implemented policies as mandated in the 12th Five-Year-Plan to assist, the exploitation and exploration of unconventional gas in recent years. The increased level of unconventional gas field exploration and development activities will, for the reasons more particularly discussed under the section headed "Principal services and products — B. Oilfield project services — Production enhancement" on page 200 of this "Business" section, drive the increase in demand for multistage fracturing services. In view of the potential this segment offers, we will recruit additional business development personnel and experienced multistage fracturing engineers to focus on further developing and expanding the geographical coverage and customer base of our production enhancement business. In addition, we will further leverage our expertise in multistage fracturing to explore more business opportunities with respect to unconventional gas field activities.

- Oil-based drilling mud: Drilling mud or drilling fluid is essential and critical to drilling. We expect an increasing level of oilfield project activities, given the consistently high level of market demand for oil and gas driven by the expected energy consumption growth in the next couple of decades, which will drive demand for drilling services and hence drilling fluid. In addition, as disclosed in the preceding paragraphs, we expect increasing exploration and development of technically challenging wells which may, as a consequence of various geological conditions (such as rock formations' proneness to collapse when exposed to water), require special features of drilling fluid for drilling. Accordingly, we anticipate an increasing demand for drilling fluid. We have an oil-based drilling mud plant in Chongqing which is a complex of production, recycling, storage and research and development centres. We plan to increase our capacity to 800 m³ per day by end of 2013. With such production capacity, we will further develop our oil-based drilling mud business. To this end, we also plan to recruit business development personnel specialised in oil-based drilling mud to strengthen business growth.

C. We will further develop our manufacture and sales of tools and equipment business

We will further broaden our product range of manufacture and sales of tools and equipment business to broaden our revenue streams. We intend to develop a new facility in Huizhou, Guangdong, PRC, which will house additional production capacities for our products and a research and development centre for the research and development of additional well completion, drilling and production enhancement tools and equipment and ancillary products (such as air based drilling fluid and stimulation chemicals) and surface facility products. As at the Latest Practicable Date, we had identified the target parcel of land on which the new facility will be constructed, and had paid an amount of RMB9.2 million (equivalent to HK\$11.4 million) for the land use right of such parcel of land. We completed the acquisition of the land use right of such parcel of land in January 2013. We estimate that the total costs for the development of the new facility in Huizhou, Guangdong, PRC will amount to HK\$248.6 million, of which approximately RMB75 million (equivalent to approximately HK\$93.0 million) for the construction cost, RMB75 million (equivalent to approximately HK\$93.0 million) for the purchase of manufacturing machinery, RMB27 million (equivalent to approximately HK\$33.5 million) to RMB35 million (equivalent to approximately HK\$43.4 million) for research and

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development and RMB19 million (equivalent to approximately HK\$23.6 million) to RMB21 million (equivalent to approximately HK\$26.0 million) for the recruitment of technicians and engineers. We target to primarily fund such costs from the proceeds of the Global Offering. We expect to commence construction of the new facility in the first half of 2013, and to complete the construction in the 4th quarter of 2013. Upon commencement of production by the facilities in Huizhou, Guangdong, PRC, we expect that the estimated maximum production hours (for completion and production enhancement tools) will increase to approximately 710,000 hours and the estimated maximum man-working hours (in the case of surface flow control products) will increase to approximately 150,000 hours. For illustration purpose, based on the assumptions that all the production hours/man-working hours are utilised to produce the same type of product, that the maximum production time for each of open hole packer (fracturing packer), well completion packer and safety valve is 710,000 hours and the maximum man-working hours for single well wellhead control panel is 150,000 hours, and that the production time for each of open hole packer (fracturing packer), well completion packer, safety valve and single well wellhead control panel is approximately 70 hours per set, 117 hours per set, 260 hours per set and 60 hours per set, respectively, we will be able to manufacture up to, per annum, approximately 10,000 sets of open hole packers (fracturing packers) or 6,000 sets of well completion packers or 2,700 sets of safety valves or 5,000 sets of single well wellhead control panels. In addition, we target to commence the manufacture of drilling tools once our research and development on this area matures. We will also continue to conduct researches to enhance our technology in packers and safety valves in order to develop advanced models. We believe that the expansion of our product range will also enhance our competitiveness in our oilfield project services.

We will also enhance sales of our existing tools and equipment (such as packers and safety valves) by cross selling them to our consultancy and oilfield project service customers.

D. We will continue to broaden our range of products and services

We have established a surface facility engineering department, whose responsibilities include the marketing of surface facility products (such as our proprietary wellhead control panels). We will recruit more engineers with a view to broadening our range of surface facility products to include oilfield surface electricity generator, integrated security system and remote terminal unit. Integrated security system mainly embraces hazard sensor, alarms and lighting system. Remote terminal unit enables centralisation of well data of a number of remote oilfields for better management.

PRINCIPAL SERVICES AND PRODUCTS

We provide high-end services and products across various stages in the life of an oil and/or gas field, including the provision of services in well evaluation and appraisal, drilling, casing, well completion, well production, well workover, production enhancement and well abandonment, as well as the supply of oilfield services tools and equipment. Amongst our available services, we principally focus on providing consultancy services, oilfield project services in drilling, well completion and production enhancement, and on the supply of oilfield services tools and equipment. We specialise in technically challenging projects, such as HTHP oilfields, high H₂S concentration oilfields, oil and gas fields with low permeability and offshore projects.

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Our services and products can be divided into the following three business lines:

- consultancy services — providing (i) IPM services; and (ii) supervisory services in specific technical areas within a project;
- oilfield project services principally in drilling, well completion and production enhancement; and
- manufacture and sales of tools and equipment.

Two critical factors involved in the provision of our high-end oilfield services are our ability to (i) provide a customised and target-orientated project development plan/engineering design which integrates sophisticated design in the relevant service area with application of advanced technology, with the aim to attain optimum operation, enhance production and extend well life, resulting in the appreciation of commercial value of a field; and (ii) complement such development plan by effective and efficient field service operations.⁽⁹⁾

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

	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011		2012	
							PRC	Overseas		
	PRC	Overseas	PRC	Overseas	PRC	Overseas	(unaudited)	(unaudited)	PRC	Overseas
	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>	<i>HK\$ million (approx)</i>
Consultancy services.....	7.1	73.5	15.3	37.7	12.0	42.1	7.9	27.3	12.8	34.2
Oilfield project services.....	41.2	65.7	87.6	411.8	114.4	356.2	41.1	345.3	379.0	104.8
Manufacturing and sales of tools and equipment	2.3	96.9	4.1	1.8	34.8	—	15.9	—	30.8	9.5
Total.....	50.6	236.1	107.0	451.3	161.2	398.3	64.9	372.6	422.6	148.5

⁽⁹⁾ Reference: Spears Report

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The following is a description of our services and products:

A. Consultancy services

Our consultancy services consist of (i) IPM services; and (ii) supervisory services in specific technical areas within a particular project. Our consultancy services are generally provided for (i) overseas projects undertaken by PRC oil and gas companies (which include NOCs); (ii) PRC projects undertaken by international oil and gas companies, and (iii) local and overseas projects undertaken by overseas regional oil and gas companies (which include non-PRC NOCs) where the projects are located in technically challenging areas.

Our consultancy services cover various stages in the life of an oil and/or gas field, ranging from the exploration and appraisal stage (such as reservoir assessment) through the development and production stage (such as drilling and completion) to well abandonment (such as casing cutting).

Fees charged for our consultancy services generally include (i) time spent by our servicing personnel in accordance with our day rate; and/or (ii) in the case of IPM services, design fees for project development plan in addition to (i). Our price is set on a case by case basis to ensure that the profit margin for the project reflects (a) well depth; (b) well complexity; (c) location; (d) the level of expertise and our value added to the project; (e) our costs and expenses on the project; and (f) our competitors' pricing. We do not adopt progress billing in charging our customers.

IPM Services

We generally assist our customers to design and manage oilfield projects. Our service scope includes:

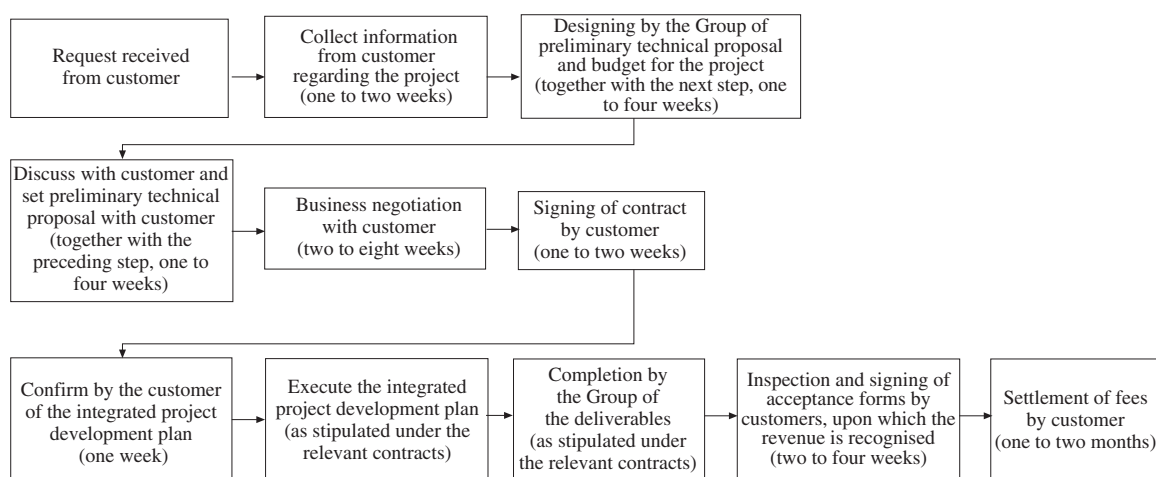
- designing an integrated project development plan;
- studying well data and providing laboratory testing and analysis;
- providing advice and assistance on bid evaluation and contract negotiation for outsourced projects;
- on-site operational management; and/or
- providing general consulting services.

Our IPM services primarily serve to ensure effective and efficient project development and safe operation of the project and accordingly part of our responsibilities is to ensure that each aspect of the project is executed in accordance with our project development plan approved by the customer. Our IPM services usually cover the exploration and/or development phases of an oilfield project and may focus on specific technical areas (such as drilling, well completion and production enhancement). Contracts for our IPM services run from three months to four years.

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We commenced the provision of IPM services in China and Russia in 2003 and 2006 respectively. During the Track Record Period, we had worked on 28 IPM projects, of which 23 and five projects were onshore and offshore respectively.

The following flowchart (with timing generally required set out in brackets) illustrates how our typical IPM service is conducted:

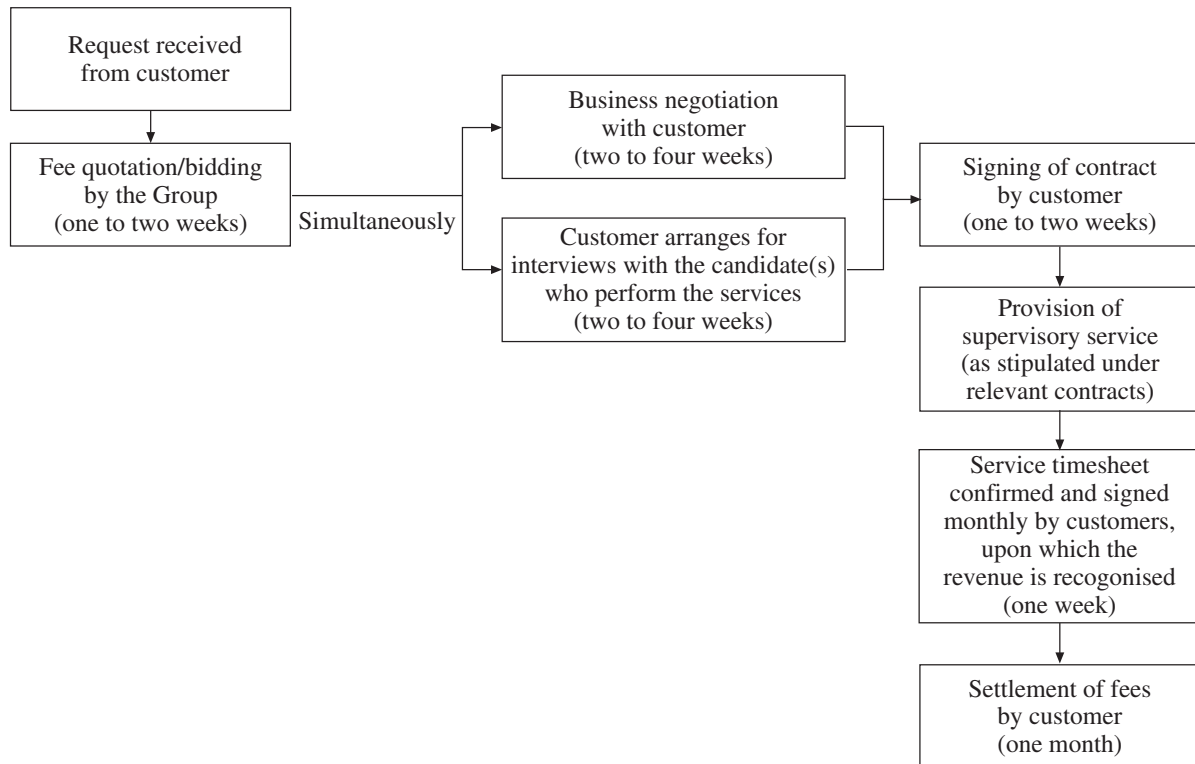


Supervisory services

We assist our customers to monitor the execution of oilfield services in accordance with an approved project development plan. We provide our services in various operation stages of an oilfield project (from well exploration stage to development and production stage to well intervention and well abandonment). We monitor according to specific rules and duties as agreed with our customers. While some of our supervisory services contracts have a defined period of service time term, some require us to provide services for a specific technical area within a project. During the Track Record Period, we had worked on nine and four supervisory services projects onshore and offshore, respectively.

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The following flowchart (with timing generally required set out in brackets) illustrates how our supervisory service is conducted:



B. Oilfield project services

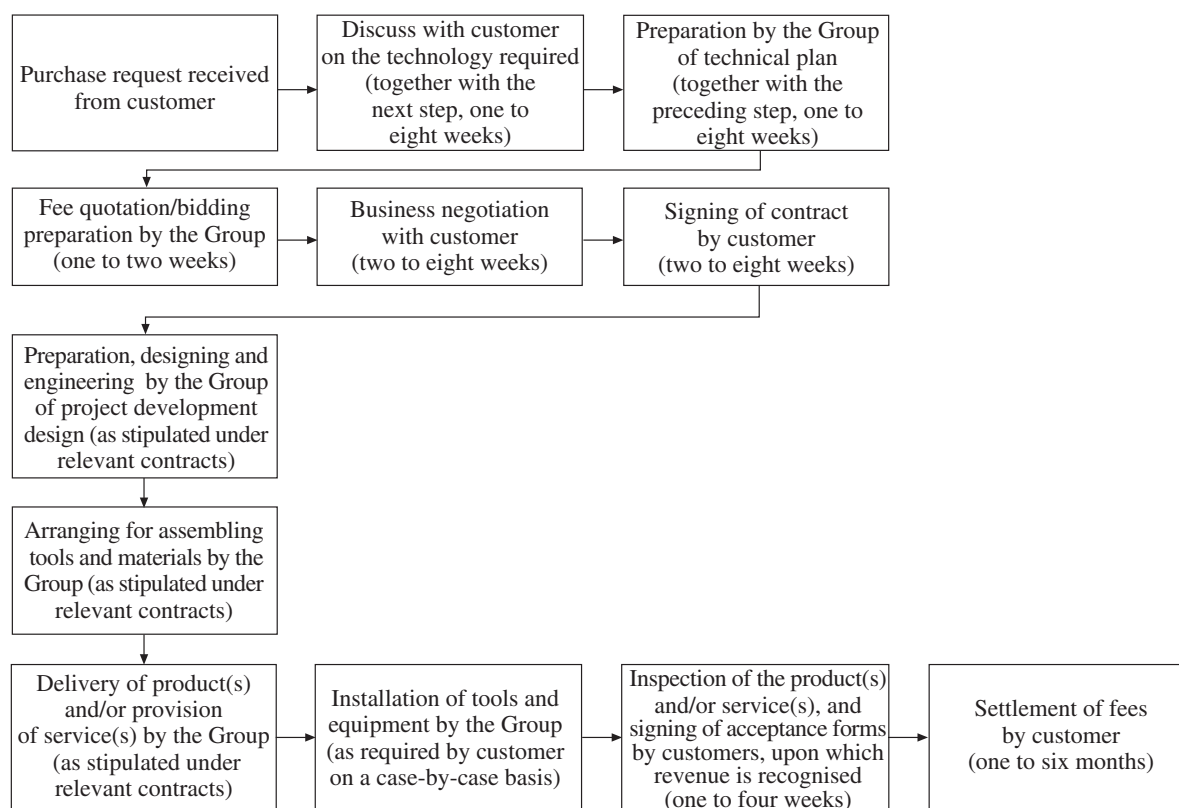
Our oilfield project services principally cover the areas of:

- drilling;
- well completion; and
- production enhancement.

Under our oilfield project services, we assist our customers to conduct the required processes by providing the relevant project development design, supplying and installing the related tools and equipment, and providing on-site project operation. Our oilfield project services have been our major arm of business since we commenced the operation of such business in 2003. Contracts for our oilfield project services usually run from two months to two years depending on the project size and the nature and the scope of our services.

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The following flowchart (with timing generally required set out in brackets) illustrates how our oilfield project service is conducted:



The following table sets out our revenue attributable to different business lines of our oilfield project services for each of the three years ended 31 December 2011, and the nine months ended 30 September 2011 and 2012:

	Oilfield project services									
	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011 (unaudited)		2012	
	% of revenue attributable		% of revenue attributable		% of revenue attributable		% of revenue attributable		% of revenue attributable	
	HK\$ million (approx)	to oilfield project services	HK\$ million (approx)	to oilfield project services	HK\$ million (approx)	to oilfield project services	HK\$ million (approx)	to oilfield project services	HK\$ million (approx)	to oilfield project services
Drilling	19.3	18.1	74.3	14.9	139.5	29.7	106.3	27.5	116.1	24.0
Well completion ...	68.5	64.0	419.3	84.0	284.8	60.5	276.4	71.5	74.1	15.3
Production enhancement	19.1	17.9	5.8	1.1	46.3	9.8	3.7	1.0	293.6	60.7
Total	106.9	100.0	499.4	100.0	470.6	100.0	386.4	100.0	483.8	100.0

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Under our oilfield project services, operations in drilling and well completion have been our major business lines in terms of revenue. In addition to the continuous demand for our drilling services and well completion services, there is also an increasing market demand for our production enhancement services to improve the production rate of existing wells.

We may be engaged for providing one or more particular area(s) of operation (drilling, well completion and production enhancement) for an oilfield project. There are also occasions where in an oilfield project for which we provide IPM services, we also succeed in securing the provision of certain oilfield project services through open bidding. During the Track Record Period, revenue generated from our oilfield project services in projects for which we also provided IPM services amounted to approximately HK\$65.7 million, HK\$411.8 million, HK\$356.2 million and HK\$60.3 million, respectively, accounting for approximately 61.5%, 82.5%, 75.7% and 12.5% of our total revenue from oilfield project services for the same periods, respectively.

We charge our customers according to the oilfield project services rendered as follows:

- **Drilling:** We usually charge our customers for our drilling services (i) a fixed fee; plus (ii) a fee based on the time and number of personnel spent on the project in accordance with our day rate. Our fixed fee and day rate are set on a case by case basis which normally reflects (a) well depth; (b) well complexity; (c) location; (d) the level of expertise and our value added to the project; (e) our costs and expenses on the project; and (f) our competitors' pricing.
- **Well completion and production enhancement:** Our oilfield project services in well completion and production enhancement are generally charged on a project basis. We set our prices on a case by case basis generally to ensure that the gross profit margin for the project reflects (a) well depth; (b) location; (c) wellbore complexity; (d) the level of expertise and our value added to the project; (e) our costs and expenses (including prices of raw and assembling tools and materials) on the project; and (f) our competitors' pricing.

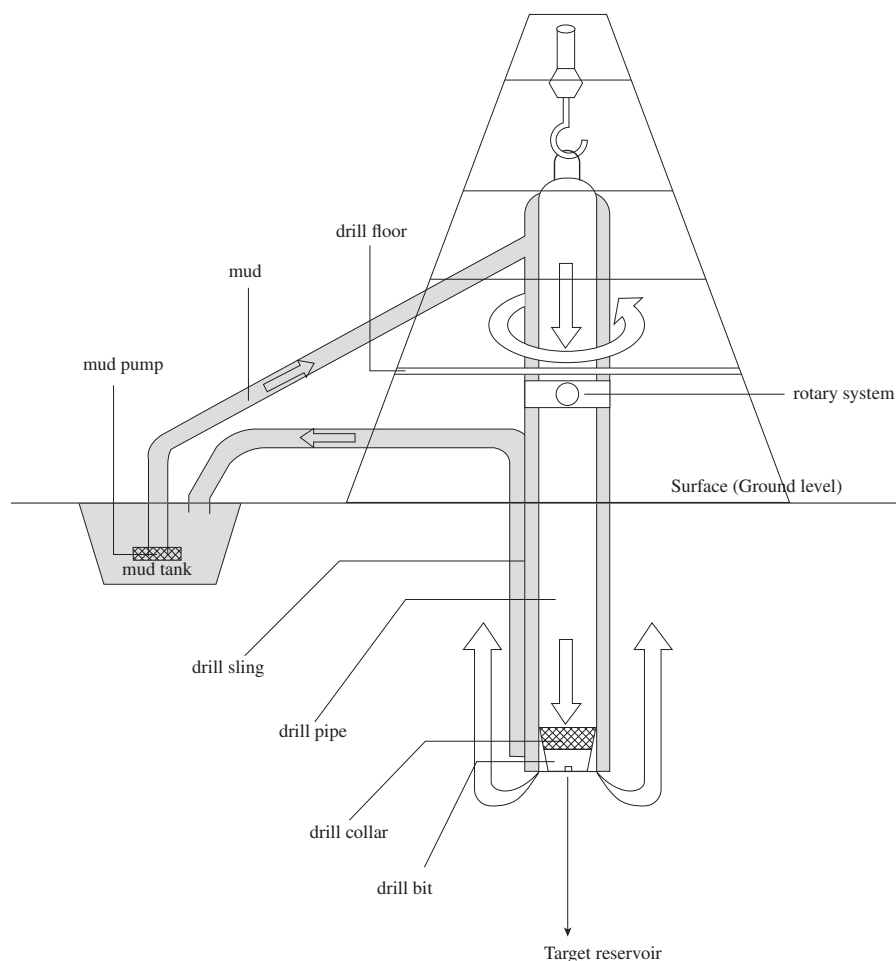
We do not adopt progress billing in charging our customers.

We manufacture and purchase from suppliers tools and equipment required in our oilfield project services. With our in-house capabilities, we are able to better manage the lead time of our delivery of oilfield services tools and equipment as well as our services, provide more choices to our customers, and better customise our tools and equipment for their needs and different circumstances.

During the Track Record Period, in terms of number of wells, we completed 413 oilfield project services jobs which included 220 drilling jobs, 93 well completion jobs and 100 production enhancement jobs.

Drilling

Drilling is the cutting process by applying pressure and rotation using specific drilling equipment and auxiliary tools to build a long-lasting and stable well, connecting the reservoir and the wellhead. Our services in drilling focus on drilling plan design and project operation, which usually include the provision of drilling tools and equipment (such as drilling tools and drill bits). During the Track Record Period, in terms of number of wells, we had completed 220 drilling jobs (in 40 of which we applied turbine drilling). The following diagram illustrates the basic processes involved in drilling.



Note: For illustration only, not to scale

We provide high-end drilling covering vertical drilling, directional drilling and sidetracking. We were the pioneer in introducing turbine drilling to China and have captured a dominant share of the turbine drilling market in China. Turbine drilling significantly improves the ROP and wellbore quality, allows operation under extremely tough rock formations (which typically refers to rock formations that do not fracture under more than 20,000 psi and usually exist at depth below 15,000 feet) and delivers longer well life. Turbine drilling tools are generally used in combination with diamond impregnated drill bits, as in the hard/abrasive formations diamond impregnated drill bits can often not

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only drill faster, but also keep drilling for very much longer before a round trip to surface is required to change the drill bit. Turbine drilling with diamond impregnated drill bits has doubled the ROP and is able to drill up to 10 times further than with conventional drilling techniques. According to the Spears Report, on a global basis, it is estimated that about 60% of the use of turbine drilling is applied on directional drilling, yet in China the vast majority of the use of turbine drilling has historically been on vertical wells. Nevertheless, going forward it is expected that the Chinese market will see more use of turbine drilling in directional well applications.⁽¹⁰⁾ Effective application of turbine drilling requires thorough understanding of geology and high level of skills, expertise and technology in respect of the drilling tools and equipment and their application, in the absence of which the drill bit and other tools and equipment may be easily dismantled during the drilling process and consequently causes delay.⁽¹⁰⁾ Turbine drilling is therefore considered as a high-end service and is much more expensive than conventional drilling techniques. We generally lease turbine drilling tools from independent third parties with international presence.

Our landmark drilling projects include (i) the application of turbine drilling in Yuanba Oilfield, Sichuan at a starting depth of approximately 3,200 m at an average ROP of up to 1.72 m/h and (ii) the application of turbine drilling in Yuanlu Oilfield, Sichuan at a starting depth of approximately 3,774 m at an average ROP of 1.95 m/h. The respective average ROPs achieved in each of the foregoing projects were the record high ROPs under similarly challenging conditions at the relevant material times in China.

Drilling represents an important operation of the development stages of an oilfield. Its efficiency has a material impact on the time span of the project. In addition, drilling usually accounts for a large portion of the overall costs of exploring and developing an oilfield. Accordingly, improving the ROP of drilling until the target reservoir layer is reached by designing adequate drilling plan and applying appropriate drilling equipment in light of the geology of the rock formation will substantially reduce drilling time and costs. As reflected in the numerous accolades (mainly in the form of letters of appreciation) from our customers in respect of our application of turbine drilling in several drilling projects, the use of turbine drilling had expedited the drilling process, lowered the overall drilling costs and proved to be an efficient means of drilling.

Ancillary to drilling is the use of drilling fluids. We have expanded into the production of oil-based drilling mud (which is a form of drilling fluid) for use in drilling services in 2012. We have an oil-based drilling mud plant in Chongqing located in a complex containing production, recycling, storage and research and development centres. In 2012, we successfully applied our proprietary oil-based drilling mud for a shale gas field at Jiangnan Gasfield, Hubei, China. At present, oil-based drilling mud we produced is mainly for use in our drilling projects. With our current capacity, we (i) primarily satisfy the needs in our drilling projects and (ii) to the extent that our capacity exceeds the demand by our drilling projects, supply the excess to customers for their projects in which drilling is not undertaken by us. As at the Latest Practicable Date, our oil-based drilling mud plant in Chongqing was able to provide up to 340 m³ per day. As we continue to increase our capacity for our oil-based drilling mud, we will be able to increase our supply to our customers for their projects not undertaken

⁽¹⁰⁾ Reference: Spears Report

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by us. Due to our unique formula of constituents which enhances buoyancy and stability, our oil-based drilling mud is acknowledged by our customers to be particularly suitable for drilling against collapse-prone and water-sensitive rock formations such as those in horizontal wells and extended reach drilling wells.

Well Completion

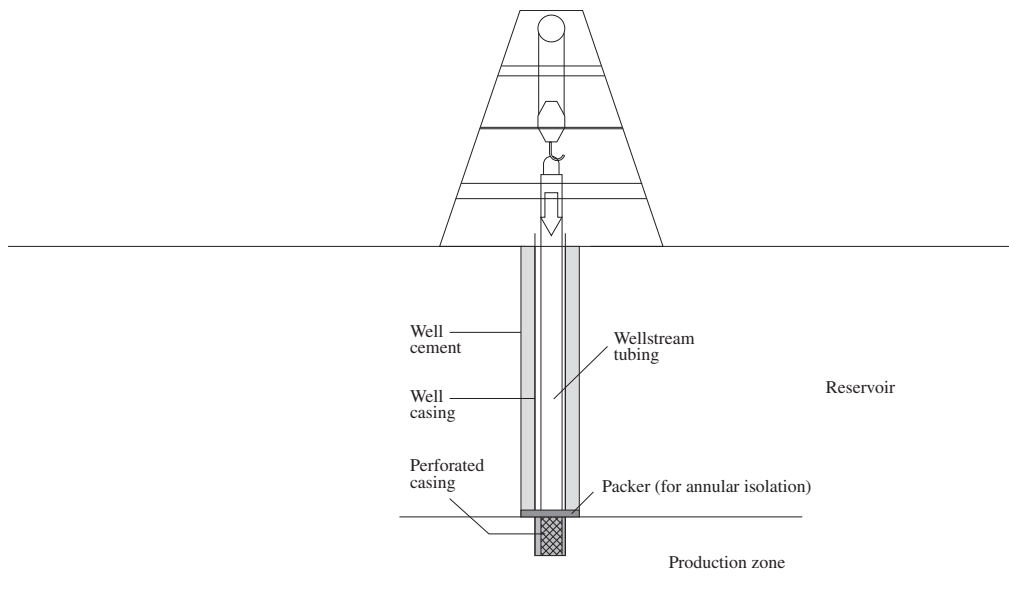
Well completion establishes the channel through which oil and gas may flow from the reservoir to the surface, and is a crucial stage in the oil and gas well construction process that follows drilling. Under our well completion services, we perforate casing, install the perforated casing for penetration of the reservoir, install packers for annular isolation and install safety valves and other well completion tools. Effective well completion will protect the oil and gas reservoir, increase productivity, extend the life of oil and gas production, and thereby allow optimum commercial production.⁽¹¹⁾ It has been one of our major areas of operations since our commencement of oilfield project services business in 2003. During the Track Record Period, in terms of the number of wells, we had completed 93 well completion jobs in China and overseas, of which at least 62 were for HTHP wells and/or wells of high concentration of H₂S. Out of the 93 well completion jobs carried out during the Track Record Period, 88 and five were for onshore and offshore wells respectively. Our landmark well completion projects include (i) the operation for deep wells of HTHP conditions and high concentration of H₂S at Yuanba Oilfield, Heba Oilfield and Hejia Oilfield, Sichuan, China and at Yadavaran Oilfield, Iran and (ii) completing the first onshore TAML grade 4 multilateral well with dual branches in Tahe Oilfield, Sichuan, China at the material time, which with a depth of approximately 5,200 m also was the deepest onshore multilateral well with dual branches in China at the material time.

The major equipment, components and parts required for our services in well completion include wellhead, swell packers, bridge plugs, well completion string, X-tree and safety valves. The following diagrams illustrate the basic processes involved in well completion.

⁽¹¹⁾ Reference: *Spears Report*

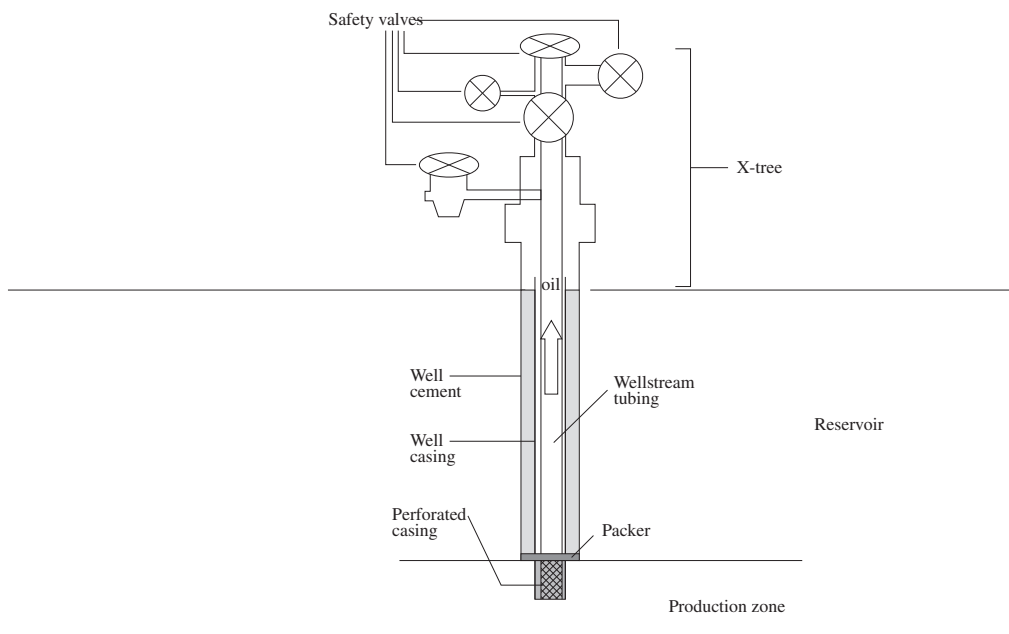
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Installation of tubing and packer after penetration of the reservoir



Note: For illustration only, not to scale

Well ready for production after installation of X-tree



Note: For illustration only, not to scale

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Efficiency of well completion depends largely on our design of the development plan which includes our choices of selection and combination of different types of equipment, components and parts of different manufacturers and their technological application. We typically provide and install well completion tools and parts in accordance with our customised plan for our customers. We manufacture some of the precision tools and parts such as packers and safety valves, and usually source other tools and parts from internationally-renowned manufacturers.

We are capable of handling well completion work for challenging wells (such as completion under HTHP conditions, high H₂S concentration, and completion of slim hole well, horizontal well, absorption well and multilateral well), as a result of our understanding of the oil and gas industry, geological knowledge and acquaintances with high-end technology and its application. We have been commended by our customers for our completion services in deep wells of HTHP conditions and high H₂S concentration.

We believe that there is an increasing demand for more advanced technology in well completion as the conditions and type of wells for which completion are conducted is becoming tougher and safety awareness of oil and gas companies is increasing. We also believe that we will be able to take advantage of our capabilities and our business strategy to seize the opportunities. With our policy focusing on improvement on our technological excellence and the international background and experience of our personnel, we believe that we will be able to stay at the forefront of evolving technology in well completion, effectively tackling the growing geological challenges that oilfield services providers may encounter in future.

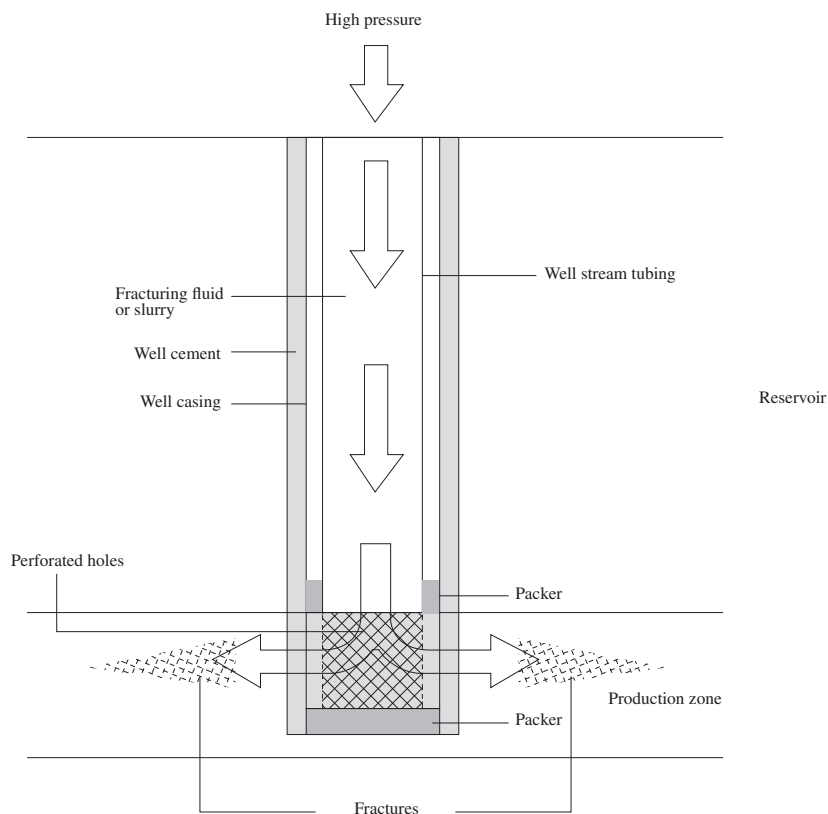
Production Enhancement

Production enhancement or stimulation refers to the engagement of high pressure of injection of fracturing fluid and proppant or acid in order to fracture the rock formations so as to enhance production and allow the well to produce economic quantities of the hydrocarbons.⁽¹²⁾ Our services in production enhancement principally cover multistage fracturing (an advanced technique of fracturing). During the Track Record Period, in terms of the number of wells, we had completed 74 multistage fracturing jobs. Our landmark production enhancement projects include (i) the application of 3-stage multistage fracturing for reservoirs of a tight gas field of horizontal lengths of 600 m at Xinchang Gasfield, Sichuan, China; (ii) the application of 5-stage multistage fracturing for reservoirs of a gas field of horizontal lengths of 200 m at Daniudi Gasfield, Ordos, Inner Mongolia, China, increasing the production rate to reach 230,000 m³ per day; and (iii) the application of 17-stage multistage fracturing for reservoirs of an oilfield at Honghe Oilfield, Zhengjin, Gansu, China. Provision of services in production enhancement, especially multistage fracturing, requires in-depth appreciation of geological knowledge, industry experience and high level of expertise and technological application as fine differences in details such as the use of chemicals, the location of tools application and the pace of the process could have a material impact on the productivity.

⁽¹²⁾ Reference: *Spears Report*

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Fracturing is a process to create or enlarge existing fissures and cracks through the pumping of fluid or slurry at high pressure down the well into the reservoir to increase the productivity of oil and gas reservoirs with relatively low permeability. For instance, wells in north-western China are generally located under formations with low permeability as these formations usually have been compressed for a long time and the particles comprising such formations are often small in size. Fracturing which creates or enlarges existing fissures and cracks within rock formations therefore serves to solve the low permeability and thus the low production rate issue. The following diagram illustrates the basic processes involved in fracturing.



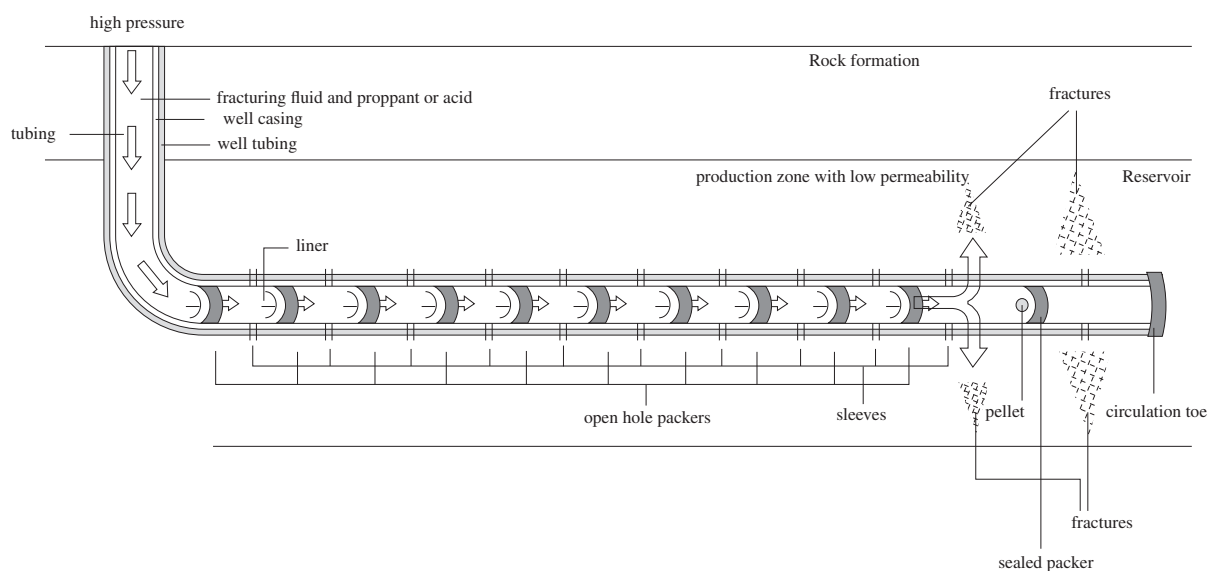
Note: For illustration only, not to scale

We have always committed to exploring enhanced technology on fracturing for challenging wells such as horizontal wells, which under the conventional means may require fracturing at regular points along the surface of the horizontal wells and thus incur extra drilling time and costs and hence may not be entirely economical. It is believed that in China, the largest multistage fracturing jobs being conducted at this time are 17-stage multistage fracturing jobs.⁽¹³⁾ Over time, the average number of stages in a multistage fracturing job in China is expected to increase, as it has in the US market.⁽¹³⁾ We began to offer multistage fracturing services in China in 2008, and are one of the major oilfield services providers of multistage fracturing based on the number of jobs completed. We apply

⁽¹³⁾ Reference: *Spears Report*

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multistage fracturing in different types of fields with low permeability, such as tight and shale fields. We utilise ceramic pellets for packing purposes under multistage fracturing, given their durability and non-corrosive quality. The following diagram illustrates the basic processes involved in multistage fracturing.



Note: For illustration only, not to scale

Production rate of unconventional gas in China is low because the reserves are scattered around within rock formations that have low permeability and as a result engaging normal production means that normal fracturing may not be cost-effective enough to make it attractive for oil and gas companies to realise their ambitions on unconventional gas exploration. It is expected that unconventional gas exploration in China is high on the agenda of the oil and gas companies if the issue of cost-efficiency could be resolved, given that the known quantity of unconventional gas reserves in China is significantly more than the country's known holding of conventional natural gas and in recent years, the Chinese government has emphasised on, and has implemented policies to assist, the exploitation and exploration of unconventional gas. Accordingly, multistage fracturing which serves to increase production rate across different sections of low permeability of a well may provide a solution. Therefore, with an expected increase in demand for the exploration and development of unconventional gas reservoirs, there is also a corresponding expected increase in demand for experienced multistage fracturing services. Please also refer to the section headed "Industry Overview — Major Industry Trends — Outlook for China's development of unconventional gas resources" on page 110 of this prospectus for details. We believe that our experience in multistage fracturing will enable us to capture more business opportunities with respect to the exploration of unconventional gas resources. Apart from China, we also target to initiate business opportunities in respect of our multistage fracturing in countries where we believe the permeability of formations is also low.

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We have been commended by our customers for our multistage fracturing services. In one particular case, it was stated in our customer's certificate of achievement that the completion of our multistage fracturing services at the wells resulted in the increase of production rate of gas from 1,959 m³ per day to 36,750 m³ per day. The certificate of achievement also praised our advanced level of capabilities and technology in multistage fracturing.

C. **Manufacture and sales of tools and equipment**

Provision of oilfield services requires a variety of parts, tools and components. We manufacture and supply to our customers (i) precision tools and equipment, parts and components used in well completion and production enhancement ("completion and production enhancement tools"); and (ii) wellhead control panels. We also conduct trading of oilfield services tools and equipment upon request by our customers.

We began the sale of oilfield tools and equipment in 2002. Since the development of our business in oilfield project services in 2003, we have been opened to an increasing number of opportunities to introduce to customers a variety of oilfield tools and equipment and realised the business potential of sales of tools and equipment, particularly in view of the necessity of tools and equipment for oilfield project services and the increasing oilfield project activities. Through our experience in providing oilfield project services over the years, we also realised the benefit of having an in-house manufacturing capabilities given the importance of the quality, reliability and availability of the tools and equipment to the success and effectiveness of providing high-end oilfield services. Accordingly, we began fulfilling the gap in our services provided by engaging in the manufacture and sales of tools and equipment, which we believed would, at the same time, allow us to diversify our business lines, lower the operating costs of our servicing business and ensure the quality and availability of the relatively more important components and parts used in our services.

Our Completion and Production Enhancement Tools mainly include safety valves and packers. Our wellhead control panels are oilfield surface pressure control tools. Wellhead control panels serve to control the opening and shutting of safety valves automatically with reference to the level of pressure at wellhead. We manufacture wellhead control panels for single well and for multiple wells within sufficiently close proximity. The prices for our Completion and Production Enhancement Tools and wellhead control panels depend on the manufacturing costs or purchasing costs of the relevant items.

As our production facilities are designed to manufacture various types of customised products including completion and production enhancement tools, we are able to allocate our production machineries and work force to manufacture tools and equipment according to our customers' needs and customised to their specification. Since we do not mass produce homogenous tools and equipment and our production facilities are interchangeable between various products within the same category, our production capacities are computed based on certain assumptions and set out in the table below in form of machine hours or labour hours for purpose of illustration only. The designed production capacities are derived on the assumption that the machineries are being operated on a continuous basis over the average operating time per year/period. Labour hours are used for illustrating our control panel production capacities as the production of control panel mainly requires assembling process conducted by manpower, while machine hours are used for our Completion and Production

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Enhancement Tools as the production of such tools are conducted by machines to a large extent. The estimated machine/labour hours consumed by each category of products for the relevant year/period are estimated by multiplying the number of relevant products produced with the estimated machine hours required for manufacturing each unit of product in-house based on general specifications of the relevant product category. Utilisation rate of each production line was derived by dividing the estimated machine hours or labour hours spent for manufacturing tools and equipment actually produced for a particular product category during the relevant year/period by the designed production capacity during the relevant year/period.

Our production capacities and utilisation rates of our manufacturing facilities in 2011 and for the nine months ended 30 September 2012 were as follows for illustration purpose:

	2011					Nine months ended 30 September 2012				
	Actual Production		Production Capacity	Utilisation	Annualised Production Capacity	Actual Production		Annualised Production Capacity	Utilisation rate	
Estimated Average Machine Hours/Labour Hours consumed per unit of product ^(note 1)	No. of products	Total Estimated Machine Hours/Labour Hours consumed ^(note 2)	Estimated Machine Hours/Labour Hours ^(note 3)	%		Estimated Average Machine Hours/Labour Hours consumed per unit of product ^(note 1)	No. of products			Total Estimated Machine Hours/Labour Hours consumed ^(note 2)
Star Petrotech										
Well completion packers	117	40	4,680			117	64	7,488		
- Back Pressure Valve.....	70	3	210			70	44	3,080		
- Safety Valve	260	6	1,560			260	3	780		
- Side Pocket Mandrel	220	140	30,800			220	—	—		
- Chemical Injection										
Mandrel.....	80	58	4,640			80	—	—		
- Travel Joint.....	95	18	1,710			95	3	285		
- Others ^(note 4)	60	650	39,000			60	557	32,220		
sub-total		915	82,600				651	43,853		
Less: machine hours saved by using semi-processed components / materials ^(note 5)			-39,793					-10,157		
Completion tools (Machine Hours)		915	42,807	43,930	97%		651	33,696	46,925	96%
Sun Oil										
Production enhancement tools (Machine Hours) ..		N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A
Shenzhen FST										
- Oilfield control facilities....	82	60	4,930			105	113	11,846		
- Pressurisation facilities.....	31	96	2,992			24	113	2,696		
- Detection facilities	85	19	1,616			88	24	2,104		
- Others	149	16	2,384			143	23	3,280		
Control Panels (Labour Hours)		191	11,922	15,206	78%		273	19,926	30,413	87%

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Notes:

No information is shown for 2009 and 2010, since Shenzhen FST and the Sheraton Group were acquired in 2011.

1. Estimated average machine/labour hours consumed per unit of product represents management's estimation of the machine/labour hours required for manufacturing each unit of product in-house based on general specifications of the relevant product category. For control panels, as the product mix for the sub-categories may vary for each year/period, the estimated average machine hours/labour hours consumed per unit of product for each sub-category may vary from year to year.
2. The total estimated machine/labour hours consumed by each category of products for the relevant year/period are estimated by multiplying the number of relevant products produced with the estimated average machine/labour hours consumed per unit of product.
3. The production capacity for:
 - (i) completion tools/production enhancement tools (machine hours) = the average number of machines operating during the year or period x 16 hours x 6 working days per week x 52 weeks x 0.8 (to account for maintenance and idle time).
 - (ii) Control panels (labour hours) = average number of staff during the year or period x 8 hours x (6 working days per week x 52 weeks – 15 days public holidays) x 0.8 (to account for maintenance and idle time).
4. Mainly includes: flow coupling, production seal assy, X-over, running/pulling tools, setting/retrieving tool, lock mandrel, landing nipple and other completion tools.
5. During particular periods when demand for the Company's product exceed its production capacity, the Company has purchased semi-processed components/materials to complement the available production capacity from its own facilities to satisfy the demand.

We plan to construct a centralised production plant to increase our production capacity in Huizhou, Guangdong, PRC, and expect to consummate such plan in the 4th quarter of 2013. We expect that, after the expansion of our manufacturing facilities following allocation of IPO proceeds to various kinds of manufacturing means (which includes the construction of the centralised production plant and purchase of manufacturing machinery), our production capacities of our manufacturing facilities will be as follows:

	2013	
	Expected capacity	Estimated capital expenditure
	<i>Machine Hours/ Labour Hours (approx.)</i>	<i>RMB</i>
Completion tools (Machine Hours).....	100,000	11,262,500
Production enhancement tools (Machine Hours)	610,000	34,830,000
Control Panels (Labour Hours).....	150,000	8,571,200
		46,092,500

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OTHER SERVICES

Our oilfield services also include introduction of completion equipment and drilling equipment and production enhancement products.

We introduce completion equipment, drilling equipment and production enhancement products (including electrical submersible pumps and artificial lift gauges and associated equipment and services) from oilfield tool suppliers to oil and gas companies or other oilfield services providers. We charge the suppliers (where the products and equipment are introduced to oil and gas companies) or such other oilfield services providers (where the products and equipment are introduced to them) a certain percentage of the total sales amount as agency fees. Agency fees chargeable against the suppliers are payable when the full payment is received by the suppliers. Agency fees chargeable against other oilfield services providers are payable upon such providers making payment to the suppliers.

SALES AND MARKETING

We primarily rely on our regional offices whose personnel are generally qualified engineers with over 15 years of experience in the oil and gas industry to conduct customer relationship management in their respective regions. We have established regional offices for marketing purpose in various cities in China and overseas. Our regional offices work together with our business line departments, such as drilling, completion, production enhancement and unconventional gas, and consultancy services for various marketing activities.

Given their strong background and in-depth experience in the oil and gas industry, our personnel in the regional offices in China and overseas (supported by our business line departments) are capable of understanding customers' needs, explaining clearly the technical features and advantages of our services and products, and conveying how such features and advantages serve to address their needs. We believe that the strengths of our sales and marketing personnel give us a competitive advantage in our sales and marketing activities.

Since our commencement of business, new business opportunities have been mainly sought through making active approaches towards customers (which means actively approaching customers following preparation of relevant customer and project information), open bidding or secured upon customer requests, depending on our different segments of business. There are no material differences in respect of the manner we secure business amongst countries which we have operations. For our consultancy services, we use active approach. For our oilfield project services, we use active approach and, to a lesser extent, open bidding. For our manufacture and sales of tools and equipment business, we generally sell products upon customer requests. Our business development personnel is responsible for collecting information and approaching the potential customers while our business line departments are responsible for assessing the feasibility of the project based on the information provided by the business development personnel and performing the required services or products once a project is successfully secured. Our business development personnel and business line departments also work together to prepare fee quotations to the potential customers and, in case of a open bidding, to undertake the bidding process.

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We believe that our active approach in seeking new business opportunities allows us to attract the attention of our customers, enhance our market reputation, secure new business in advance of our competitors and expedite our business growth. As such, we are sensitive to market movement at all times and are always able to identify business opportunities, resulting in the success of our active business-sourcing approach.

We plan to continue to expand our sales and marketing team. In addition, as both a marketing strategy and as part of our means to facilitate our active approach, we will undertake marketing activities such as participating in academic exchange with industry players and in petroleum exhibition/fair, seeking opportunities to present at technology conference, held by oil and gas companies and making regular presentations of the application of advanced oilfield technology to our customers. We will also participate in official sponsorships (such as providing scholarships to young talents in the oil and gas industry or funding to major oil universities, and initiating marketing activities or events) in areas where our identified potential customers have presence or where our target project is located.

MAIN CONTRACT TERMS

A. Types of contracts

Contracts for our oilfield project services, consultancy services and manufacturing and sales of tools and equipment fall into three types:

- individual agreement for each individual project that runs until the completion of such project — The project may be for a specific type of oilfield project service such as drilling, or for consultancy services.
- framework agreement that runs for a certain period of time under which customers may request for our services as and when they require during the validity of such framework agreement subject to the same terms and conditions stipulated therein — Framework agreement may be entered into where, upon securing new business, we are engaged for the provision of the same type of services for multiple occasions within a specified timeframe. The terms and conditions in such framework agreement generally include pricing, settlement terms, scope and location of services, termination and governing law.
- individual sales agreement for particular tools or equipment that are required by our customers — Such agreement may be entered into in the form of (i) an international trading agreement with the adoption of International Commercial Terms, also known as IncoTerms or (ii) a domestic purchase agreement or purchase order.

As previously disclosed, prices under our contracts for our services or products could be fixed or varied. Our variable price contracts generally refer to those contracts pursuant to which part or all of our fees are charged based on the time and number of personnel spent on the project in accordance with the applicable daily rate. Generally speaking, the applicable daily rate is fixed at the time when the contract is entered into. Contracts for supervisory services, which generally include fees charged based on time and number of personnel spent, are categorised as variable price contracts, while

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contracts for well completion services and production enhancement services are generally categorised as fixed price contracts. Contracts for drilling services and IPM services could be either variable price contracts or fixed price contracts, depending on whether the fees chargeable under such services are based on completion time, duration of equipment used and/or number of personnel spent. The final amount payable under our fixed price contracts may be subject to adjustment pursuant to different types of variation clauses such as (i) adjustment (upwards and downwards) of the final amount payable in the event that the quantity of our work, as agreed in writing by our customers, is increased or decreased; and (ii) adjustment as a result of various taxes (for example, value-added taxes with respect to contracts relating to PRC projects, and withholding taxes which are required to be withheld by the customers and payable to local authorities to ensure compliance with local applicable tax laws with respect to contracts relating to overseas projects).

Set out below is a table of breakdown of our revenue from fixed price contracts and variable price contracts respectively during the Track Record Period.

	Year ended 31 December						Nine months ended 30 September	
	2009		2010		2011		2012	
	<i>HK\$ million (approx)</i>	%	<i>HK\$ million (approx)</i>	%	<i>HK\$ million (approx)</i>	%	<i>HK\$ million (approx)</i>	%
Fixed price contracts	236.3	82.4	467.7	83.8	447.4	80.0	431.1	75.5
Variable price contracts	<u>50.4</u>	<u>17.6</u>	<u>90.6</u>	<u>16.2</u>	<u>112.1</u>	<u>20.0</u>	<u>140.0</u>	<u>24.5</u>
Total	<u>286.7</u>	<u>100.0</u>	<u>558.3</u>	<u>100.0</u>	<u>559.5</u>	<u>100.0</u>	<u>571.1</u>	<u>100.0</u>

There is no difference in revenue recognition policy in respect of our fixed fee contracts and our variable price contracts, both of which represents the timing when the services are acknowledged and accepted by our customers. The basis of charging in the contract will not affect our revenue recognition policy. The revenue recognition policy currently disclosed in the section headed “Financial information — Critical accounting policies and estimates — Revenue recognition” on page 290 of this prospectus applies equally to both our fixed fee contracts and our variable price contracts.

B. Settlement terms

Our settlement terms vary depending on the type of services or products delivered, but such terms may be subject to adjustment on a case by case basis, depending on the customers’ payment record, business volume and their market position in their relevant industry. We believe that our settlement terms and policy closely follow market practice.

- Oilfield project services: generally speaking, payment for our services rendered is settled by instalments or a single lump sum payment within six months after the customer has accepted our services. A small portion (typically 5% to 10%) of the service fees may be withheld but settled within one year after the service acceptance date, if so requested by our customers as quality assurance.

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- Consultancy services: payment for our services rendered is generally settled by a single lump sum payment within one to three months after the completion of our services for the projects. For certain projects (i) our customers may be required to make a payment in the amount of 30% to 40% of the contract price within 15 days after the contract is entered into; and (ii) our customers may be required to make monthly payments in respect of professional fees calculated according to the personnel's day rate and time spent on the project.
- Manufacture and sales of tools and equipment: payment for our products is usually settled by a down-payment of up to 30% of the total consideration payable upon the signing of the sale contract, and a payment of the remaining amount payable upon delivery of the products.

C. Performance bonds

In the case of overseas projects secured through open bidding, we are usually required to provide performance bonds. In such cases, performance bonds will be issued to our customers by banks in an amount which equals to a small portion (typically 5%) of the service fees to guarantee satisfactory completion of our services. We usually have to provide such performance bonds at least 15 or 30 days before commencement of our work and such performance bond will be released within one month after the customer has accepted our services.

D. Warranty

We are usually required to provide warranties on our oilfield services under which we undertake to repair or replace items that fail to perform satisfactorily, such as warranties in respect of the tools and equipment provided during the course of provision of oilfield project services. The warranties often run for a period of not more than 18 months from the delivery date. The warranty period was determined after commercial negotiation with the customers, and was considered by the Directors as common industry practice. Under our oilfield project services, where our customers discover any quality issues in respect of our products after delivery or the products fails to work as contemplated as a result of our assembling services, our customers may, within the warranty period, in addition to requiring us to repair and replace the items, withhold payment of an amount typically up to 5% of the contract sum until the quality issue or the failure is rectified, or if the defect or failure is not rectified within the warranty period, then the withheld payment will be written off. Generally speaking, contracts for our consultancy services and manufacturing and sales of tools and equipment do not provide for such payment withholding mechanism in respect of warranty for product or service quality. Other than the foregoing, we do not have other material product liabilities under the contracts with our customers.

Provision for warranties and product liabilities granted by the Group on oilfield services and undertakings to repair or replace items that fail to perform satisfactorily are generally recognised at the balance sheet date for expected warranty claims for repairs and returns based on industry practice and past experience of the Group. There had been no claim for warranty against any members of the Group during the Track Record Period up to the Latest Practicable Date. As the Group is not expecting any warranty claims for repairs and returns based on its past experience and track record, the Group has not made any provision in respect of warranties or product liabilities during the Track Record

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Period. Should there be any warranty claims for repairs and returns, the relevant costs in connection with such claims will be recognised as costs for the relevant project as and when they are incurred. During the Track Record Period, except for those contracts of Top Select (which was disposed of by the Group on 9 November 2012) in connection with business activities in Syria that had been suspended before the relevant products and/or services were provided as a result of Syria's political unrest, the Group has not experienced any material variations in the final trade receivables from the contract sum.

OUR GEOGRAPHICAL COVERAGE

During the Track Record Period, we have provided services/products in an extensive range of geographic areas in the world, including China, Russia, Australia, the Middle East, Western Africa, Caribbean Sea and South America.

The following table sets forth a breakdown of our revenue by geographical area according to location of the customers' oilfield project services and consultancy services and at the delivery location of manufacturing and sales of tools and equipment for each of the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2009		2010		2011		2011		2012	
	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%	<i>(HK\$ million)</i>	%
	<i>(unaudited)</i>									
China.....	50.6	17.7	107.0	19.1	161.2	28.8	64.9	14.8	422.6	74.0
Iran.....	71.9	25.1	436.9	78.3	368.5	65.9	346.2	79.1	41.8	7.3
Syria.....	0.4	0.1	13.5	2.4	26.6	4.7	24.7	5.6	6.5	1.1
Russia.....	59.1	20.6	—	—	0.7	0.1	—	—	45.2	7.9
Australia.....	23.4	8.2	—	—	—	—	—	—	—	—
Algeria.....	75.7	26.4	—	—	—	—	—	—	—	—
Venezuela.....	—	—	—	—	—	—	—	—	20.7	3.6
Turkmenistan.....	—	—	—	—	—	—	—	—	22.5	4.0
Others <i>(Note)</i> ...	5.6	1.9	0.9	0.2	2.5	0.5	1.7	0.5	11.8	2.1
Total.....	<u>286.7</u>	<u>100.0</u>	<u>558.3</u>	<u>100.0</u>	<u>559.5</u>	<u>100.0</u>	<u>437.5</u>	<u>100.0</u>	<u>571.1</u>	<u>100.0</u>

Note: The other countries mainly include The Republic of Trinidad and Tobago, Kazakhstan, Myanmar and Singapore.

We commenced the sale of oilfield tools and equipment in the PRC in 2002 and began to provide high-end oilfield services in the PRC in 2003. In China, we are currently mainly operating in the western and northern regions. Amongst our operations in China, a large portion of our revenue attributable to drilling was generated from our operations in the western region, where challenging conditions of the wells make high-end technology, expertise and experience necessary for effective drilling. Most of our revenue attributable to well completion in China was generated from our

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operations in the south-western and north-eastern regions and most of our revenue attributable to production enhancement in China was generated from our operations in the north-western region. For each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, revenue attributable to our operations in China accounted for approximately 17.7%, 19.1%, 28.8% and 74.0% of our total revenue, respectively. We expect that attribution by our operations in China to our total revenue in 2012 will substantially increase as we have committed to provide services for a number of projects in China. For the nine months ended 30 September 2012, China was our single largest market in terms of revenue and we aim to maintain China as one of our largest markets in the near- to mid-term.

In 2006, we had a major breakthrough in our business expansion when we were engaged to carry out our first IPM services oilfield project in Russia. Since 2006, we have worked closely with the subsidiaries or joint ventures of Sinopec, CNPC and CNOOC to expand our services to cover other overseas oilfield developments which they were involved. The close cooperation has since enabled us to expand our overseas services to areas including the Middle East, Russia, Australia, Western Africa, Caribbean Sea and South America. Also, through our successful track record of executing overseas projects, we have also further built close relationships with other overseas NOCs and established our presence in those respective countries. In addition to identifying the right partners for overseas expansion, other key considerations include (i) whether the project allows for a relatively high level of profit margin; (ii) whether there is a perceived lower level of competition against large international oilfield services providers; and (iii) whether there is a potentially significant level of future oil and gas activities going forward, mainly driven by the increase in demand for our services by our major PRC customers' overseas subsidiaries and international oil and gas companies. Of our overseas operations, we principally provide IPM services, oilfield project services in drilling and well completion. During the Track Record Period, we had completed over 73 overseas projects.

Set out below is our project backlog information by major geographical location as at 31 December 2012:

Geographical location	Types of services	Number of contracts signed subsequent to Track Record Period and up to 31 December 2012	Number of contracts signed during Track Record Period pending commencement of operations as at 30 September 2012	Number of contracts signed during Track Record Period that have commenced operations but pending completion as at 30 September 2012	Aggregate contract value (HK\$ million) (approx.)	Amount of revenue recognised as at 31 December 2012 (HK\$ million) (approx.)	Amount of backlog (HK\$ million) (approx.)
China	Consultancy services	8	1	6	30.7	9.5	21.2
	Oilfield project services	26	—	10	666.4	521.2	145.2
	Production enhancement	4	—	5	577.5	472.1	105.4
	Well completion	3	—	1	12.4	12.4	—
	Drilling	19	—	4	76.5	36.7	39.8

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Geographical location	Types of services	Number of contracts signed subsequent to Track Record Period and up to 31 December 2012	Number of contracts signed during Track Record Period pending commencement of operations as at 30 September 2012	Number of contracts signed during Track Record Period that have commenced operations but pending completion as at 30 September 2012	Aggregate contract value (HK\$ million) (approx.)	Amount of revenue recognised as at 31 December 2012 (HK\$ million) (approx.)	Amount of backlog (HK\$ million) (approx.)
Middle East ^(Note 1)	Consultancy services	—	—	1	3.4	3.4	—
	Oilfield project services	—	—	3	24.7	24.7	—
	Production enhancement	—	—	—	—	—	—
	Well completion	—	—	2	15.4	15.4	—
	Drilling	—	—	1	9.3	9.3	—
Russia	Consultancy services	—	—	1	19.6	19.6	—
	Oilfield project services	—	—	3	33.7	33.7	—
	Production enhancement	—	—	—	—	—	—
	Well completion	—	—	—	—	—	—
	Drilling	—	—	3	33.7	33.7	—
Venezuela	Oilfield project services	2	—	1	416.3	209.9	206.4
	Production enhancement	—	—	—	—	—	—
	Well completion	2	—	1	416.3	209.9	206.4
	Drilling	—	—	—	—	—	—
	Others ^(Note 2)	Consultancy services	—	—	1	30.5	20.9
	Oilfield project services	1	—	1	23.1	23.1	—
	Production enhancement	—	—	—	—	—	—
	Well completion	1	—	1	23.1	23.1	—
	Drilling	—	—	—	—	—	—
Total.....		37	1	27	1,248.4	866.0	382.4

Notes:

1. Middle East mainly comprises Iran and Syria.
2. The other countries mainly include Turkmenistan, Republic of Trinidad and Tobago, Kazakhstan, Gabon and Nigeria.

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OUR CUSTOMERS

The oil and gas exploration, development and production sector in the PRC is dominated by three state-owned oil and gas groups, namely CNPC, Sinopec and CNOOC. These state-owned groups have many subsidiaries, affiliates and joint ventures in China and overseas. We believe it is commonly known across the industry that the headquarters of these three groups are generally responsible for setting and formulating group strategies, making group-wide policies and guidelines and dealing with other high level matters that could affect the whole group, and that their subsidiaries, affiliates and joint ventures run their business under these sets of policies and guidelines but enjoy autonomy in selecting oilfield service providers and directly deal with and enter into contracts with them. As such, Chinese oilfield services providers, particularly those servicing the Chinese market, generally find their business concentrated on one or more of these three state-owned oil groups.

We have thus far been engaged by (i) PRC oil and gas companies (which include NOCs) mainly for consultancy services and/or oilfield project services for their overseas projects and/or for our oilfield project services for their local projects; (ii) international oil and gas companies (which include NOCs) mainly for our consultancy services for their projects in China; and (iii) overseas regional oil and gas companies (which include non-PRC NOCs) for a variety of our services for their local and overseas projects.

We have conducted business with subsidiaries and joint ventures of Sinopec, CNPC and CNOOC since our commencement of business in 2002 and believe that we have a strong and stable relationship with them given the quantity and quality of our projects completed for them. We have also conducted business of manufacture and sales of tools and equipment with PRC oil and gas companies as well as other oilfield services providers in China. In addition, owing to our sales and marketing strategy (please refer to the section headed “Sales and marketing” of this section for details), over the years we have also successfully secured business from overseas NOCs in China and the overseas market.

During the Track Record Period, our major customers have primarily been subsidiaries and joint ventures of Sinopec. Our revenue attributable to Sinopec, on a group basis, constituted approximately 82.1%, 96.5%, 90.2% and 76.7% of our total revenue, respectively, for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012. During the Track Record Period, revenue generated from our top five customers accounted for approximately 79.0%, 94.5%, 83.2% and 73.9% of our total revenue, respectively; revenue generated from our largest customer, which was also our largest customer within Sinopec Group, accounted for approximately 26.4%, 53.7%, 62.0% and 51.6% of our total revenue, respectively; and revenue generated from our top five customers within Sinopec Group accounted for approximately 72.1%, 94.4%, 83.2% and 70.9% of our total revenue, respectively. None of our Directors, chief executives, their respective associates or any Shareholders who, to the knowledge of our Directors, holds more than 5% of our issued capital or any of our subsidiaries or their associates had any interest in our top five customers during the Track Record Period.

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Sinopec is one of the state-owned oil and gas groups dominating the oil and gas exploration, development and production sector in the PRC. In China, demand for services in the segments in which the Group principally serves is highly concentrated. We therefore believe that our revenue concentration on Sinopec (on a group basis) is an industry norm. Over the years, we have received numerous accolades from various subsidiaries and affiliates of Sinopec for our services (such as drilling and multistage fracturing) across a wide range of areas, and we have established stable and long-term relationship with Sinopec owing to our sales and marketing efforts. Accordingly, we believe that we are able to maintain the stable and long-term relationship with Sinopec so long as we maintain our competitive strengths.

Despite the strong and established relationship with Sinopec (on a group basis) and the substantial contribution to our revenue attributable to them, we generally take the view that our business does not rely on Sinopec as a single entity, but on a number of different subsidiaries or affiliates of Sinopec which generally enjoy autonomy in selecting their oilfield services providers. More importantly, the services, products, expertise and technology provided by the Group are not confined to any particular jurisdictions, countries or customers. Therefore, subject to applicable laws and regulations, generally speaking the Group may provide services and products for any customers in any areas or countries where there are oilfield project activities. Indeed, the Group's reliance on Sinopec (on a group basis) was decreasing and the percentage of revenue of the Group derived from sales to Sinopec (on a group basis) dropped from approximately 93.6% for the nine months ended 30 September 2011 to approximately 76.7% for the nine months ended 30 September 2012. Revenue of the Group derived from the Group's other customers amounted to approximately HK\$133.0 million for the nine months ended 30 September 2012 (representing approximately 23.3% of the Group's total revenue for the same period). It is expected that the percentage of revenue generated from Sinopec (on a group basis) further decreased for the year ended 31 December 2012. This can be demonstrated by (i) the fact that percentage of the Group's revenue derived from sales to entities which were not affiliates or subsidiaries of Sinopec have been on an upward trend during the Track Record Period; and (ii) the fact that some of the counterparties of our contracts signed up to 31 December 2012 pursuant to which we performed services in 2012 were not affiliates or subsidiaries of Sinopec. These contracts included our services provided to our new customer in Venezuela, South America, with revenue amounted to not less than than HK\$200 million. The decrease in sales to Sinopec (on a group basis) had been primarily due to (i) the increase of our sales and marketing effort towards other customers and the corresponding increase in demand from these customers; and (ii) the expansion of our range of products and services. As disclosed previously, we intend to expand our customer base to other oil and gas companies. To this end, we will recruit more business development and technical personnel to accomplish our marketing efforts in both China and overseas and to enhance our relationship with other PRC NOCs and overseas customers with a view to being recommended by these customers to new customers. We will also utilise the network of our business development and technical personnel to explore overseas opportunities. In any event, while we will continue to strengthen our relationship with our existing major customers, which includes Sinopec, we intend to increase the quantity of business with our other customers and to further expand our customer base through our sales and marketing activities.

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OUR SUPPLIERS

We purchase raw materials and assembling tools and materials, which include tools and equipment and ancillary materials required in our oilfield project services and our manufacturing of tools and equipment from our suppliers. We evaluate each of our suppliers based on the quality of their products, their qualification in accordance with relevant industry association or government authorities, and their reputation and their position in the market. We generally only finalise our choice after assessment of around three to four suppliers. We are generally required to provide a 10% to 30% prepayment upon placing an order, and are typically required to pay the balance in cash on delivery or offered a credit term of up to three months after delivery and/or receiving the relevant invoice. We believe that these credit terms granted by our suppliers are in line with current general market practice.

Our raw materials and assembling tools and materials, which include tools and equipment and ancillary materials required in the provision of services principally include drill bit, drill pipe, turbine drilling tools, tubing, wellhead and X-mas tree, swell packers, liner hangers, hydraulic pump, steel bar, tubing, control panels, electronic device, slickline tools, packers and safety valves, all of which are not commodities and the prices of which are not highly volatile. We have not experienced substantial price increases or supply shortages in respect of raw materials or assembling tools and materials that we frequently use. Therefore, coupled with the fact that we source our major raw and assembling tools and materials from a number of different suppliers, we believe that the risks associated with fluctuations in the supply and price of materials and equipment to which the Group is subject is relatively small.

During the Track Record Period, material costs (which primarily comprise purchasing costs of assembling materials and raw materials) and technical service fee (which primarily consists of leasing of turbine drilling tools, issuance of research and study reports relating to drilling and production enhancement and other forms of technical services) amounted to approximately HK\$111.9 million, HK\$337.6 million, HK\$298.8 million and HK\$299.2 million, respectively, accounting for approximately 56.7%, 72.7%, 66.1% and 61.9% of our total operating costs, respectively. Purchases from our five largest suppliers accounted for approximately 73.4%, 74.5%, 50.3% and 67.0% of our total purchases during the Track Record Period, respectively. Purchases from our largest supplier accounted for approximately 22.7%, 31.1%, 15.6% and 51.1%, respectively, of our total purchases for the same periods. We usually do not enter into long-term supply contracts with our suppliers or hedge against the price volatility of raw materials. None of our Directors, chief executives, their respective associates or any Shareholders who, to the knowledge of our Directors, holds more than 5% of our issued share capital or any of our subsidiaries or their associates had any interest in our top five suppliers during the Track Record Period.

Although we have established long-term relationship with our key suppliers with a view to ensuring stable supply and timely delivery of high-quality raw materials and components, we source our major raw materials from a few different suppliers. As such we do not rely on any particular supplier or group of suppliers for any of the key consumables, components and parts required for our

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services and products. Therefore, we believe that we will still be able to procure supplies from comparable market participants should any of our key suppliers cease to provide key raw materials to us. During the Track Record Period, we did not experience any major difficulties in procuring raw materials necessary for performing our services and manufacturing our products.

We do not sub-contract to third parties for the provision of our services.

Oilfield project services

We purchase (i) drill bit, drill pipe, dill collar, drilling fluid tubing, casing required in our drilling services; (ii) safety valves required in our completion services; (iii) acidising fluid and fracturing fluid required in our production enhancement; and (iv) packers required in our completion and production enhancement services. We generally source crucial precision consumables, components and parts from internationally-renowned independent third parties such as, amongst others, Baker Hughes based on our technical needs.

Manufacturing and sales of tools and equipment

We purchase raw materials and components required in our manufacture of well completion tools and parts and wellhead control panels and other equipment, such as steel bar, tubing, computers and electronic device. We primarily purchase raw materials and components from domestic raw material suppliers.

Technical Services

We source technical services, such as leasing turbine drilling tools for our turbine drilling services, from independent third party suppliers with good reputation or marketing network to supplement our technology and services.

TECHNOLOGY DEVELOPMENT

We value the importance of technology and we pride ourselves on our skills and expertise in a number of areas in oilfield services, such as turbine-drilling, multistage fracturing, surface facilities for safety and surface flow control systems and the use of safety valve, packer, other well completion and production enhancement tools, drilling fluids and fracturing liquid. It is our Group's policy, through our technology development department, to continue to place emphasis on enhancing our existing oilfield services technology as well as being kept abreast of market movement of innovative and effective technology. As at the Latest Practicable Date, our technology development team was headed by Mr. Du Heli and had 45 engineers, of whom 17 had over 10 years of experience in the oilfield services industry, 18 had worked in international oil and gas companies or NOCs, and 31 had work experience in research and development in the oilfield services industry. Please refer to the section headed "Directors, senior management and employees" on page 265 of this prospectus for the qualifications and experience of Mr. Du Heli.

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We typically identify issues relating to our technology, tools and equipment, and their application required in specific areas in light of the increasingly challenging geological conditions encountered by oilfield services providers in their provision of services, apply our knowledge and work towards a solution. From time to time, our research and development activities may be driven by specific projects, where our engineers in our business line department may succeed in enhancing our technology following discussions, testing and other activities for the purpose of addressing issues which they encounter in designing operation plans to meet the specific needs of our customers.

While our research has always focused on the development of technological skills and knowledge, in recent years we have also started to diversify our research focus to cover the improvement and development of oilfield services tools and hardware. As a result, we have successfully developed our own oilfield services tools in a number of areas, including downhole packers, multistage fracturing packers, safety valves, wellhead control panel/system and friction-resistance hardware and drilling tools. In 2012, we successfully developed our proprietary oil-based drilling mud, which, with our unique formula of constituents that enhanced buoyancy and stability, was acknowledged by our customer as particularly suitable for drilling against collapse-prone and water-sensitive rock formations such as those in horizontal wells and extended reach drilling wells. We own patents in the PRC for some of these enhanced technologies and tools developed by us. Please refer to the section headed “Statutory and general information — B. Further information about our business — 3. Our intellectual property rights” of Appendix V of this prospectus for details.

Our research and development expenses during the Track Record Period primarily consists of employee benefit expenses of our research employees. Our overall budget for research and development will focus on the development of turbine drilling, downhole completion, fracturing fluid and oil-based mud system. We plan to increase our research and development efforts and expenditures through the recruitment of human resources and purchase of materials and equipment and accessories to better facilitate our research and development in the identified areas. We intend to allocate 15% of the net proceeds from the Global Offering to research and development. Please refer to the section headed “Future plans and use of proceeds” on page 354 of this prospectus for details.

For each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, our research and development expenses amounted to HK\$1.5 million, HK\$3.9 million, HK\$3.7 million and HK\$4.3 million respectively.

As our persistent pursuit of high-end technology in oilfield services continues through our research and development efforts, we believe that we will be able to stay at the forefront of evolving technology in each area of oilfield services, and we anticipate that we will be able to further raise our level of expertise and technology in oilfield services and thus consolidate our position and reputation as one of the high-end oilfield services providers that is renowned for its technological excellence.

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QUALITY CONTROL

As a company operating in an industry utilising sophisticated technologies, quality control is paramount to our ability to consolidate our position in the market and our continued growth. In view of such importance, we have, since 1 September 2008, implemented a set of stringent quality control procedures under which our team of experienced experts in the quality, health, safety and environment department (“**QHSE Department**”) is responsible for the establishment, maintenance, implementation and supervision of our quality control system. With respect to our business unit operations, we conduct quality control inspections for the services we provide to our customers and the tools and products we source from our suppliers from time to time, and have established procedures for supervising and evaluating our provision of services and products. The evaluation report will reveal deficiencies, if any, and suggest rectifications and improvements. We have also established mechanisms for internal review of our quality control procedures and have stipulated measures to improve our quality control system, rectify the deficiencies identified during our supervision and evaluation process and prevent potential deficiencies. Such a system of scrutiny enables us to consistently adhere to the relevant industry standards and quality requirements of our customers.

We implemented the International Organization for Standardization (“**ISO**”) 9001 quality control systems for our products and services, and received an initial certification in 2006. We review and enhance our quality control systems from time to time in light of market changes and response to our services and products.

Set forth below are examples of the numerous quality control milestones we have achieved, particularly with respect to standards established by the America Petroleum Institute:

Date of award	Name of the certificate	Group company	Product or service ranges	Valid until
26 August 2010	ISO9001:2008	Star Petrotech	Design and manufacturing of oilfield equipment	25 August 2013
15 November 2010	ISO9001:2008; ISO/TS 29001; and API Specification Q1	Shenzhen FST	Design, manufacturing and service of subsurface safety valves, packers, control systems for subsurface safety valves, surface-controlled subsurface safety valves and oilfield pressure test equipment	15 November 2013
15 November 2010	Certificate of authority to use the official API monogram	Shenzhen FST	Subsurface safety valves; packers at V6 and V5	15 November 2013

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Date of award	Name of the certificate	Group company	Product or service ranges	Valid until
13 December 2010	ISO9001:2008; ISO/TS 29001; and API Specification Q1	Dezhou Jiacheng	Design, manufacture and service of Oil Tools	13 December 2013
13 December 2010	Certificate of authority to use the official API monogram	Dezhou Jiacheng	Casing centralisers	13 December 2013
27 May 2011	ISO9001:2008	Sun Oil	Manufacture of completion and drilling tools for oilfield	26 May 2014
16 August 2012	ISO9001:2008; ISO/TS 29001; and API Specification Q1	Sun Oil	Design and manufacture of subsurface safety valves and packers; manufacture and sale of oilfield drilling and completion tools	16 August 2015
16 August 2012	Certificate of authority to use the official API monogram	Sun Oil	Subsurface safety valves; packers at V6 and V5	16 August 2015
17 January 2012	ISO9001:2008	Shenzhen FST	Wellhead safety control system, oilfield pressure testing equipment, hose pulse tester, hose burst tester, gas cylinder burst tester and the design and manufacture of gas cylinder burst tester	24 January 2015
8 March 2012 (Initial certification date: 10 March 2009)	ISO9001:2008	Company Petro-king International Iranian Refinement	Provision of services for drilling and completion engineering design, oilfield exploration and production research, integrated project management of drilling and completion, oilfield equipment and tool supply and oilfield equipment installation	10 March 2015

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Date of award	Name of the certificate	Group company	Product or service ranges	Valid until
8 March 2012 (Initial certification date: 10 March 2009)	ISO9001:2008	Petro-king Shenzhen Petro-king International	Provision of services for drilling and completion engineering design, oilfield exploration and production research, integrated project management of drilling and completion, oilfield equipment and tool supply and oilfield equipment installation	10 March 2015
8 March 2012 (Initial certification date: 10 March 2009)	ISO9001:2008	Iranian Refinement	Oilfield equipment & tool supply and oilfield equipment preparation & installation services	10 March 2015
30 April 2012	Certificates of authority to use the official API monogram (API Spec 6A, 11D1, 14A, 14L, 19G1)	Star Petrotech	Flanged connector, Actuators as PSL 1,2,3 and 3G, Back pressure valves (PSL not applicable) (API Spec 6A); Packers at V6 and V5 (API Spec 11D1); Subsurface Safety Valves (API Spec 14A); Lock Mandrels, Landing nipples at V3 and V2 (API Spec 14L) Side-pocket mandrels; function testing grade F3, Design Validation grade V3 (API Spe 19G1)	30 April 2015
10 May 2012	API Specification Q1; ISO/TS 29001	Petro-king Shenzhen	Installation of oilfield equipment, sales and rental of oilfield equipment and tools, drilling, completion and production supervision services	10 May 2015

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INTELLECTUAL PROPERTY

We value the importance of technology and place great emphasis on our research and development efforts, and intellectual property protection is crucial to our business. As at the Latest Practicable Date, we owned nine patents in the PRC. We rely on a combination of non-disclosure, confidentiality and other contractual agreements with our Directors, employees and other third parties, encouragement of our employees becoming our Shareholders by way of issuing share options to them as reward for their services rendered, as well as privacy and trade secret laws, to protect and limit access to and distribution of our intellectual property rights. While we intend to proceed to apply for patents should we successfully develop advanced technologies, undergoing the application process may expose us to risks of infringement or unauthorised use by our competitors or other third parties of such technologies. In accordance with the Patent Law of the PRC and the Rules for the Implementation of the Patent Law of the PRC, in order to obtain a patent, it is necessary to disclose the details of the design to the public. Hence, there exists a risk that by publication of our proprietary technologies, competitors may learn, copy and reverse-engineer the technologies developed by us and produce derivative products. Therefore, although we will apply for patents for certain of our developed technologies that are difficult to replicate, we may continue to maintain certain of our proprietary technologies as trade secrets. Please see “Technology development” of this section and the section titled “Statutory and general information — B. Further information about our Business — 3. Our intellectual property rights” of Appendix V of this prospectus for further details on our intellectual property rights.

As at the Latest Practicable Date, we were not aware of any infringement or unauthorised use of our intellectual property rights by any third party.

OCCUPATIONAL HEALTH AND SAFETY PROGRAMME

Our personnel are one of our most important assets. In addition, many of our customers have placed an emphasis on safety records and quality management systems of service providers. Therefore, injuries to our personnel and/or to our physical assets pose threat to our reputation and to our success.

To ensure compliance with applicable laws and regulations, we have established and implemented a set of occupational health, safety and environment procedures (the “HSE”) which in principle require the provision of a safe working environment for our personnel, including the provision of adequate tools and equipment to our personnel and implementing appropriate work procedures to minimise their exposure to certain health risk factors inherent to oilfield services, regular health examination of our personnel, regular maintenance of our equipment and work sites, regular review and identification of occupational health and safety hazards and suggestion of corresponding improvements. We review our HSE from time to time in view of our expanding business and the increasing complexity of our operations, to ensure that it complies with relevant standard and applicable laws and regulations.

During the Track Record Period, there was no instance of material work-related injuries or casualties which could have materially and adversely had an impact on our business and operations.

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ENVIRONMENTAL COMPLIANCE

The operations for which we provide consultancy services and oilfield project services create or emit noise and waste water, gas and dust, particularly rock dust, drilling fluids and waste water which contains traces of oil that are created or discharged downhole during the operation and are brought up to the surface. However, it is common practice in the oilfield services industry for the well or oilfield owners and developers to, absent negligence or fault on the part of relevant service providers, clean up rock dust, drilling fluids, waste water and other wastes produced from providing relevant services. As we are primarily a service provider and are not considered an oil exploration and production company, we are not subject to the regulations specific to oil exploration and production companies.

Nevertheless, our business of manufacture and sales of tools and equipment is subject to certain environmental laws and regulations in jurisdictions where we have operations. These laws and regulations in general empower government authorities to impose fees for the discharge of wastes, levy fines for offences, or order closure of any facilities which fail to comply with related laws and regulations. Please see the section headed “Summary of legal and regulatory provisions” on page 118 of this prospectus for details. As at the Latest Practicable Date, we had not been subject to any sanctions by PRC or overseas environmental authorities for non-compliance with respect to our operations since our inception. During the Track Record Period, we were in compliance in all material respects with applicable environmental laws, and did not incur any material cost in complying with such laws. We expect that the cost of compliance will remain minimal.

INSURANCE

We maintain insurance coverage that is mandatorily required by the PRC law and other applicable laws in other jurisdictions, such as work-related injury insurance and pension-related insurance for our employees. In addition, we maintain commercial insurance coverage for our employees who provide on-site project operation to our customers. In respect of our supply of oilfield services tools and equipment, we generally maintain or procure our customers to maintain the relevant insurance coverage for the delivery of such tools and equipment according to the delivery terms as set out in the relevant contracts which we enter into with our customers. With respect of the insurance in the oilfield exploration or development operations, our Company believes that it is our customers’ responsibilities to maintain adequate insurance coverage for the operational risks or hazards that may occur in their operations. We believe that our current level of insurance coverage is adequate and in line with the practice of oilfield services industry in the jurisdictions where we operate.

During the Track Record Period and up to the Latest Practicable Date, we had not received any product liability claims, nor had we made any material claims under our insurance policies or experienced any material business interruptions. We intend to continue to maintain our insurance coverage range to the extent consistent with industry practice. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice.

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INVENTORY

We have established and implemented adequate policies and procedures to monitor and control our inventory level so as to provide our services and to facilitate our manufacture and supply in a timely manner, avoiding situations where we have insufficient stock, have over-stocked or have allowed our stock to become obsolete. We either (i) procure supplies of inventories after we receive orders from customers; or (ii) procure purchase of certain level of particular inventories in the absence of orders when we consider that there is potential demand of such inventories in the market. Generally speaking, even when we consider that there is potential demand of particular inventories in the market, we only procure purchase of such inventories in the absence of orders if (i) we are certain that such inventories are commonly requested by customers and that very often customers will make orders within a short period of time before the required delivery date, possibly due to delay in making orders as a result of internal approval procedures or (ii) under the circumstances where we receive orders for a certain level of such inventories, we consider that the discount granted to us by our suppliers for considerable purchase would justify the purchase of an excess of such inventories. We therefore adopt a flexible approach towards inventory level under which we determine the adequacy of our inventory level based on demand under the particular circumstances at the relevant time. In addition, we procure maintenance for our inventories from time to time so that they remain ready for use at any time. We believe that the multi-dimensional approach towards different types of inventories as laid down by our inventory policy will enable us to satisfy customers' demand in a timely manner with minimum risk exposure on over-stocking. In addition, apart from our warehouses in our production facilities, we have established regional warehouses in Sichuan Province and Xinjiang Province, which within close proximity to our customers, so as to facilitate timely delivery of frequently-used inventory in response to needs of customers within the regions.

Oilfield project services

Our inventory relating to oilfield project services mainly consists of assembling materials for tools required for or consumed in the course of provision of oilfield project services, which primarily comprise of well drilling tools, well completion tools and fracturing tools, and the assembled tools. In general, we procure such supplies for our provision of oilfield project services after we receive orders or when we expect orders from our customers.

Manufacture and sales of tools and equipment

Our inventory relating to our business of manufacture and sales of tools and equipment mainly consists of:

- raw materials including steel bar, tubing, computers and electronic device; and
- finished goods, such as safety valves and packers, and wellhead control panels and other equipment.

In general, we keep a small amount of inventory relating to our business of manufacture and sales of tools and equipment. We also keep an appropriate level of inventory at any particular time for those finished goods that are commonly used across different arms of business such as packers required in multistage fracturing.

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REAL ESTATES

As at the Latest Practicable Date, we had owned one property which was the land use right of a parcel of land with a site area of approximately 29,195.5 sq.m. and leased 26 properties in the PRC, Hong Kong, Singapore and Venezuela with a total gross floor area of approximately 15,765.9 sq.m. for our offices, warehouses and production facilities. During the Track Record Period, the total costs of our rental fees for our leased properties amounted to HK\$2.5 million, HK\$2.4 million, HK\$4.0 million and HK\$5.9 million, accounting for 1.3%, 0.5%, 0.9% and 1.2% of our total operating costs for the same periods, respectively. Please refer to the section headed “Statutory and general information — B. Further information about our Business — 4. Our property interests” in Appendix V to this prospectus for further details.

A. PRC properties

As at the Latest Practicable Date, we had owned one property which was the land use right of a parcel of land with a site area of approximately 29,195.5 sq.m. and leased 22 properties with a total gross floor area of approximately 13,578.7 sq.m. in Shenzhen, Beijing, Henan Province, Shandong Province, Chongqing, Wuhan, Gansu Province, Shaanxi Province, Inner Mongolia Autonomous Region, Xinjiang Uygur Autonomous Region and Huizhou for our office, staff quarters, warehouses and production facilities. The lease agreements in respect of part of our leased properties of 7,121.9 sq.m. in Xinjiang, Shenzhen, Beijing, Zhengzhou, Wuhan, Dezhou, Chongqing, Jingchuan, Tongchuan and Ordos, which are for office and warehouse use, have not been registered with the relevant property administration authority in the PRC. Pursuant to 《商品房屋租賃管理辦法》 (*Administrative Measures for Commodity House Leasing**) and local regulations in places where such leased properties are located (including 《北京市房屋租賃管理若干規定》 (*Regulations of Beijing on Lease of Houses**), 《鄭州市城市房屋租賃管理辦法》 (*Regulations of Zhengzhou on Lease of Houses**), 《深圳經濟特區房屋租賃條例》 (*Regulations of Shenzhen Special Economic Zone on Lease of Houses**) and 《武漢市房屋租賃管理辦法》 (*Regulations of Wuhan on Lease of Houses**)), the lessor and lessee must, within 30 days after the lease agreement has become effective, register such lease agreement with the local property management authority. Failure to comply with such registration requirements would result in the following:

- (i) For the properties located in Xinjiang, Shenzhen, Dezhou, Chongqing, Jingchuan, Tongchuan and Ordos, the lessor and lessee will be requested by the government supervisory authority to register the lease agreement within the time limit, failing which a fine between RMB1,000 and RMB10,000 will be imposed; and
- (ii) For the properties located in Beijing, Wuhan and Zhengzhou, it is explicitly stipulated that registration of lease agreement is the lessor’s obligation and the lessee would not be subject to any penalty for failure of the registration.

Therefore, we may be subject to a fine between RMB1,000 and RMB10,000 for each of the leased properties in Xinjiang, Shenzhen, Dezhou, Chongqing, Jingchuan, Tongchuan and Ordos for failing to register the respective lease agreements if so demanded by the authorities.

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According to the opinion of our PRC Legal Advisers, registration of a lease agreement is only an administrative measure of the relevant authority and it is not a condition or prerequisite for the validity of the lease agreement under PRC law and the lessors have obtained complete title documents in respect of the above-mentioned leased properties in Xinjiang, Shenzhen, Beijing and Zhengzhou. Therefore, the fact that these lease agreements have not been registered with the relevant authority would not affect the validity of these leases. The leased properties which we failed to register the relevant lease agreements are occupied by Petro-king Shenzhen, Shenzhen FST and Dezhou Jiacheng, as offices. Our Directors are of the view that those properties can be relocated if needed without incurring significant relocation costs and therefore are not considered crucial to our business and operations.

We have not however been able to obtain from the lessors complete title documents in respect of the abovementioned leased property in Dezhou with a gross floor area of approximately 500 m³ (which is for office use), two leased properties in Shenzhen with a total gross floor area of approximately 2,125 sq.m., one leased property in Chongqing with a total gross floor area of approximately 2,080 sq.m., one leased property in Zhengzhou with a total gross floor area of approximately 1,100 sq.m., one leased property in Ordos with a total gross floor area of 160 sq.m., one leased property in Shenzhen with a total gross floor area of approximately 600 sq.m., and one leased property in Wuhan with a total gross floor area of approximately 126.9 sq.m., which are for office, warehouse and production facility use. According to our PRC Legal Advisers, our right to use these leased properties as a lessee is subject to uncertainty as a result of the potential lack of title of the lessors to these leased properties. The leased properties which the Company failed to obtain from lessors the title documents are currently occupied by Shenzhen FST and Dezhou Jiacheng. The contribution to the Group of revenue and profit attributable to equity holders from Shenzhen FST from 30 June 2011 (the date since which the result of Shenzhen FST was consolidated to the Group) to 31 December 2011 were approximately HK\$29.2 million and HK\$0.9 million respectively, and the contribution to the Group of revenue and loss were HK\$28.7 million and HK\$2.7 million for the nine months ended 30 September 2012, respectively. The revenue contributions from Dezhou Jiacheng for each of the years ended 31 December 2009, 2010 and 2011 and for the nine months ended 30 September 2012 were approximately HK\$0.5 million, HK\$1.7 million, HK\$1.1 million and HK\$0.5 million, respectively, while the loss attributable to the equity holders contributed from Dezhou Jiacheng for the same periods were approximately HK\$0.7 million, HK\$4.5 million, HK\$1.2 million and HK\$0.2 million, respectively. Our Directors are of the view that (i) since Shenzhen FST occupies these leased properties only for the assembly of parts and components used for our production of control panels (hence there are not any heavy machineries and non-removable fixtures within these properties), the relocation can be completed within two weeks and the relocation cost will be approximately RMB1.5 million and Shenzhen FST will be able to resume production shortly after the relocation. Accordingly, possible loss of profit will be insignificant. Therefore, the relocation of Shenzhen FST (if needed) will not have any material adverse impact on our business, results of operations or financial condition; and (ii) all of our other leased properties in the PRC without lease registration are for office and warehouse use which are not production related and can be relocated, if needed without incurring significant relocation costs, and we should be able to identify alternative office spaces.

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B. Hong Kong properties

As at the Latest Practicable Date, we leased two properties with a total gross floor area of approximately 171.5 sq.m. in Hong Kong for our office use.

C. Singapore properties

As at the Latest Practicable Date, we leased one property with a total gross floor area of approximately 1,393.5 sq.m. in Singapore for our office, warehouse and production facilities.

D. Venezuela properties

As at the Latest Practicable Date, we leased one property with a total gross floor area of approximately 625 sq.m. in Venezuela for our warehouse use.

As of 30 September 2012, (a) each property interest of our property activities had a carrying amount of less than 1% of our total assets and the aggregate carrying amount of all such interests did not exceed 10% of our total assets; and (b) none of the property interests of our non-property activities had a carrying amount which exceeded 15% of our total assets. Accordingly, we have not obtained a valuation report in respect of our property interests in reliance upon the exemption provided by section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

PAST OPERATIONS IN SANCTIONED COUNTRIES

A. Past operations in sanctioned countries

Iran and Syria

We have past business activities in connection with Iran and Syria. All our contracts in relation to the Iran and Syria operations were entered into by us before 21 November 2011. That is the effective date of the US presidential executive order, Executive Order 13590, that authorised the Secretary of State to impose sanctions on parties who knowingly sell, lease or provide to Iran goods, services, technology or support that meet certain value thresholds and that could directly and significantly contribute to (i) the maintenance or enhancement of Iran's ability to develop petroleum resources located in Iran or (ii) the maintenance or expansion of Iran's domestic production of petrochemical products, as well as certain successors to and related parties to such persons (when such related parties meet the knowledge requirements). Our contracts with or involving Iran have not been expanded, renewed or amended after the effective date of this order, and thus would not be subject to possible sanctions under this order, which will be more particularly described in the following sub-section. We will not expand, renew or amend such contracts relating to the business activities in connection with Iran (or Syria).

Since our inception, we had entered into contracts for Iran operation in relation to consultancy services (10 contracts), oilfield project services (12 contracts) and manufacture and sales of tools and equipment (4 contracts), with total contract amounts of approximately HK\$110.8 million, HK\$828.5 million and HK\$1.4 million, respectively, while we had entered into a total of six contracts for Syria operations in relation to consultancy services (1 contract) and oilfield project services (5 contracts),

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with total contract amounts of approximately HK\$32.4 million and HK\$95.6 million, respectively. As a result of Syria's political unrest, we suspended two contracts for Syria operations in April 2012 (amounting in aggregate to approximately HK\$92.2 million) before services or products were provided to Syria.

As at the Latest Practicable Date, our outstanding amounts receivables in relation to the Iran and Syria operations amounted to approximately HK\$1.3 million and HK\$6.5 million, respectively, a majority of which are expected to be recovered by the end of March 2013. Upon our disposal of Top Select, the outstanding account receivables of Top Select as of the date of disposal were also transferred to the new owner of Top Select and since then we had no recourse to such amount.

Set out below is a table of details of each completed contract of the Group with outstanding receivables as of the Latest Practicable Date from the customers in Iran and Syria.

Project and brief description	Location	Contracting party within the Group	Project completion date	Contract value (USD'000)	Outstanding account receivables as of the Latest Practicable Date (USD'000)	Expected date of receiving the outstanding account receivables	Currency
Provision of supervision on site services.....	Iran	Petro-king International	4 March 2012	4,540.0	164.9	By end of March 2013	USD
Provision of supervision on site services	Syria	Petro-king International	1 October 2012	4,178.4	837.7	By end of March 2013	USD
Total				8,718.4	1,002.6		

Set out below is a table of details of each completed contract of Top Select, which was disposed of on 9 November 2012, with outstanding receivables as of the date of completion of the disposal of Top Select from customers in Iran:

Project and brief description	Location	Contracting party	Project completion date	Contract value (USD'000)	Outstanding account receivables as of 9 November 2012 (USD'000)	Currency
Provision of wellhead and X-mas tree	Iran	Top Select	13 May 2011	16,364.4	929.3	USD
Provision of liner hangers and casing accessories	Iran	Top Select	31 March 2012	13,024.1	798.2	USD
Provision of well completion equipment	Iran	Top Select	25 July 2012	51,890.4	6,592.3	USD

Our Iran business was predominantly provided to the subsidiaries and/or joint ventures of Sinopec for the Yadavaran Project in Iran, including those companies which are responsible for different aspects in relation to this oilfield project (the "Sinopec Customers"), such as contractors, parties responsible for design and research and testing. We cooperate very closely with Winfield, an

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indirect wholly-owned subsidiary of Sinopec responsible for the material procurement and services and other coordination work of SIPC's overseas oilfield projects, and provide procurement services directly and/or indirectly to Sinopec Customers to ensure the effective execution and fulfilment of our contractual obligations under the procurement contracts with the Sinopec Customers.

To a much lesser extent, our Iran business was also provided to certain customers which are not subsidiaries or joint ventures of Sinopec and are Independent Third Parties (the “**non-Sinopec Customers**”) and IRDP in relation to the Yadavaran Project. Besides the Yadavaran Project, we also entered into contracts with China National Petroleum Offshore Engineering Co., Ltd (CPOE), a subsidiary of CNPC, to provide technology support to Phase II of the Iran South Pars gas field in Iran. The abovementioned business in Iran to non-Sinopec Customers and CPOE accounted for less than 1% in terms of total contract amounts in Iran, and such contracts were completed as at the Latest Practicable Date.

Customers of our business in Syria include subsidiaries and/or joint ventures of Sinopec to carry out and conduct oilfield development operations in Oudeh blocks and Tishrine block in Syria.

Our past business activities in connection with Iran and Syria are conducted through Petro-king International, Petro-king Shenzhen and Top Select. As of the Latest Practicable Date, Petro-king International and Petro-king Shenzhen had no outstanding contract in relation to Iran and Syria operations. As of the date of the disposal of Top Select, Top Select had (i) three outstanding contracts in Iran with an aggregate contract amount of approximately HK\$37.9 million (which were expected to be completed by the end of year 2013); and (ii) two contracts (with an aggregate contract amount of approximately HK\$92.2 million) which had been suspended due to Syria's political unrest.

Set out below is a table of details of each outstanding contract of Top Select, which was disposed of on 9 November 2012, with customers in Iran and Syria.

Project and brief description	Location	Contracting party	Commencement date	As of 30 September 2012			As of 9 November 2012			Remark
				Contract value (USD'000)	Recognised revenue (USD'000)	Backlog (USD'000)	Amount to be settled (USD'000)	Backlog (USD'000)	Amount to be settled (USD'000)	
				(a)	(b)	(a) – (b)	(USD'000)	(USD'000)	(USD'000)	
Provision of wellhead and X-tree services	Iran	Top Select	15 April 2011	314.6	255.3	59.3	65.6	48.3	49.3	
Provision of liner hanger and casing accessories services	Iran	Top Select	15 May 2011	2,123.2	1,270.4	852.8	477.6	714.4	615.9	
Provision of well completion equipment service	Iran	Top Select	27 September 2011	2,453.1	1,581.0	865.2	1,116.7	791.6	663.9	
Provision of whipstock supply and services for Tishrine Block	Syria	Top Select	8 March 2011	1,905.3	15.0	1,890.2	—	1,890.2	—	The contract was suspended in April 2012
Provision of cased and open hole completion supply and services	Syria	Top Select	18 July 2011	9,980.4	649.9	9,330.6	—	9,330.6	—	The contract was suspended in April 2012

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Save as disclosed above, after the completion of the disposal of Top Select, we had completed all the contracts in relation to Iran and Syria operations. The relevant costs and revenue of the above outstanding contracts of Top Select recorded by the Group from 1 October 2012 to 9 November 2012 amounted to US\$401,717 (equivalent to HK\$3,117,324) and US\$571,405 (equivalent to HK\$4,434,103), respectively. From the date of disposal to the Latest Practicable Date, we did not record any cost and revenue in relation to such outstanding contracts of Top Select.

With respect to our business activities in connection with Iran and Syria, we are mindful of the risks that may result from unexpected changes in the relevant sanctions laws and regulations in force from time to time, and the volatile economic and political situation in the relevant countries. In order to protect ourselves from such potential risks, we have from time to time considered the possibility of divesting our business interests in sanctioned countries and on 9 November 2012, we disposed of Top Select (which still had certain outstanding contracts in Iran to be performed as at the time of disposal) to Mr. Yang Yingwei, who, except for being a shareholder as to 0.20% of King Shine and a past employee of the Group until 9 November 2012 responsible for the Yadavaran Project, is not connected to the Group and is an Independent Third Party, for a consideration of HK\$4,280,000 (the “**Disposal**”). The consideration was determined on arm’s length with reference to the net asset value of Top Select as valued by an independent valuer, which amounted to approximately US\$661,000. The consideration represented an approximate 16.5% discount to the independent valuation of Top Select, which was a result of the negotiation between Mr. Yang Yingwei and the Group after considering the uncertainty and risks in carrying out the business in Iran and Syria (being two of the countries that are the subject of sanctions laws and regulations in various jurisdictions). The Directors are of the view that Mr. Yang Yingwei having been responsible for Yadavaran Project of the Group and familiar with the operations in the relevant areas, was considered the most appropriate person to continue to complete the outstanding contracts on hand of Top Select and avoid any recourse back to the Group for non-fulfilment of contractual obligations under the contracts currently still in force as at the time of the Disposal. There were no restrictive covenants within the outstanding contracts as at the time of the Disposal preventing the disposal of Top Select, and based on the terms in the sale and purchase agreement in respect of Top Select, by disposing of Top Select, Petro-king International, the predecessor shareholder of Top Select, and the Group, will not have any obligations or liabilities (contingent or otherwise) arising from any contracts entered into by Top Select after the Disposal as Top Select, rather than any members of the Group, would be the contracting party to such contracts. In addition, as advised by our legal advisers, the relevant counterparties of the contracts entered into by Top Select will not have any rights to seek for compensation, damages, losses or specific performance against the Group upon the Disposal.

Revenue and operating profit contribution in relation to our Iran operation for the period from 21 November 2011 to 31 December 2011 amounted to approximately HK\$20.0 million and HK\$6.6 million, respectively, and revenue and operating profit in relation to our Syria operation for the same periods amounted to approximately HK\$4.4 million and HK\$1.3 million, respectively. Revenue and operating profit contribution in relation to our Iran operation for the nine months ended 30 September 2012 amounted to approximately HK\$41.8 million and HK\$14.3 million, respectively, and revenue and operating profit in relation to our Syria operation for the same periods amounted to approximately HK\$6.5 million and HK\$0.7 million, respectively.

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Accordingly, since the Disposal we have not had, and we do not have, any business activities in connection with any countries, governments, entities or individuals that are the subject of any relevant sanctions laws or regulations in the US, EU, Australia or the BVI or any sanctions adopted by the UN in force as of the date hereof. The Directors believe that the Disposal does not have a significant impact on the Group's financial results.

Myanmar

We also (i) through Petro-king Shenzhen entered into a contract in 2010 relating to sales of oilfield services tools to oil field projects in Myanmar whose revenue was recognised in the same year (with revenue of approximately HK\$0.33 million, representing less than 0.1% of the Group's total revenue for the year ended 31 December 2010) and (ii) through Petro-king International entered into several service orders relating to the provision of consultancy services in Myanmar in 2012 whose revenue was recognised for the nine months ended 30 September 2012 (with an aggregate revenue amount of approximately HK\$0.92 million, representing less than 0.3% of the Group's total revenue for the nine months ended 30 September 2012). These contracts and service orders have already been completed. As at the Latest Practicable Date, the payment under those contracts had been fully settled and we did not have any account receivables outstanding.

Sanctioned countries trade receivables

The amount and percentage of total trade receivables from Iran, Syria and Myanmar, being countries that are the subject of any relevant sanctions laws or regulations in the US, EU, Australia or the BVI or any sanctions adopted by the UN in force as at the date hereof (the "**Sanctioned Countries Trade Receivables**") as at each year/period end during the Track Record Period were as follows:

	As at 31 December				As at 30 September			
	2009		2010		2011		2012	
	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>	
	<i>Group's</i>	<i>Group's</i>	<i>Group's</i>	<i>Group's</i>	<i>Group's</i>	<i>Group's</i>	<i>Group's</i>	
	<i>total</i>	<i>total</i>	<i>total</i>	<i>total</i>	<i>total</i>	<i>total</i>	<i>total</i>	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	
	<i>(approx)</i>	<i>(approx)</i>	<i>(approx)</i>	<i>(approx)</i>	<i>(approx)</i>	<i>(approx)</i>	<i>(approx)</i>	
	<i>receivables</i>	<i>receivables</i>	<i>receivables</i>	<i>receivables</i>	<i>receivables</i>	<i>receivables</i>	<i>receivables</i>	
	<i>trade</i>	<i>trade</i>	<i>trade</i>	<i>trade</i>	<i>trade</i>	<i>trade</i>	<i>trade</i>	
Amount of Sanctioned Countries								
Trade Receivables.....	3.0	2.5%	424.9	93.5%	196.3	56.0%	113.9	25.1%

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The trade receivables turnover days in respect of the Sanctioned Countries Trade Receivables as at each year/period end during the Track Record Period were 19 days, 173 days, 287 days and 850 days respectively. The exceptionally high turnover days for the nine months ended 30 September 2012 was due to the fact that the Group has faded out its operations in Iran and Syria. The revenue attributable to such sanctioned countries amounted to only approximately HK\$49.3 million for the nine months ended 30 September 2012, while the Sanctioned Countries Trade Receivables amounted to approximately HK\$113.9 million as at 30 September 2012, mainly due to the quality assurance deposit and the retention money (as guarantee of due performance by the Group) retained by the customers of approximately HK\$81.2 million and the remaining amount to be received pending the final account reconciliation process with the customers. Please refer to the table on page 227 for the outstanding receivables in Iran and Syria of the Group (excluding Top Select) as at the Latest Practicable Date.

The Directors confirm that the Group had not experienced any difficulties in collecting the Sanctioned Countries Trade Receivables during the Track Record Period and up to the Latest Practicable Date.

We confirm that, (i) upon the Listing, no members of the Group will have any business dealings with any countries, governments, entities or individuals that are the subject of any relevant sanctions laws or regulations, inter alia, in the US, EU, Australia or the BVI or any sanctions adopted by the UN in force as at the date hereof; and (ii) the Group will not use any proceeds from the Global Offering or subsequent fund raising on the Stock Exchange to fund any activities or business in any such sanctioned countries or with any such sanctioned entities under the US, EU, Australia or the BVI sanctions laws and regulations, or any sanctions adopted by the UN, in force as of the date hereof. We further confirm that, other than Iran, Syria and Myanmar, the Group had not had, during the Track Record Period and up to Latest Practicable Date, any business activities in connection with any countries, governments, entities and individuals that are the subject of any relevant sanctions laws and regulations in the US, EU, Australia or the BVI, or any sanctions adopted by the UN, in force as of the date hereof.

Our Directors believe that the termination of our business in Iran will not affect the Group's business relationship with Sinopec Group in other geographical areas as the Directors consider that (a) the counterparty in Iran is only one of the many affiliates of Sinopec, while Sinopec Group is a large group company which has different subsidiaries and affiliates undertaking different projects in various countries/regions; (b) the subsidiaries and affiliates of Sinopec enjoy autonomy in selecting oilfield service provider; and (c) we have been continuing to perform contracts which were entered into with the subsidiaries or affiliates of Sinopec during the nine months ended 30 September 2012 and other ongoing contracts.

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B. Compliance with respect to the Group's activities in Iran, Syria and Myanmar with sanctions laws and regulations of the US, EU, Australia and the BVI and any sanctions adopted by the UN

United States

(i) *US Sanctions*

According to our legal advisers, the United States maintains embargoes and trade sanctions against certain countries, entities, and individuals. At present, Iran and Syria (in addition to other countries) are subject to comprehensive embargoes.

The Iran and Syria sanctions largely apply to "US person" (which is defined as: (i) any US citizen or US lawful permanent resident (green-card holder), regardless of where located or by whom employed, (ii) any legal entity organised under the laws of the United States (including such entity's non-US branches), and (iii) any person physically located in the United States), and in the case of Iran, non-US entities owned or controlled by US persons. Such comprehensive sanctions prohibit virtually all export-import trade by US persons with the sanctioned country/person, as well as virtually all other business and financial dealings by US persons with the targeted countries. Certain US sanctions against Iran apply to non-US persons and these persons who engage in certain transactions benefiting the Iranian petroleum and petrochemical sector could be sanctioned if those transactions exceeded certain monetary thresholds and if they took place after the sanctions' effective dates.

Specifically, the United States has enacted various retaliatory sanctions measures that focus on non-US persons. The Iran Sanctions Act ("ISA") as amended by the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 ("CISADA") requires the President of the US to impose sanctions on persons that are determined to have engaged in certain activities with respect to Iran's energy sector. Additionally, Presidential Executive Order 13590 (the "**Executive Order 13590**") calls for the imposition of sanctions against persons who provide to Iran goods, services, technology, information or support with a fair market value exceeding US\$1 million per transaction or US\$5 million during a 12-month period that directly or significantly contribute to the maintenance or enhancement of Iran's ability to develop petroleum resources located in Iran or the maintenance or expansion of its domestic production of petrochemical products. The US State Department, in guidance published on its web-site in November 2011, stated that this Executive Order 13590 would not reach pre-existing contracts unless such contracts are expanded, renewed, or amended after 21 November 2011 (the "**cut-off date**").

On 10 August 2012, the US government enacted the Iranian Threat Reduction and Syrian Human Rights Act ("**ITRSHRA**"), which codified the Executive Order 13590. Transactions pursuant to contracts entered into before the cut-off date, that were completed before the effective date of ITRSHRA (being 10 August 2012) does not fall within the scope of ITRSHRA. Transactions that were not completed before the effective date of ITRSHRA with a fair market value exceeding US\$1 million per transaction (or US\$5 million during a 12-month period) would fall within the scope of ITRSHRA.

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Furthermore, section 302 of the ITRSHRA authorises the imposition of five of the 12 sanctions against non-US persons who are determined to knowingly “engage in a significant transaction or transactions with Iran’s Islamic Revolutionary Guard Corps (“**IRGC**”) or any of its officials, agents, or affiliates”. “Significant transaction” is not defined in ITRSHRA, but OFAC defines the term with respect to other Iran-related sanctions as a weighting exercise based on value and frequency of the business, knowledge of the non-US person that it would benefit the sanctioned party, effect on US foreign policy, and other factors. Importantly, transactions completed before 10 August 2012 are not within the scope of section 302 of ITRSHRA. On 24 September 2012 the US designated the National Iranian Oil Company (“**NIOC**”), which based on publicly available information appears to have interest in the Yadavaran Oilfield, to be an agent or affiliate of Iran’s Islamic Revolutionary Guard Corps.

In addition, the International Emergency Economic Powers Act (“**IEEPA**”) of 1977, the authority for the main body of sanctions targeting Iran, Syria and Myanmar that are applicable to US persons, allows the US government to charge non-US persons with violations of those sanctions if they are considered to have “caused” a violation of the sanctions by a US person (the “**causation theory**”). According to our US legal advisers, it is a violation of the US sanctions laws since November 2008 for US banks to process transfers involving funds from Iran or Syria or relating to business involving such countries, where such transactions pass through or are cleared through US banks (known as a “**U-turn transfer**”).

The Burmese Sanctions Regulations (“**BSR**”) implemented by the US Treasury Department’s Office of Foreign Assets Control (“**OFAC**”), which previously imposed a range of prohibitions that significantly restrained the ability of US persons to undertake business in Myanmar, were eased in July 2012 as a result of reforms within Myanmar. Despite the easing of US sanctions against Myanmar, certain restrictions of the BSR remain fully in place, including: (i) a ban on importation into the United States of most products of Myanmar (although US Secretary of State Clinton recently announced that this ban would be eased); (ii) the blocking of the property and property interests of designated Myanmar entities and individuals when that property comes into the United States or the possession or control of a US person; and (iii) facilitation of the above-described activities.

(ii) *The Group’s compliance and impact on investors*

As advised by our US legal advisers, the entities comprising the Group are not US persons for purposes of US sanctions directed against Iran and Syria, and no products of US origin have been provided in connection with Group’s business activities in Iran and Syria. With respect to the applicable US sanctions laws and regulations that apply to US persons and, in the case of Iran, non-US entities owned or controlled by US persons, the Group is not subject to such US sanctions that apply to such classes of persons.

Certain US sanctions laws and executive orders against Iran apply to non-US person (such as the Executive Order 13590 and ITRSHRA). In the case of the Executive Order 13590, as all of the Group’s contracts with Iran were entered into before the cut-off date, and given that the Group has not expanded, renewed, or amended any such contracts, such contracts would (regardless of whether the conduct or business activities stipulated thereunder would otherwise be considered or deemed sanctionable) fall outside the scope of Executive Order 13590.

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Top Select and Petro-king International had two and one contracts, respectively, which were entered into before the cut-off date relating to Iran's ability to develop petroleum resources, with revenue over US\$1 million after the cut-off date. According to our US legal advisers, Petro-king International's contract in question was not expanded, renewed or amended after the cut-off date and was completed on 4 March 2012 (which was before the effective date of ITRSHRA of 10 August 2012) and therefore the Executive Order 13590 or the ITRSHRA does not apply to such contract, and Petro-king International's actions completed pursuant thereto are not sanctionable against the Group. In relation to Top Select's two contracts in question, Top Select conducted transactions that meet the required threshold under the Executive Order 13590 during the Company's indirect ownership of Top Select, and such transactions were still ongoing after the cut-off date and were not completed before the effective date of ITRSHRA. However, given that Top Select has been disposed out of the Group, our US legal advisers are of the view that it is unlikely that the Group would be sanctioned for Top Select's past sanctionable conduct. Any future sanctionable conduct by Top Select would place Top Select's new owners — not the Group at risk.

In relation to section 302 of ITRSHRA which relates to IRGC, Top Select and Petro-king International have engaged in transactions with Sinopec (and more particularly in which the Company's subsidiaries deal only with Sinopec) in relation to Yadavaran Oilfield in which we believe NIOC may have indirectly involved or benefited NIOC after the effective date of ITRSHRA. Petro-king International's one transaction falls under a contract entered into before the cut-off date and the effective date of ITRSHRA. Such contract was completed on 30 October 2012 (which falls within the month following NIOC's designation as an IRGC affiliate) with all outstanding accounts receivables settled. According to our US legal advisers, section 302 of ITRSHRA does not provide a threshold over which a transaction is considered "significant": this determination is left to OFAC's sole discretion. According to our US legal advisers, for the sake of comparison, however, other Iran-related US sanctions that apply to non-US persons use value thresholds. Specifically, CISADA and section 102 of ITRSHRA (the latter codifying Executive Order 13590) use US\$1 million and US\$250,000 as the thresholds over which certain activities by non-US persons become sanctionable. According to our US legal advisers, it is unlikely that such Petro-king International's transaction will pose risk to the Group due to the low value of the transaction after 24 September 2012 (being US\$120,000) and the fact that the contract activity ended soon after the sanctions became effective. Additionally, given that Top Select has been disposed out of the Group, our US legal advisers are of the view that it is unlikely that the Group would be sanctioned for Top Select's past sanctionable conduct.

According to our US legal advisers, if our subsidiaries have engaged in sanctionable activity, there can be no assurances that sanctions will not be imposed without formal recourse to the US Government. Nevertheless, the policy underpinning the sanctions regulations, the limited nature of the activity and the fact that Top Select has been disposed of make it unlikely that sanctions will be imposed. In addition, certain other actions taken by the Group should further mitigate the risk of sanctions being imposed. For example, the Group's resolution to not undertake sanctionable activity in the future and its establishment of a compliance committee are likely to have a positive impact on its risk profile.

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In relation to the “causation theory” and “U-turn transfer”, any historical payments in US dollars with respect to the Group’s activities in Iran would pose a theoretical risk under the “causation” theory of jurisdiction under IEEPA. However, our US legal advisers advised that past OFAC enforcement is known to focus on the non-US banks processing the transactions, not the recipients of the funds. Also, payment for our outstanding accounts receivable for such transactions will be made in Hong Kong dollars. For this reason, it is unlikely that our Group would be the subject of such an action under the IEEPA “causation” theory of jurisdiction.

As (a) none of the products or services provided in the contracts that the Group entered into in relation to Myanmar is of US origin; (b) neither of the contracting parties within the Group is a US entity, and (c) the Group does not import Myanmarese — origin items to the US, the BSR do not apply to our activity in or involving Myanmar.

As advised by our US legal advisers, investors, the Stock Exchange, the HKSCC and HKSCC Nominees, its employees and Listing Committee members are not exposed to US sanctions risk in relation to our past activities related to Iran, Syria and Myanmar, given that they were not involved in such activities. Given that our Company has no current activities in Iran, Syria or Myanmar and has resolved to not undertake such activities in the future, association with the Global Offering will not expose the investors or the Stock Exchange, the HKSCC or HKSCC Nominees, its employees or Listing Committee members to risk of being sanctioned under the current regulations.

In addition, US persons are prohibited from dealing with individuals, groups and entities that are identified on OFAC’s List of Specially Designed Nationals and Blocked Person (the “**SDN List**”), and all assets of specially designed nationals are blocked when they come within the US or the possession or control of a US person. None of the Group entities is a US person, and no US citizens, residents, or entities, nor any products or services of US origin were involved in the contracts relating to its Iran, Syria or Myanmar operations. Accordingly, we have concluded after consultation with our legal advisers that the Group is generally not subject to the restrictions applicable to US persons, which prevent them from dealing with the SDNs.

European Union

(i) *EU Sanctions*

According to our EU legal advisers, the EU also imposes sanctions against Iran and Syria, as set out in Regulation 267/2012 (as amended by Regulation 945/2012) and Regulation 36/2012 respectively. The EU sanctions apply to (i) entities incorporated or constituted under the laws of an EU Member State, (ii) nationals of EU Member States, and (iii) entities not incorporated or constituted under a Member State’s laws, with respect to business undertaken in whole or in part on EU territory.

The EU sanctions significantly restrict trade with both Iran and Syria. Among a range of restrictions, both Regulation 267/2012 (as amended by Regulation 945/2012) and Regulation 36/2012 prohibit the making available of funds and “economic resources” (a term that encompasses virtually all assets and many services) to parties designated under the Regulations. Regulation 267/2012 (as amended by Regulation 945/2012) and Regulation 36/2012 also place limits on dealings with the

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Iranian and Syrian energy sectors. In particular, these Regulations prohibit the provision of certain equipment and services (known as “key equipment and technology”) to the Iranian and Syrian oil, gas, and petrochemical sectors, and bar the provision of related technical assistance, financing, and financial assistance.

As advised by our EU legal advisers, on 15 October 2012, the EU adopted Council Decision 2012/635 and Regulation 945/2012, both of which impose additional sanctions against Iran. Council Decision 2012/635 introduced various trade restrictions but it will only apply to the conduct of private parties once it is implemented via a regulation. As at the date hereof, however, the EU has yet to implement the Council Decision via a regulation. Accordingly, the restrictions introduced by Council Decision 2012/635 are not yet applicable to the conduct of the Group. Regulation 945/2012, which amends the existing Regulation 276/2012, designated (in other words, blacklisted) 35 new parties. The NIOC, which based on publicly available information appears to have interest in the Yadavaran Oilfield, is one of these new parties.

The EU’s sanctions against Myanmar have been substantially eased. The remaining Myanmar sanctions relate primarily to the supply of military goods and technology and of equipment which can be used for internal repression, and the financing thereof.

(ii) *The Group’s compliance and impact on investors*

As the entities comprising our Group are not incorporated or constituted under the EU member states’ laws, and as our Group did not conduct any business with respect to Myanmar, Iran and Syria on EU territories and did not involve any owners or employees of the Group who are nationals of EU Member States, we have determined, after consultation with our legal advisers, that our Group’s activities in Myanmar, Iran and Syria were and are not subject to the EU sanctions laws and regulations against Myanmar, Iran or Syria.

As advised by our EU legal advisers, investors, the Stock Exchange, the HKSCC and HKSCC Nominees, its employees and Listing Committee members are not exposed to EU sanctions risk in relation to our past activities related to Iran, Syria and Myanmar, given that they were not involved in such activities. Given that our Company has no current activities in Iran, Syria or Myanmar and has resolved to not undertake such activities in the future, association with the Global Offering will not expose the investors or the Stock Exchange, the HKSCC or HKSCC Nominees, its employees or Listing Committee members to risk of being sanctioned under the current regulations.

With respect to the EU sanctions against Myanmar, as (a) the remaining EU Myanmar sanctions relate primarily to the supply of military goods and technology and of equipment which can be used for internal repression, and the financing thereof, (b) we are not engaged in these activities, and (c) all of our contracts involving Myanmar have been completed, investments in the Company will not trigger any exposure under the remaining EU prohibitions on dealings in Myanmar.

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Australia

(i) *Australia Sanctions*

According to our legal advisers, Australia also adopts economic sanctions against Iran and Syria. The majority of the Australian economic sanctions are imposed by either the Charter of the United Nations (Sanctions — Iran) Regulations 2008 (to give effect to resolutions passed by the UN Security Council) (the “**UN Regulations 2008**”) or the Autonomous Sanctions Regulations 2011 (which are recent sanctions imposed by the Australian government independently of the UN) (the “**Autonomous Sanctions Regulations**”), together with the UN Regulations 2008, the “**Australian Sanctions**”). Non-Australian entities do not risk contravention of the Australian Sanctions unless the relevant conduct is committed in Australia (or on an Australian ship or aircraft) or a result of the conduct occurs in Australia (or on an Australian ship or aircraft). The Autonomous Sanctions Regulations prohibit, inter alia, the provision of service or conducting of commercial activities in certain sectors such as the petrochemical industry and the oil and gas industry in connection with Iran and Syria. The Autonomous Sanctions Regulations also prohibit any Australian investors from investing in an entity if the proceeds of such investment or financing are used for operation in violation of the Australian Sanctions. Additionally, the Autonomous Sanctions Regulations prohibit Australian investors from acquiring an interest in Iranian or Syrian entities engaged in the petrochemical industry or certain sections of the oil and gas industry. The sanctions imposed by the Autonomous Sanctions Regulations in relation to the Iranian/Syrian petrochemical, oil and gas industry, only apply to conduct which occurs from 21 August 2012, unless the conduct relates to goods which are the subject of an existing contract as at that time in which case the relevant date is 21 September 2012.

The only sanctions currently in force against Myanmar under the Australian sanctions law regime relate to military activity. None of those sanctions are relevant to the Group’s past business in Myanmar.

(ii) *The Group’s compliance and impact on investors*

Similar to the previous disclosure in respect of EU sanctions, as the entities comprising the Group are not incorporated or constituted under Australia laws, nor did the Group conduct any business with respect to Iran and Syria from Australia, or involving any employees of the Group who are individual Australian persons, according to our legal advisers, the Group is not subject to Australia sanction laws and regulations against Iran or Syria currently in force. The Stock Exchange, the HKSCC and HKSCC Nominees, its employees and Listing Committee members will not be exposed to any Australian sanctions risk either.

As the only sanctions in force by Australia against Myanmar relate to military activity, our past business in Myanmar is not the subject of any sanctions under Australian sanction law regime.

According to our Australian legal advisers, investment by Australian investors would not contravene Regulation 13 of the Autonomous Sanctions Regulations, of which there is however no firm guidance on enforcement, if the money was not used or intended to be used in financing or facilitating the Company’s operations in Iran or Syria.

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United Nations

(i) *UN Sanctions*

According to our legal advisers, the UN Security Council (“UNSC”) has to date adopted four resolutions imposing sanctions against Iran (“UNSC Iran Resolutions”) which set out a range of restrictions and prohibitions, which include but are not limited to: (a) an embargo on items that could contribute to enrichment-related, reprocessing or heavy water-related activities, or to the development of nuclear weapon delivery systems and a prohibition on providing certain assistance or services on those items; (b) an embargo on arms and related materiel and a prohibition on providing certain assistance or services on those arms and materiel; (c) a ban on the provision of bunkering services; (d) restrictions and obligations imposed on the financial services sector; (e) a visa ban; and (f) restriction on certain dealing various individuals and entities listed in the UNSC Iran Resolutions (known as an “asset freeze”).

Under the asset freeze obligation, UN Member States are obligated to freeze the funds, other financial assets and economic resources which are on their territories and are owned or controlled by the designated individuals and entities. In parallel, UN Member States must also ensure that no funds, financial assets or economic resources are made available by their nationals or by any persons or entities within their territories to or for the benefit of the designated individuals and entities or to the entities that own or control them.

As a general rule, however, UNSC resolutions are not directly applicable in UN Member States. Instead, domestic legislation is required to give effect to these measures in a given UN Member State.

There are no sanctions currently in force against Syria or Myanmar under the UN sanctions regime.

(ii) *The Group’s compliance and impact on investors*

According to our legal advisers, UN sanctions are not directly applicable to conduct by private parties. Instead, sanctions adopted by the UNSC must be implemented by the UN member states before they can be applied to private conduct. For this reason, our activities would not “violate” the UN sanctions per se since those sanctions measures apply to states and not to private actors. Furthermore, according to our legal advisers, our current and historical activities in or with Iran or Iranian parties do not appear to involve conduct that would be targeted by the UN sanctions. Please refer the subsection headed “United States” under this section for details of the transaction between Petro-king International and Sinopec. As the UNSC has not adopted any sanctions against Syria or Myanmar to date, our past business in Syria and Myanmar will not be subject to any UN sanctions. Further, as advised by our legal advisers, the activities of the investors in relation to the Global Offering do not appear to involve conduct of the type that would be targeted by the UN sanctions. The Stock Exchange, the HKSCC and HKSCC Nominees, its employees and Listing Committee members will not be exposed to any UN sanctions risk either.

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British Virgin Islands

(i) *BVI Sanctions*

The BVI legal advisers have provided advice as to BVI sanctions based on information made available to them and the following assumptions:

- (i) our Company does not directly or indirectly conduct any business, engage in any activities or deal with any person or entity to which the legislation relating to the sanctions regime under the BVI laws as it relates to Iran, Myanmar and Syria (“**Legislation**”) applies and which would bring it with the scope of the Legislation and cause it to breach any provision of the Legislation as it relates to Iran, Myanmar or Syria;
- (ii) Top Select, which was disposed of on 9 November 2012, does not directly or indirectly conduct any business, engage in any activities or deal with any person or entity to which the Legislation applies and which would bring it with the scope of the Legislation and cause it to breach any provision of the Legislation as it relates to Myanmar;
- (iii) except as described in the contracts provided to our BVI legal advisers, Top Select, which was disposed of on 9 November 2012, does not directly or indirectly conduct any other business, engage in any other activities or deal with any person or entity to which the Legislation applies and which would bring it with the scope of the Legislation and cause it to breach any provision of the Legislation as it relates to Iran or Syria; and
- (iv) no other member of our Group is incorporated in the BVI and directly or indirectly conducts any business, engages in any activities or deals with any person or entity to which the Legislation applies and which would bring it with the scope of the Legislation and cause it to breach any provision of the Legislation as it relates to Iran, Myanmar or Syria.

A summary of their advice is set out below, which is subject to the above assumptions and information provided.

According to our BVI legal advisers, the BVI sanctions legislation will apply to any person in the BVI or any person elsewhere who is either (i) a British citizen, a British overseas territories citizen, a British Overseas citizen, a British subject, a British National (Overseas) or a British protected person and is ordinarily resident in the BVI, or (ii) a body incorporated or constituted under the law of any part of the BVI (in each case, a “**BVI Person**”).

The BVI sanctions legislation relating to Iran is constituted by a number of orders, including The Iran (Restrictive Measures) (Overseas Territories) Order 2012 (the “**2012 Iran Order**”), The Iran (Restrictive Measures) (Overseas Territories) (Amendment) Order 2012 (the “**2012 Iran Amendment Order**”), and The Iran (Restrictive Measures) (Overseas Territories) Order 2011 (the “**2011 Iran Order**”), which together with the 2012 Iran Order and the 2011 Iran Amendment Order, are the “**Iran Orders**”). Their general effect is to restrict or prohibit the supply of certain goods, software and technology to Iran, to place restrictions on financial transactions with Iranian persons or entities, and to prohibit the provision of certain services with Iran, including technical assistance, brokering

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services and financing. It should however be noted that there will be no breach of the 2012 Iran Order where any obligation is conducted pursuant to a contract entered into before the 2012 Iran Order came into force where such contract relates to crude oil and petroleum products, petrochemical products, or key equipment and technology (certain equipment and technology listed in the relevant EU legislation and related to the exploration and production of natural oil and gas, refining of crude oil and liquefaction of natural gas, or the petrochemical industry) and where the party performing the obligation has informed the Governor of the BVI (the “**Governor**”) at least 20 days in advance of fulfilling such obligation. It should also be noted that an investment in an Iranian company will fall within the scope in the Iran Orders.

The BVI sanctions legislation relating to Syria is constituted by The Syria (Restrictive Measures) (Overseas Territories) Order 2012 (the “**Syria Order**”), which incorporates various sanctions imposed by the UN and the EU into the BVI law and replaced the former sanctions regime. Their general effect is to restrict or prohibit the supply of certain goods, software and technology to Syria, to place restrictions on financial transactions with Syrian persons or entities, and to prohibit the provision of certain services with Syria, including technical assistance, brokering services and financing services. It should however be noted that there will be no breach of the Syria Order where any obligation is conducted pursuant to a contract entered into before the Syria Order came into force, where such contract relates to crude oil and petroleum products or key equipment and technology (certain equipment and technology listed in the relevant EU legislation and related to the exploration and production of natural oil and gas, refining of crude oil and liquefaction of natural gas, or the petrochemical industry) and where the party performing the obligation has informed the Governor at least 21 calendar days in advance of fulfilling or performing such obligation.

The BVI sanctions legislation relating to Myanmar is the Burma (Restrictive Measures) (Overseas Territories) Order 2009 (the “**Myanmar Order**”, together with the Iran Orders and the Syria Order, the “**BVI Sanctions Legislation**”), which contains restrictions on, inter alia, the supply or delivery of certain restricted goods, software and technology (such as military goods, explosive-related goods and technology, weaponry and toxic agents, equipment which may be used for internal repression as well as certain machinery, blades and explosives), the provision of any assistance, advice or training related to military activities or to the provision, manufacture, maintenance or use of any restricted goods, dealing with funds or economic resources owned, held or controlled by certain specified person, and making funds or economic resources available, directly or indirectly, to or for the benefit of certain specified person.

(ii) *The Group’s compliance and impact on investors*

As previously disclosed, the Group’s business activities in connection with Iran, Syria and Myanmar have been conducted through Top Select, Petro-king International and Petro-king Shenzhen. The Company, Hero Gain, Wellsharp Group, Petro-king South America, Sheraton Investment and Top Select are BVI Persons and are therefore subject to the BVI Sanctions Legislation. The other members of our Group, including Petro-king International and Petro-king Shenzhen (through which our Group have conducted business in Iran, Syria and Myanmar), are not subject to the BVI Sanction Legislations as they are not BVI Persons.

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Compliance by Top Select with the BVI Sanctions Legislation

Top Select, which was disposed of on 9 November 2012, at the time of the disposal still had contracts relating to business activities in Syria that have been suspended, as well as ongoing contracts relating to business activities in Iran. According to our BVI legal advisers, Top Select will not be in breach of the BVI sanctions legislation relating to Syria, but it would appear that Top Select's obligations under its contract relating to Iran (the "**Iran Agreements**") were caught by certain provisions of the 2012 Iran Order. If Top Select were to be found guilty of any breach of the 2012 Iran Order, it and its officers during the relevant time may be subject to penalties. Nevertheless, our BVI legal advisers are of the view that the Company, the Group (for the avoidance of doubt, excluding Top Select), the Company's shareholders and Directors are in compliance with the Iran Orders and the Syria Order even if Top Select is or was in breach of such legislation. Please refer to paragraphs below and the section headed "Compliance by the Company, Hero Gain, Wellsharp Group, Petro-king South America and Sheraton Investment with the BVI Sanctions Legislation" on page 243 of this prospectus for more details.

Compliance with the Iran Orders

According to our BVI legal advisers, it would appear that Top Select's obligations under the Iran Agreements were caught by certain provisions of the 2012 Iran Order, as (i) while the Iran Agreements were entered into prior to the enactment of the 2012 Iran Order and as such not deemed in breach of the 2012 Iran Order, the Iran Agreements stipulated the sale and supply of goods that were restricted under the 2012 Iran Order, as well as provision of services and maintenance related to such goods, and such contracts were still ongoing; (ii) it had performed such obligations since the 2012 Iran Order came into force; and (iii) it had not informed the Governor of the BVI of its business activities in connection with Iran in fulfilment of its obligations under its contract relating to Iran as required under the 2012 Iran Order. Our BVI legal advisers also advise that the receipt of payment by Top Select for its goods and services under its contracts relating to Iran, any making of payment to counterparties (such as under warranties or indemnities), or any transfer of payment made by Top Select to or from Iranian Refinement might give rise to a risk of breaching the 2012 Iran Order. However, our BVI legal advisers expressed that their review of the contracts of Top Select relating to Iran and Syria and the Prospectus had not uncovered any facts which would suggest actual breach of such payment restrictions. Furthermore, Top Select had not procured or made any payment to its counterparties under any of its contracts relating to Iran, nor has it made any payments to or from Iranian Refinement.

In addition, our BVI legal advisers expressed that Top Select's initial investment in Iranian Refinement would fall outside the scope of the 2012 Iran Order, as the investment was made prior to the coming into force of the 2012 Iran Order. As from the date of the coming into force of the 2012 Iran Order and up to the date of the Disposal, none of Top Select or members of our Group had granted credit to Iranian Refinement, extended any participation with Iranian Refinement or established any new venture or cooperation with Iranian Refinement since the coming into force of the 2012 Iran Order, the fact that Top Select held a pre-existing 49% interest in Iranian Refinement through acquisition of equity interests in April 2010 was not caught by the 2012 Iran Order.

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According to our BVI legal advisers, the Iran Orders do not provide for any penalty to be applied on, or extend liability to, any other member of the Group in respect of any breach of the Iran Orders by Top Select. The penalties will only apply to a BVI person and will not extend to other persons. Therefore, the shareholders of Top Select at the relevant time are not subject to the penalties even if Top Select were to be found guilty of any breach of the 2012 Iran Order. However, under the Iran Orders, an officer of a BVI company will be liable to be proceeded against where any breach by a BVI company is committed with such officer's consent or neglect. Therefore, if Top Select, which was disposed of on 9 November 2012, were to be found guilty of any breach of the 2012 Iran Order, it and its officers during the relevant time may be subject to penalties. In general terms, a person found guilty of an offence under the relevant provisions of the Iran Orders will be liable to (i) on conviction on indictment to imprisonment and/or up to an unlimited fine; and (ii) on summary conviction to imprisonment and/or a fine of up to £5,000. In terms of the imprisonment of individuals, the maximum length of sentence will depend upon the specific provision breached. Ms. Sun Jinxia ("Ms. Sun") who is one of the Group's senior management, was the officer of Top Select before it was disposed of by the Group on 9 November 2012. Therefore, actions may be taken by the relevant BVI authority against Ms. Sun, in the event that Top Select were to be found guilty under the 2012 Iran Order. However, it should be noted that the liability will only extend to Ms. Sun in her capacity as an officer of Top Select and not in any other capacity. Additionally, any penalty will not extend beyond Ms. Sun to any other member of the Group in respect of any breach of the Iran Orders by Top Select or Ms. Sun. The main responsibilities of Ms. Sun include the overseeing of the operations and business development of the business and marketing departments. Ms. Sun holds the position of vice president at these departments and reports to the Chairman, Mr. Wang, and the Board. These departments consist of a team of more than 10 staff in total, which, in addition to Ms. Sun, includes a manager, an assistant manager, a few supervisors and other staff who also carry out the functions of these departments. Should any actions under the BVI Sanction Law be taken against Ms. Sun, the supervisors, the manager, the assistant manager and the rest of the team members of these departments will be able to continue to serve their function.

Compliance with the Syria Order

According to our BVI legal advisers, although it would appear that Top Select's obligations under its contracts relating to Syria were caught by the Syria Order as it had entered into agreements to sell and supply goods that are restricted under the Syria Order, as well as provide services and maintenance related to such goods, Top Select had been in compliance with the Syria Order since the contracts relating to Syria had been suspended prior to the coming into effect of the Syria Order and Top Select had ceased performance of its obligations under these contracts as from such suspension.

According to our BVI legal advisers, the Syria Order does not provide for any penalty to be applied on, or extend liability to, any other member of the Group in respect of any breach of the Syria Order by Top Select.

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Compliance with the Myanmar Order

Top Select had not conducted any business activities in Myanmar and as such, according to the Company's BVI legal advisers, Top Select had not conducted any business or engaged in any activities which would breach any provision of the Myanmar Order.

Compliance by the Company, Hero Gain, Wellsharp Group, Petro-king South America and Sheraton Investment with the BVI Sanctions Legislation

Compliance with the Iran Orders and the Syria Order

The Company, Hero Gain, Wellsharp Group, Petro-king South America and Sheraton Investment (collectively, the "**BVI Companies**"), none of which by itself has any activities in or engage with Iran, Iranian persons or entities, Syria or Syrian persons or entities, are not in breach of the Iran Orders or the Syria Order. More importantly, none of the Company or any other BVI Companies did, or does, assist or actively get involved with any of Top Select's operations or activities. Specifically, the facts that Top Select was an indirect subsidiary of the Company and that Ms. Sun Jinxia acted as the director of each of the Company (up till 24 December 2012) and Top Select (up till 9 November 2012), does not of themselves give rise to a breach of any specific provision of the Iran Orders or the Syria Order, or constitute facilitation by the Company of the activities of Top Select, considering that it is acceptable market practice for individuals to wear "different hats" when acting as the director of each company. Further, the BVI Sanction Legislation does not provide for any penalty to be applied on, or extend liability to, any other member of the Group in respect of any breach of the BVI Sanction Legislation by Top Select. Accordingly, our BVI legal advisers are of the view that the BVI Companies, the Group (for the avoidance of doubt, excluding Top Select, which was disposed of on 9 November 2012), the Company's shareholders and Directors are in compliance with the Iran Orders and the Syria Order even if Top Select is or was in breach of such legislation.

Compliance with the Myanmar Order

The Group's business activities in connection with Myanmar are conducted through Petro-king International and Petro-king Shenzhen. None of the BVI Companies or Top Select has any activities in or engage with Myanmar or specified persons in Myanmar. Petro-king International and Petro-king Shenzhen are not BVI Persons and therefore are not subject to the Myanmar Order. More importantly, none of the Company or any other BVI Companies assists or actively gets involved with any of the activities of Petro-king International and Petro-king Shenzhen. Again, as advised by our BVI legal advisers, the facts that Petro-king International and Petro-king Shenzhen are indirect subsidiaries of the Company and that there existed common directorship between the Company and each of Petro-king International and Petro-king Shenzhen, do not of themselves give rise to a breach of any specific provision of the Myanmar Order or constitute facilitation by the Company of the activities of Petro-king International and Petro-king Shenzhen, considering that it is acceptable market standard practice for individuals to wear "different hats" when acting as director of each company. Accordingly, our BVI legal advisers are of the view that the Company is in compliance with the Myanmar Order.

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It follows from the above analysis that during the Track Record Period up to the date hereof, all members of the Group, except for Top Select which was disposed of on 9 November 2012, have been in compliance with the BVI Sanctions Legislation. Furthermore, the Company and the other BVI Companies remain in compliance with the Iran Orders, the Syria Order and the Myanmar Order regardless of whether Top Select was disposed of.

Impact on the investors

According to our BVI legal advisers, as the BVI Sanctions Legislation will only apply to a BVI Person, to the extent that an investor is not a company incorporated in the BVI, or an individual falling within the definition of BVI Person, the BVI Sanctions Legislation will not apply to such investor.

If an investor is a BVI Person, according to our BVI legal advisers, certain provisions of the 2012 Iran Order may be relevant to an investment by a BVI Person in the Company. However, as Top Select has been disposed of and is no longer part of the Group and as the Group no longer has any operations in Syria and Iran, there is no longer a risk of an investment by an investor in the Company falling within the scope of such certain relevant provisions. Therefore, our BVI legal advisers take the view that the relevant provisions of the 2012 Iran Order do not apply to an investment in the Company by an investor who is a BVI Person.

The Stock Exchange, the HKSCC and HKSCC Nominees, its employees and Listing Committee members will not fall within the scope of the BVI Sanction Legislation and will not be subject to any risk of penalty under such legislation in respect of the matters considered in this sub-section relating to BVI Sanction Legislation as at the date hereof.

INTERNAL CONTROL AND SANCTION OVERSIGHT COMMITTEE

An effective internal control system is a key factor in maintaining the integrity of our business, results of operations and reputation. As such, we have implemented an effective internal control system by developing and enhancing, from time to time since our establishment, different sets of internal control procedures and manuals covering a number of key control areas such as financial management, separation of management power, credit and settlement control and management and health, safety and environment compliance management, with a view to ensuring compliance by the Group with applicable laws and regulations. Although there were no incidences such as those involving fraud during the Track Record Period which would suggest that our existing internal control system is inadequate, in preparation for the Global Offering and to further improve our internal control system, we engaged an internal control consultant in May 2012 to review our internal control systems and procedures and there was no major weakness identified in our internal control policy and exercise. As of the Latest Practicable Date, we had implemented all the recommendations suggested by our internal control consultant relating to our internal control system in supplement to our existing measures, and the Directors consider that the measures under our internal control system after implementing their recommendations are sufficient to enable them to make proper assessment of the Company's financial position and prospects and to ensure the Group's ongoing compliance with applicable laws and regulations. In particular, in order to ensure our ongoing compliance with applicable laws and regulations with respect to our overseas operations, we will ensure that (i) a special project group (comprising of major representatives from legal and compliance department,

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business line department, human resources department and finance department) will be established prior to execution of projects which involve operation in countries or regions that the Group has not had presence; (ii) the special project group will, having assessed the characteristics and features of the project, establish and implement specific measures (for instance, setting qualification for project manager and its responsibilities; laying down risk identification, evaluation and reporting mechanism, means for documentation and seeking advice from external consultants and the important compliance points to look out) to minimise the risk of non-compliance, with such specific measures being reviewed and approved by the senior management and updated from time to time; (iii) the special project group will report in writing to the Sanction Oversight Committee, which includes Mr. Wang, Mr. Wong Lap Tat Arthur and Mr. He Shenghou, being three members of the Board, on a regular basis of project risk assessment and work progress to ensure that the project is conducted in accordance with the scheduled plans and in compliance with relevant sanctions laws and rules; (iv) the special project group will seek external professional advice when they encounter any compliance issues, with all advice/opinions tendered by such professional parties being recorded in writing and reported to senior management for consideration and approval; (v) counterparty's background are evaluated and assessed before entering into any overseas transactions; (vi) records of reasons for selecting particular customers or countries and the applicable selection criteria are documented; (vii) approval from the Board (including approval from the non-executive Directors) is obtained before entering into material sales or services agreement in respect of overseas transactions; and (viii) training on update of sanction laws, if any, will be provided to the members of the special project group. The current members of the special project group are Mr. Wang, who is our executive Director, Mr. Zhang Taiyuan (張太元), our vice president and a member of our senior management, Mr. Shu Wa Tung Laurence (舒華東), our chief financial officer and a member of our senior management, Ms. Li Jianchun (李健春), controller of human resources department and Mr. Deng Naixian (鄧乃賢), controller of business department.

We confirm that (i) upon the Listing, no members of the Group will have any business dealings with any countries, governments, entities or individuals that are the subject of any relevant sanctions laws or regulations in the US, EU, Australia or the BVI, or any sanctions adopted by the UN, in force as at the date hereof; and (ii) we will not use any proceeds from the Global Offering or subsequent fund raising activities on the Stock Exchange to fund any activities or business in any such sanctioned countries or with any such sanctioned entities under the US, EU, Australia or the BVI sanctions laws and regulations, or any sanctions adopted by the UN, in force as at the date hereof. In order to ensure our continued compliance with the US, EU, Australia or the BVI sanctions laws and regulations, and any sanctions adopted by the UN, we established a Sanction Oversight Committee on 1 November 2012 with the primary duties of assessing sanctions risk that the Group may face and determining whether the Group should embark on business opportunities with any sanctioned countries. Any future potential business activities with new markets must be approved by the Sanction Oversight Committee in advance before engaging into a contractual relationship with a business counterparty. The special project group will have to report to the Sanction Oversight Committee semi-annually to ensure that the Group does not have business in any sanctioned countries. In addition, the Sanction Oversight Committee will monitor the use of net proceeds of the Global Offering, as well as any other funds raised through the Stock Exchange, to ensure that (i) we will not directly or indirectly remit or invest any funds into Iran, Syria or any other such sanctioned countries, in each case, that are in contravention of the US and/or EU and/or Australia and/or the BVI sanction laws, government orders and regulations, or any sanctions adopted by the UN; and (ii) we will not use any proceeds from the

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Global Offering to fund any activities or business with Iran, Syria or any such sanctioned countries, in each case, that are subject to the US, EU, Australia and/or the BVI sanctions laws and regulations, and/or any sanctions adopted by the UN. A separate account will also be used and managed in respect of the funding received from the Global Offering. We will engage a legal adviser to regularly review the legal requirements of the our overseas operations and to advise on the compliance issues in respect of the US and/or EU and/or Australia and/or the BVI sanctions laws, and/or any sanctions adopted by the UN. Training on update of sanction laws, if any, will also be provided to the members of the Sanction Oversight Committee. The Sanction Oversight Committee comprise a majority of independent directors and the current members are Mr. He Shenghou and Mr. Wong Lap Tat Arthur who are independent non-executive Directors, and Mr. Wang who is an executive Director. Mr. Wong Lap Tat Arthur is the chairman of the Sanctions Oversight Committee. The Directors and the Sole Sponsor are of the view that the Group's internal control measures to ensure on-going compliance with the US, EU, Australia and the BVI sanctions laws, and the sanctions adopted by the UN, are adequate and effective.

COMPETITION

Drilling, completion and production services must be delivered under a wide range of technical and operational challenges. Because of this, one useful way to evaluate oilfield service firms is based on whether they primarily serve the "low-end" or high-end segments of the market. The low-end segment of the market consists of jobs where little or no proprietary technology and/or operational experience is required. Much of the work is relatively low-risk in terms of the types of the conditions encountered downhole (for instance, low temperature and pressure). Conversely, the high-end segment of the market consists of work in which proprietary technology and/or operational experience under the most demanding downhole conditions (such as high temperature and pressure) is needed.

The low-end segment of the market has relatively low entry barriers in terms of technology. Oilfield service firms in the low-end segment of the market tend to conduct little if any research and development and instead use off-the-shelf tools and equipment. These firms tend to compete on price, availability, and service and not in terms of technical skills. Firms serving the low-end of the market often work in local markets, so that financial entry barriers also tend to be low. In contrast, the high-end segment of the market has much higher entry barriers in terms of technology and capital. Firms offer proprietary technology and/or operational experience under the most demanding conditions (such as high temperature and pressure). Firms serving the high-end segment of the market usually conduct their own research and develop their own tools and equipment, and tend to work in multiple regions. As a result, capital requirements associated with the scale of the enterprise and need to conduct research tend to be high.

Two critical factors involved in the provision of high-end oilfield services are the ability (i) to provide a customised and target-orientated project development plan/engineering design which integrates sophisticated design in the relevant service area with application of advanced technology with the aim to attain optimum operation, enhance production and extend well life, resulting in the appreciation of commercial value of a field; and (ii) to complement such development plan by effective and efficient field service operations.

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In China and around the world, oil and gas companies are finding it increasingly difficult to find and develop new reservoirs to replace the decline in output from existing oilfields. In the typical field development cycle, oil and gas companies first develop the easiest reservoirs and then move on to more challenging targets, which means that over time new fields to be developed will become deeper, and with increasing depth will have higher pressures and temperatures. In addition, new reservoirs are increasing likely to consist of low permeability shale formations, requiring the use of horizontal drilling, multistage fracturing, and advanced technology completion equipment and services for cost-effective field development. Therefore, the trend in the Chinese market and around the world going forward will be towards more-demanding application and away from less-demanding applications, and hence a trend of increasing demand for high-end oilfield services.

In China, drilling services, completion equipment and services and stimulation services markets are fairly concentrated. According to the Spears Report, the in-house subsidiaries of CNPC and Sinopec are estimated to have captured 80%-90% of the drilling services and the completion equipment and services markets and majority of the stimulation services markets, which tend to compete on price on low-risk projects for their parent company. The remaining markets are served by independent domestic private oilfield services companies such as Petro-king along with the China-based subsidiaries of multinational oilfield services firms such as Schlumberger, Halliburton and Baker Hughes. Globally, in revenue term, it is dominated by the North-America-based multinational oilfield services providers such as Halliburton, Schlumberger and Baker Hughes. These market players tend to compete on experience, technology, personnel, scale of operations and costs. Given the trend towards more-demanding application in the Chinese market and around the world going forward as previously discussed, there is an opportunity for China-based independent oilfield services providers that can combine advanced technology and know-how with prices that are lower than their international counterparts.

In the oilfield services industry, we are a leading independent China-based provider of high-end segment in terms of technical capability, overseas and offshore experience and our revenue in 2011. We believe our main competitors to be either the multinational oilfield services providers or two other independent China-based oilfield services companies. As the provision of customised and target-orientated project plan/design is one of the critical factors involved in the provision of high-end oilfield services, competition in the high-end segment of the oilfield services industry are based principally on the ability to provide highly customised services, reputation, experience, technology proficiency, geographical knowledge, track record, communication skills, service capacity and reliability. We believe that we are one of the reputable independent Chinese oilfield services providers with experience, high-end technology proficiency, reliability and service capacity, and appreciation on the importance of local acquaintances. We do not rely on pricing strategy to compete against other independent China-based oilfield services providers, but our pricing flexibility is one of our competitive edge when competing against international counterparts.

Chinese NOCs often engage external service companies to provide consultancy services, and to support their internal technical and project management teams to deal with complex drilling or production processes. The key Chinese market players in consultancy services include independent domestic private oilfield services providers such as the Group. Major western integrated oilfield service companies such as Schlumberger, Halliburton and Baker Hughes also provide consultancy services and are pursuing IPM services as part of the growth strategies going forward. The trend by

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oil companies towards the increased use of outsourced engineering and project management services is expected to benefit oilfield services providers that could combine its experience, engineering skills, advanced technology, and scope of equipment and service offerings. We believe that we hold a competitive edge over such major western integrated oilfield service companies in respect of oilfield projects operated by Chinese NOCs as we have an in-depth understanding of their operational norms gathered through years of working in close cooperation with them.

According to the Spears Report, it is believed that (i) as a result of the high cost of international oilfield services providers and the fact that in-house divisions of Chinese national oil companies focus on specific areas of products or services, there is an opportunity for the Group to gain market share in the Chinese market if it can combine advanced technology and know-how with prices that are lower than those of the international oilfield services firms; and (ii) going forward, the Group's combination of experience, advanced technology, and a growing presence both within China and abroad will provide it with a competitive advantage compared to local domestic competitors, particularly with regard to high-end applications (for example, drilling and completing deep wells with HTHP conditions, and multistage fracturing of horizontal wells).

We believe we are able to maintain our competitiveness over other competitors for reasons as set out in the paragraph headed "Competitive Strengths" above in this section.

LEGAL PROCEEDINGS

Based on the legal opinions from various jurisdictions, save as disclosed in the sections headed "Business — Non-compliance" and "Business — Past operation in sanctioned countries", during the Track Record Period and up to the Latest Practicable Date, we confirm that we had complied with all applicable laws and material regulatory requirements and obtained all material permits/licenses for our operations, the failure of compliance with which or the obtaining of which could have a material adverse effect on our business, results of operations and financial conditions. We and our employees possessed all required licenses and permits of relevant jurisdictions that were material to our operations during the Track Record Period. As at the Latest Practicable Date, we were not a party to any material litigation, legal or administrative proceedings which could be expected to have a material adverse effect on our business, results of operations or financial conditions. We are not aware of any pending or threatened litigation, or legal or administrative proceedings against us.

NON-COMPLIANCE

A. **Non-compliance with registration requirements under the Tax Code of the Russian Federation**

Under Russian law, foreign entities that have employees present in Russia for a period of time exceeding 30 days at a fixed place of business are subject to an obligation to register with the Russian tax authorities for the purposes of tax control. According to Clause 2 of Article 116 of the Tax Code of the Russian Federation, performance of business activities by a foreign organisation without a tax registration shall result in the imposition of a fine in the amount of 10% of the income received during that time as a result of such activities, but not less than RUB 40,000 (equivalent to HK\$10,252).

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Reasons for non-compliance, non-compliance and legal consequence

As we were not aware of the above requirements when we started providing services in Russia, before mid-August 2012, we had employees present in Russia for a period of time exceeding 30 days at a fixed place of business for the purpose of providing supervisory and IPM services to our customers, but we failed to make registration with the Russian tax authorities for the purpose of tax control.

Given that Russia was a new market to us when we started providing services in Russia, the relevant staff of our Group involved in developing the Russian market did not have thorough understanding of the relevant Russian tax regulations at that time and did not indentify such overstay of our employees in Russia as an issue. The relevant requirements and the non-compliance incidents were not therefore brought to the attention of our Directors or senior management.

After we have been made aware of the above relevant legal requirements when we obtained legal advice from our Russian legal advisers for the preparation of Listing, we rearranged our staff who had overstayed in Russia and since then we no longer have had any employees staying in Russia for more than 30 days in any calendar year.

As at the Latest Practicable Date, we had not received any notice from the Russian tax authorities on requirement on imposition of fine.

Financial impacts including maximum penalties and other financial losses or savings and provisions made

Taking into account the relevant income and above mentioned 10% fine, the estimated maximum liability is approximately HK\$363,000. No provision has been made as our Russian legal advisers assessed the risk of Russian tax liability as fairly low and there have not been any known tax disputes or court cases as enforcement by Russian tax authorities of fines on foreign entities for a failure of tax registration is rare, in particular when there is no underlying tax liability.

Internal control measures and additional steps to be taken to prevent the non-compliance

As suggested by our internal control advisers, we had implemented by 1 November 2012 adequate internal control policies to ensure that we are in compliance with the relevant tax regulations in the jurisdictions where we operate, which include the following:

- (i) establishment of a special project group (comprising of core officers from business department, human resources department and finance departments) prior to execution of projects which involve operation in countries or regions that we have not had presence;
- (ii) establishment and implementation by such special project group, having assessed the characteristics and features of the project, of specific measures (for instance, setting qualification for project manager and its responsibilities; laying down risk identification,

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evaluation and reporting mechanism, means for documentation and seeking advice from external consultants and the important compliance points to look out for) to minimise the risk of non-compliance, with such specific measures being reviewed and approved by the senior management and updated from time to time;

- (iii) regular reporting in writing by such special project group to the Sanction Oversight Committee, which includes Mr. Wang, Mr. Wong Lap Tat Arthur and Mr. He Shenghou, being three members of the Board, of project risk assessment and work progress to ensure that the project is conducted in compliance with the scheduled plans and relevant laws and rules;
- (iv) seeking of external professional advice when the special project group encounters any compliance issues, with all advice/opinions tendered by such professional parties recorded in writing and reported to senior management for consideration and approval;
- (v) conducting evaluation and assessment on counterparty's background before entering into any overseas transactions;
- (vi) keeping records of reasons for selecting particular customers or countries and the applicable selection criteria; and
- (vii) obtaining approval from the Board (including approval from the non-executive Directors) a mandatory requirement for entering into material sales or services agreement in respect of overseas transactions).

We had established by 1 November 2012 a policy stipulating procedures to be followed within the Group in relation to the tax registration in Russia which includes (i) recording and monitoring the time that the relevant employee spends in Russia; (ii) notifying our financial department of the circumstance where tax registration is required; and (iii) completing tax registration within a specified time limit after such notification, to ensure (i) that no employees will stay in Russia for more than 30 days in any calendar year in the future and (ii) that if employees stay in Russia for more than 30 days in any calendar year, we will register with the Russian tax authorities in accordance with the Russian tax regulations.

B. Non-compliance with contribution of social security insurance

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social security insurance and housing accumulation fund contribution requirements for all employees. During the Track Record Period, we did not fully comply with the social security insurance contribution requirements.

Reasons for non-compliance, non-compliance and legal consequence

Petro-king Shenzhen, Shenzhen FST and Dezhou Jiacheng have fully contributed to their employees' social insurance since April 2012, June 2012 and January 2012, respectively. Prior to that,

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they had made contributions to the social security insurance though not fully as our human resources department staff, who was responsible for the calculation of social security insurance contributions at the material time, mistakenly adopted the average salaries of employees as the basis of calculation rather than the actual salaries of employees, which they considered was commonly applied among companies in Shenzhen and was however not in compliance with the regulatory requirements. We therefore did not fully pay the social insurance contribution for some of our employees. As we have not received any notification from the authorities of such shortfall in contributions, we were only subsequently made aware of the shortfall when making enquiries with the relevant authorities for the preparation of Listing.

Dezhou Jiacheng had not made contributions to its employees' social security insurance prior to January 2011 due to its high employee turnover rate, which made it practically difficult to make contributions for its employees with unstable short-term employment. Moreover, the employees considered that the financial burden of participation in the social security scheme outweighed the corresponding benefits and were therefore reluctant to make such contributions.

Our human resources department staff was responsible for making social security contribution and preparing the relevant calculation. The non-compliance incident was not brought to the attention of our Directors because the relevant staff was not aware of the non-compliance incident and the relevant regulatory requirement when they applied the common practice of the industry. For more details of this non-compliance, please refer to the section headed "Directors, senior management and employees — Employees" on page 275 of this prospectus.

For the outstanding social security insurance incurred prior to 《中華人民共和國社會保險法》(*Social Insurance Law of the PRC**) became effective on 1 July 2011, in the event that the relevant authorities demand our Group to pay the relevant social security insurance but our Group does not do so within the prescribed time limit, an additional late payment at the daily rate of 0.2% of the outstanding amount will be imposed. For the outstanding social security insurance incurred after 《中華人民共和國社會保險法》(*Social Insurance Law of the PRC**) became effective on 1 July 2011, our Group may be demanded by the relevant authorities to pay the relevant social security insurance with an additional late payment at the daily rate of 0.05% of the outstanding amount from the due date.

According to the consultation with relevant government authorities by our PRC Legal Advisers, the local social security insurance authorities normally would refer to 《中華人民共和國行政處罰法》(the *PRC Administration Penalty Law**) and would not demand the outstanding payment after the lapse of two years from the date of default.

As at the Latest Practicable Date, we have not received any notification from the relevant authorities alleging that we had not fully contributed to the social security insurance and demanding payment of the same before a stipulated deadline.

Financial impacts including maximum penalties and other financial losses or savings and provisions made

As at the Latest Practicable Date, the maximum financial impacts on our Group arising from the underpayment of our social security insurance contributions, if demanded by the relevant authorities,

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amounted to approximately RMB1,188,201 (equivalent to HK\$1,473,369), for which we had made full provision. As we intend to pay the outstanding social security insurance promptly upon receipt of the request from the relevant authorities, if any, and the amount of late payment for the outstanding social security insurance incurred after 1 July 2011, which amounted to approximately RMB55,624 (equivalent to HK\$68,974) as at 31 October 2012, appeared to be insignificant, we did not make provisions for the late payments or fines.

Internal control measures and additional steps to be taken to prevent the non-compliance

We have obtained, in respect of the historical social security insurance contribution, compliance certificates from the relevant social security insurance authorities except Shenzhen FST. Upon receipt of the request from the relevant authorities, if any, we intend to pay the outstanding social security insurance and/or any late payment and/or penalty imposed by the relevant authorities accordingly.

As suggested by our internal control advisers, we had established by 10 June 2012 procedures for calculation and contribution of our employees' social security insurance according to the PRC laws and regulations, which were approved by our senior management and will be updated from time to time. Our human resources department staff will closely monitor the commencement and termination of employment of our employees to ensure that we have duly made social security insurance contributions for all employees. In addition, our finance manager will review the calculation of monthly social security insurance contributions and the provisions we made in respect of the social security insurance to ensure that the contributions are correctly calculated and the provisions are adequate and will keep a proper record of the social security insurance that we contributed to our employees.

C. Non-compliance with contribution of housing accumulation funds

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social security insurance and housing accumulation fund contribution requirements for all employees. During the Track Record Period, we did not fully comply with the housing accumulation fund contribution requirements.

Reasons for non-compliance, non-compliance and legal consequence

In respect of housing accumulation funds, prior to 30 November 2010, local implementation rules and regulations regarding the housing accumulation funds were not established in Shenzhen. After 《深圳市住房公積金管理暫行辦法》 (the *Interim Administration Measures on Housing Accumulation Funds in Shenzhen**) came into effect on 20 December 2010, Petro-king Shenzhen began to make full contributions to its employees' housing accumulation funds. Shenzhen FST began to make full contributions to its employees' housing accumulation funds in June 2012.

Owing to the fact that the housing accumulation funds in Shenzhen before the 《深圳市住房公積金管理暫行辦法》 (the *Interim Administration Measures on Housing Accumulation Funds in Shenzhen**) was promulgated only applied to employees with a Shenzhen permanent registered residence, employees without a Shenzhen permanent registered residence could not benefit from the

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housing accumulation fund scheme and were therefore reluctant to make contribution to their housing accumulation funds as such contributions should be made equally by both the employer and the employee according to the regulatory requirements. To ensure fairness among all employees with or without a Shenzhen permanent registered residence, Petro-king Shenzhen and Shenzhen FST provided monthly housing subsidies, or accommodation to employees before they began to make contributions to the employees' housing accumulation funds. As advised by our PRC Legal Advisers, by providing those housing subsidies or accommodation, Petro-King Shenzhen and Shenzhen FST had substantially fulfilled its obligation of providing housing-related benefits to its employees prior to the effectiveness of 《深圳市住房公積金管理暫行辦法》.

Dezhou Jiacheng had not made any contributions to its employees' housing accumulation funds due to its high employee turnover rate, which made it practically difficult to make contributions for its employees with unstable short-term employment. Moreover, a number of employees did not foresee that they would purchase properties in Dezhou in the near future. The employees also considered that the financial burden of participation in the housing accumulation funds outweighed the corresponding benefits and were therefore reluctant to make such contribution. As at the Latest Practicable Date, the only employee working at Dezhou Jiacheng was an employee of Petro-king Shenzhen, who was currently on secondment to Dezhou Jiacheng to deal with operation and maintenance and was therefore covered by the housing accumulation fund scheme of Petro-king Shenzhen. Therefore, as at the Latest Practicable Date, we have made full contribution of housing accumulation fund for the only employee working at Dezhou Jiacheng.

Our human resources department staff was responsible for making housing accumulation fund contributions and preparing the relevant calculation, respectively. The non-compliance was not brought to the attention of our Directors because the relevant staff were not aware of the non-compliance incident and the relevant regulatory requirements when they focused on the benefit and fairness of the employees. For more details of this non-compliance, please refer to the section headed "Directors, senior management and employees — Employees" on page 275 of this prospectus.

For the outstanding housing accumulation funds, our Group may be demanded by the relevant authorities to pay the outstanding amount within a prescribed time limit, failing which the people's court may order for compulsory execution.

According to the consultation with relevant government authorities by our PRC Legal Advisers, the local housing accumulation funds authorities normally would refer to 《中華人民共和國行政處罰法》 (the *PRC Administration Penalty Law**) and would not demand the outstanding payment after the lapse of two years from the date of default.

As at the Latest Practicable Date, we had not received any notification from the relevant authorities alleging that we had not fully contributed to the housing accumulation funds and demanding payment of the same before a stipulated deadline.

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Financial impacts including maximum penalties and other financial losses or savings and provisions made

The maximum outstanding housing accumulation fund contribution amounts to approximately RMB56,712, for which we have made full provisions.

Internal control measures and additional steps to be taken to prevent the non-compliance

Upon receipt of the request from the relevant authorities, if any, we intend to pay the outstanding housing accumulation funds and/or any late payment and/or penalty imposed by the relevant authorities accordingly.

As suggested by our internal control advisers, we had established by 10 June 2012 procedures for calculation and contribution of our employees' housing accumulation funds according to the PRC laws and regulations, which were approved by our senior management and will be updated from time to time. Our human resources department staff will closely monitor the commencement and termination of employment of our employees to ensure that we have duly made housing accumulation fund contributions for all employees. In addition, our finance manager will review the calculation of monthly housing accumulation fund contributions and the provisions we made in respect of the housing accumulation funds to ensure that the contributions are correctly calculated and the provisions are adequate and will keep a proper record of the housing accumulation funds that we contributed to our employees.

D. Non-compliance with the Companies Ordinance

Pursuant to section 122 of the Companies Ordinance, the directors of every Hong Kong company must cause the profit and loss account and balance sheet of the company to be made out and laid before the company at each of its annual general meetings and that the profit and loss account shall be made up to a date falling not more than the specified period before the date of its annual general meeting.

Reasons for non-compliance, non-compliance and legal consequence

Two subsidiaries of the Group, namely Petro-king International and Petro-king Hong Kong, had failed to comply with requirements under section 122 of the Companies Ordinance on certain occasions as described below:

Petro-king International

Petro-king International had failed to prepare the financial statements for the period from 14 July 2003 (date of incorporation) to 31 December 2004, and for the years ended 31 December 2005 and 2006 for laying before its respective annual general meetings. Such three years' financial statements were eventually prepared and approved by its shareholders at the annual general meeting held on 18 December 2007, failing to comply with section 122 of the Companies Ordinance.

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The financial statements for the years ended 31 December 2009 and 31 December 2010 were prepared and laid before the respective annual general meetings of Petro-king International held on 9 July 2010 and 25 September 2011, respectively, which were made up to a date falling more than the specified period before the respective general meetings as required pursuant to section 122 of the Companies Ordinance.

Petro-king Hong Kong

Petro-king Hong Kong had failed to prepare the financial statements for the year ended 31 March 2008 for laying before its annual general meeting held on 19 December 2008 and had therefore failed to comply with section 122 of the Companies Ordinance. Such financial statements were eventually prepared and approved by its shareholders at the annual general meeting held on 3 August 2009.

The financial statements for the year ended 31 March 2010 were prepared and laid before the annual general meeting of Petro-king Hong Kong held on 20 December 2010, which were made up to a date falling more than the specified period before the respective general meetings as required pursuant to section 122 of the Companies Ordinance.

Subsequently, the financial year-end of Petro-king Hong Kong was changed from 31 March to 31 December on 24 March 2010.

The financial statements for the year ended 31 December 2010 were prepared and laid before the annual general meeting of Petro-king Hong Kong held on 25 September 2011, which were made up to a date falling more than the specified period before the respective general meetings as required pursuant to section 122 of the Companies Ordinance.

The reasons for the above non-compliance incidents are set out below.

- (i) The non-compliance incidents were due to a misunderstanding on the part of the directors (and their predecessors) of Petro-king Hong Kong and Petro-king International respectively, who believed that they were only required to engage auditors to audit the accounts and to approve the same at an annual general meeting. They were not aware that they must convene an annual general meeting on a date not falling more than six months of the audited accounts as required by section 122(1A) of the Companies Ordinance.
- (ii) Given the scale of the Group's oilfield services business, throughout the years the directors (who also occupied other positions in the companies within the Group) focused their time and energy on the Group's substantive operation and business matters. It was in these circumstances that the non-compliance of the requirements under section 122(1A) occurred by unintended and wholly inadvertent oversight.

The directors of Petro-king International and Petro-king Hong Kong took steps to seek assistance from a legal counsel to apply to the Court of First Instance of the High Court of Hong Kong to rectify the above non-compliance with the Companies Ordinance under section 122(1B) of the Companies Ordinance.

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On 16 October 2012, the Court of First Instance of the High Court in Hong Kong granted orders to each of Petro-king International and Petro-king Hong Kong, and Petro-king International and Petro-king Hong Kong are no longer in breach of sections 122(1) and 122(2) of the Companies Ordinance.

Financial impacts including maximum penalties and other financial losses or savings and provisions made

According to Schedule 12 of the Companies Ordinance, if a director fails to take reasonable steps to comply with section 122 of the Companies Ordinance, the director shall be liable to a maximum fine of HK\$300,000 and imprisonment of 12 months.

No provision has been made with respect to this non-compliance, as the Court of First Instance of the High Court in Hong Kong granted orders to each of Petro-king International and Petro-king Hong Kong, and the breach has been rectified.

Internal control measures and additional steps taken to prevent the non-compliance

As suggested by our internal control advisers, we had taken by 1 November 2012 the following measures to prevent the non-compliance:

- (i) establishing a timetable by the finance department for the preparation of financial statement and implementing the timetable accordingly;
- (ii) retaining PricewaterhouseCoopers to audit the financial statements of our Group;
- (iii) engaging an external financial adviser and a law firm to advise the Group on, inter alia, compliance matters; and
- (iv) establishing an audit committee to oversee the financial reporting and internal control procedures of our Group to enhance corporate governance and ensure the compliance with statutory requirements.

E. Properties with defective titles

Reasons for non-compliance, non-compliance and legal consequence

We failed to register the respective lease agreements for certain leased properties in Xinjiang, Shenzhen, Dezhou, Beijing, Zhengzhou, Wuhan, Chongqing, Jingchuan, Tongchuan and Ordos. As the title documents of those properties were kept by the relevant lessors, we relied on the cooperation from the lessors to register those agreements, who would then be obligated to pay the relevant taxes. As such, the relevant lessors were reluctant to submit the lease agreements for registration, and thus we were not able to complete the registration with local authorities. In addition, due to unwillingness of cooperation of the lessors, we were not able to obtain the complete title documents in respect of the leased property in Dezhou with a gross floor area of approximately 500 sq.m. (which is for office

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use), two leased properties of Shenzhen FST with a total gross floor area of approximately 2,125 sq.m., which are for office and production facility use, and seven leased properties of Petro-king Shenzhen with a total gross floor area of approximately 5,823.8 sq.m., which are for office and warehouse use.

Our administrative staff of the respective subsidiaries was responsible to liaise and negotiate with the lessors, but they were not able to obtain title documents from the lessors before signing the lease and lessors' undertaking to register the lease agreement after signing. For more details of this non-compliance, please refer to the section headed "Business — Real estates — A. PRC properties" on page 224 of this prospectus.

According to the opinion of our PRC Legal Advisers, registration of a lease agreement is only an administrative measure of the relevant authority and it is not a condition or prerequisite for the validity of the lease agreement under PRC law and the lessors have obtained complete title documents in respect of the leased properties in Xinjiang, Beijing, Wuhan and Jingchuan. Therefore, the fact that these lease agreements have not been registered with the relevant authority would not affect the validity of these leases.

However, according to our PRC Legal Advisers, due to the potential lack of title of the lessors of the above mentioned leased properties, our right to use these leased properties as a lessee is subject to uncertainty. We consider there will be no material adverse effect because we can find comparable and suitable replacements easily for the office in Dezhou and for the warehouse in Zhengzhou, Chongqing, Shenzhen and Ordos. The properties of Shenzhen FST have been used for a long time without encountering relevant authorities' actions against the properties in relation to the title issue.

As at the Latest Practicable Date, we had not received any notification from the relevant authorities requiring registration procedure to be completed or payment of fine for leased properties in Xinjiang, Shenzhen, Dezhou, Beijing, Zhengzhou, Wuhan, Chongqing, Jingchuan, Tongchuan and Ordos for failing to register the respective lease agreement.

Financial impacts including maximum penalties and other financial losses or savings and provisions made

For the properties located in Xinjiang, Shenzhen, Dezhou, Chongqing, Jingchuan, Tongchuan and Ordos, the lessor and lessee will be requested by the government authorities to register the lease agreements within the time limit, failing which a fine between RMB1,000 and RMB10,000 will be imposed. Therefore, we may be subject to a fine between RMB1,000 and RMB10,000 for each of the leased properties in Xinjiang, Shenzhen, Dezhou, Chongqing, Jingchuan, Tongchuan and Ordos for failing to register the respective lease agreements if so demanded by the government authorities.

As the Directors confirm that the non-compliance with respect to our leased properties in the PRC will not have any material impact on the financial statements, no provision has been made.

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Internal control measures and additional steps to be taken to prevent the non-compliance

The leased properties which we failed to register the relevant lease agreements are occupied by Petro-king Shenzhen, Shenzhen FST and Dezhou Jiacheng, as office and warehouse. Our Directors are of the view that those properties can be relocated if needed without incurring significant relocation costs and therefore are not considered crucial to our business and operations.

In terms of the leased properties which we failed to obtain from lessors the title documents, our Directors are of the view that (i) since Shenzhen FST occupies these leased properties only for the assembly of parts and components used for our control panel production (hence there are no heavy machineries and non-removable fixtures within the properties), the properties are not crucial to our business and operation, and in case the relocation is needed, the relocation can be completed within two weeks and the relocation cost will be approximately RMB1.5 million, and Shenzhen FST will be able to resume production progress within one month after the relocation. Accordingly, possible loss of profit will be insignificant. Therefore, the relocation of Shenzhen FST (if needed) will not have any material adverse impact on our business, results of operations or financial conditions; and (ii) all of our leased properties in the PRC without lease registration are not production related and can be relocated, if needed without incurring significant relocation costs, and we should be able to identify alternative office spaces and warehouse.

As suggested by our internal control advisers, we have established procedures for leasing properties, which (i) prohibit from leasing properties without the property title certificates or land use right certificates being provided, and (ii) provide measures to register lease agreements with the relevant government authorities. In addition, we will review all the necessary title documents of the relevant property before signing any future lease agreement and while negotiating such lease agreement, we will take into account whether the lessor is willing to provide an undertaking to register the relevant lease agreement upon signing. In respect of the properties leased by Shenzhen FST, we will negotiate with the lessor and procure the lessor to obtain title documents for such properties.

CONNECTED TRANSACTIONS

Upon the Listing, each of the following transactions will be regarded as a connected transaction of the Company within the meaning of the Listing Rules.

Exempted continuing connected transaction under Rule 14A.65(4) of the Listing Rules

On 19 September 2011, Petro-king Hong Kong and Mr. Albert Wong entered into a guarantee (the “Guarantee”), pursuant to which Mr. Albert Wong shall guarantee 49% of the payment obligations of Sheraton Investment under a loan agreement dated 12 September 2011 (the “**Loan Agreement**”) entered into between Petro-king Hong Kong (as lender) and Sheraton Investment (as borrower) in respect of a loan amount of US\$1,000,000 (the “**Loan**”) at an interest rate of 6% per annum. Pursuant to the Loan Agreement, the Loan shall be repayable on 26 August 2012. On 19 October 2012, Petro-king Hong Kong, Sheraton Investment and Mr. Albert Wong entered into a supplemental agreement as supplemental to the Loan Agreement, which provides that, among other things, (i) the payment date of the Loan is extended to 26 August 2013; and (ii) Mr. Albert Wong acknowledged the above extension and agreed that the Guarantee remains effective during such extension period.

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Given that Sheraton Investment is a non-wholly owned subsidiary of the Company and is owned as to 51% and 49% by the Company (through its shareholding in Hero Gain) and Natural Peak respectively, Natural Peak is a connected person of the Company (at the level of the Company's subsidiary) only by virtue of its substantial shareholding in Sheraton Investment. The provision of the Guarantee by Mr. Albert Wong, being a substantial shareholder of Natural Peak, a connected person of the Company to Sheraton Investment constitutes a connected transaction of the Company under Rule 14A.13(2)(b)(i) of the Listing Rules. The Directors, including the independent non-executive Directors, confirm that the Guarantee was entered into on normal commercial terms where no security over the assets of the Company is granted in respect of the Guarantee. In this regard, such Guarantee will be exempt from reporting, announcement and shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

The Sole Sponsor reviewed the terms of the Guarantee and considered that the provision of the guarantee is in line with the market practice and are made on normal commercial terms.

Exempted continuing connected transaction under Rule 14A.33(3) of the Listing Rules

On 2 August 2011, Shenzhen FST (as tenant) and Ms. Chen Hongli (as landlord) entered into a tenancy agreement ("Shenzhen Tenancy Agreement") in respect of the office premises located at Unit No. 2010, Block West, Haian Building, Commercial Cultural Centre District, Nanshan District, Shenzhen City, the PRC of 131.3 sq.m. for a term of two years commencing from 15 August 2011 at a monthly rental of RMB9,825. Given that Ms. Chen Hongli is interested in 16% equity interests in Shenzhen FST, a non-wholly owned subsidiary of the Company, Ms. Chen Hongli, being a substantial shareholder of Shenzhen FST, is a connected person of the Company. The annual rental payable by Shenzhen FST to Ms. Chen Hongli will be approximately RMB117,900. Since each of the percentage ratios calculated by reference in Rule 14.07 of the Listing Rules, where applicable, in respect of the Shenzhen Tenancy Agreement is expected to be less than 0.1%, the Shenzhen Tenancy Agreement will constitute exempted continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the independent property valuer of our Company, considers that the rentals payable under the Shenzhen Tenancy Agreement were fair and reasonable and did not exceed market rental for similar premises in similar locations in their respective countries.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, (i) Termbray Natural Resources, which is wholly owned by Termbray Electronics (BVI), will be beneficially interested in approximately 34.08% of the Shares in issue (assuming that the Over-allotment Option is not exercised and without taking into account Shares that may be issued pursuant to the exercise of options which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme). Termbray Electronics (BVI) is wholly owned by Termbray Industries. 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children; and (ii) King Shine, approximately 41.19% and 17.21% of its total issued share capital is held by Mr. Wang and Ms. Zhou respectively, will be beneficially interested in approximately 32.74% of the Shares in issue (assuming that the Over-allotment Option is not exercised and without taking into account Shares that may be issued pursuant to the exercise of options which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme). Accordingly, the Termbray Controlling Shareholder Group (namely Termbray Industries, Termbray Electronics (BVI), Termbray Natural Resources, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited, First Trend Management (PTC) Limited, HSBC International Trustee Limited) and the King Shine Controlling Shareholder Group (namely King Shine, Mr. Wang and Ms. Zhou) will be our Controlling Shareholders within the meaning of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on its business independent of our Controlling Shareholders and their associates for the following reasons:

Management independence and operational independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through its subsidiaries) holds all relevant licences necessary to carry on the business, and has sufficient capital, equipment and employees to operate the business independently from our Controlling Shareholders. None of the Group members purchases from, or sells products or services to, the Controlling Shareholders.

Our Company's management and operational decisions are made by our executive Directors and senior management who have served our Company and/or its subsidiaries for a significant length of time and/or have substantial experience in the industry in which our Company is engaged. Except that Mr. Lee Tommy is a non-executive Director, no members of the Group share common management with the Controlling Shareholders. Further, our Company's independent non-executive Directors will bring independent judgement to the decision-making process of our Board.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

There will not be any continuing connected transactions between our Group and our Controlling Shareholders or their respective associates upon completion of the Listing. Our Directors do not expect that following the Listing there will be any connected transactions between our Group and any of our Controlling Shareholders or their respective associates. Based on the above, our Directors are of the view that our Company is independent of our Controlling Shareholders in terms of management and business operations.

Administrative independence

Our Group has its own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, inventory management and research and development. Our senior management staff is independent of our Controlling Shareholders. In addition, the Group does not lease or rely on properties held by the Controlling Shareholders.

Financial independence

Our Group has its own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

As at the Latest Practicable Date, Mr. Wang, Termbray Industries and King Shine had entered into the following guarantees:

- (i) Mr. Wang executed a guarantee letter (undated) under which he granted personal guarantees of up to US\$2.2 million in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of the obligations of Petro-king International under a loan facility dated 11 October 2010;
- (ii) Termbray Industries executed a guarantee letter (undated) under which it granted guarantees in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of 51% of the indebtedness of Petro-king International under a loan facility dated 11 October 2010, on a several basis, with a maximum liability of US\$2.3 million;
- (iii) King Shine executed a guarantee letter (undated) under which it granted guarantees in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of the obligations of Petro-king International under a loan facility dated 11 October 2010 with a maximum liability of US\$2.2 million;
- (iv) Mr. Wang executed a guarantee letter (undated) under which he granted a personal guarantee in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of the obligations of Petro-king International under a loan facility dated 24 August 2009 of up to HK\$5.88 million;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (v) Termbray Industries executed a guarantee letter (undated) under which it granted a guarantee in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of 51% of the indebtedness of Petro-king International under a loan facility dated 24 August 2009, on a several basis, of up to HK\$6.12 million;
- (vi) King Shine executed a guarantee letter (undated) under which it granted a guarantee in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of the obligations of Petro-king International under a loan facility dated 24 August 2009 of up to HK\$5.88 million;
- (vii) Mr. Wang executed a guarantee letter dated 24 July 2008 under which he granted personal guarantees in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of the obligations of Petro-king International under a loan facility dated 13 August 2009 of up to US\$1.617 million;
- (viii) Termbray Industries executed a guarantee letter dated 24 July 2008 under which it granted guarantees in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of 51% of the indebtedness of Petro-king International under a loan facility dated 13 August 2009, on a several basis, with a maximum liability of US\$1.683 million;
- (ix) King Shine executed a guarantee letter dated 24 July 2008 under which it granted guarantees in favour of Hang Seng Bank Limited (恒生銀行有限公司) in respect of the obligations of Petro-king International under a loan facility dated 13 August 2009 with a maximum liability of US\$1.617 million; and
- (x) Mr. Wang executed a guarantee letter on 12 November 2012 under which he granted a personal guarantee in favour of Shekou Branch of China Merchants Bank in respect of the obligations of Petro-king Shenzhen under a credit facility agreement dated 13 November 2012 of up to RMB80.0 million.

The relevant banks agreed in January and February 2013 in principle to the release of above guarantees provided by Mr. Wang, Termbray Industries and King Shine upon Listing. Our Directors confirm that these guarantees will be released upon the Listing, and all other non-trade payable balances with our Controlling Shareholders and other balances with related parties of our Group will be fully settled before the Listing.

Customers

For each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, our five largest customers, in aggregate, accounted for approximately 79.0%, 94.5%, 83.2% and 73.9% of our total revenue, respectively, and our single largest customer accounted for approximately 26.4%, 53.7%, 62.0% and 51.6%, respectively, of our total revenue for the same periods. No Shareholder that owns 5% or more of our issued share capital had as at the Latest Practicable Date any interest in any of our five largest customers during the Track Record Period. We have access to our customers independently of our Controlling Shareholders, and we have not sold any of our products/services through our Controlling Shareholders during the Track Record Period.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Procurement of supplies

For each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, our five largest suppliers, in aggregate, accounted for approximately 73.4%, 74.5%, 50.3% and 67.0% of our total purchases, respectively, and our single largest supplier accounted for approximately 22.7%, 31.1%, 15.6% and 51.1%, respectively, of our total purchases for the same periods. No Shareholder that owns 5% or more of our issued share capital had as at the Latest Practicable Date any interest in any of our five largest suppliers during the Track Record Period. We have access to our suppliers independently of our Controlling Shareholders, and we have not procured any of our supplies through our Controlling Shareholders during the Track Record Period.

Accordingly, the Directors consider that the Group is capable of carrying on its business independently from the Controlling Shareholders and its associates given that (i) the Group does not rely on the Controlling Shareholders' utilities and social and ancillary services; (ii) the Group does not rely on the land and properties held by the Controlling Shareholders; (iii) the Group does not purchase from, or sell products or services to, the Controlling Shareholders; (iv) except that Mr. Lee Tommy is non-executive Directors, members of the Group and the Controlling Shareholders do not share common management; and (v) all relevant guarantees provided by the Controlling Shareholders will be released and replaced by the Company's own guarantees and hence there does not exist any financial dependence on the Controlling Shareholders.

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders confirm that they are neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with our Group's business (as disclosed in herein) and would require disclosure under Rule 8.10 of the Listing Rules. Our Directors confirm that none of them is interested in any business which competes or is likely compete, either directly or indirectly with our business.

On 18 February 2013, the Company (for itself and as trustee for and on behalf of its subsidiaries and associated companies) entered into the Deed of Non-competition with each of the King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI), Termbray Natural Resources, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited and First Trend Management (PTC) Limited (collectively, the "**Covenantors**"). Pursuant to the Deed of Non-competition, each of the Covenantors irrevocably and unconditionally covenants and undertakes with the Company (for itself and as trustee for and on behalf of its subsidiaries and associated companies) that, during the period commencing from the Listing Date and up to the date on which such Covenantors and/or its/his associates cease to beneficially own directly or indirectly more than 30% of the Shares in issue (the "**Restricted Period**"), each of the Covenantors shall not, and shall procure that none of its/his associates, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of oilfield services and such other business conducted or carried on by the Group from time to time (the "**Restricted Business**") within the PRC, Hong Kong, Singapore, Russia, Australia, the Middle East, Carribean Sea, Western Africa and South America and such other places as the Group may conduct or carry on Restricted Business from time to time.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The Covenantors further undertake to first offer and to procure their respective associates to first offer to the Company business or investment opportunities in the Restricted Business in any part of the world upon receiving or becoming aware of any such opportunities during the Restricted Period.

Notwithstanding the aforesaid, the non-competition undertaking as set out above shall not prevent the Covenantors and their respective associates from acquiring a direct or indirect shareholding interest of (i) Termbray Industries (as to Termbray Industries, Termbray Electronics (BVI), Termbray Natural Resources, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited and First Trend Management (PTC) Limited only) and/or (ii) not more than 10% in a company listed on any stock exchange anywhere in the world and engaged in any Restricted Business.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from our controlling shareholders and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking by the Covenantors under the non-competition undertaking set out in the paragraph headed “Non-competition undertaking” in this section;
- (ii) the Covenantors undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertaking;
- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the undertaking of the Covenantors under the non-competition undertaking set out in the paragraph headed “Non-competition undertaking” in this section, in the annual reports of our Company; and
- (iv) the Covenantors will make an annual declaration in compliance with their undertaking under the non-competition undertaking in the annual report of the Company.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The following table sets forth certain information in respect of the members of the Board.

Name	Age	Position	Date of Appointment
Mr. Wang Jinlong (王金龍).....	47	Chairman, chief executive officer and executive Director	31 December 2007
Mr. Zhao Jindong (趙錦棟)	49	Vice President and executive Director	24 December 2012
Mr. Lee Tommy (李銘浚).....	35	Non-executive Director	31 December 2007
Ms. Ma Hua (馬華).....	37	Non-executive Director	12 June 2012
Mr. Ko Po Ming (高寶明).....	54	Non-executive Director	18 February 2013
Mr. He Shenghou (何生厚)	66	Independent non-executive Director	18 February 2013
Mr. Tong Hin Wor (湯顯和).....	67	Independent non-executive Director	18 February 2013
Mr. Wong Lap Tat Arthur (黃立達)..	53	Independent non-executive Director	18 February 2013

Executive Directors

Mr. Wang Jinlong (王金龍), aged 47, is our chairman, chief executive officer and executive Director. Mr. Wang is primarily responsible for formulating our corporate strategy and overall operations of the Group. He has over 18 years of experience in the oil and gas industry. Mr. Wang founded our Group in April 2002 as the executive director and general manager of Petro-king Shenzhen. Prior to that, he worked at 菲利普斯中國有限公司 (Phillips China Inc.) (later known as 康菲石油中國有限公司 (ConocoPhillips China Inc.)) between 1994 and 2003 where he had served as a senior drilling/production engineer. Mr. Wang graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering degree majoring in drilling engineering in July 1986. Mr. Wang obtained a Mid-level Professional Qualification as an engineer in April 1993 issued by 中華人民共和國地質礦產部 (the PRC Ministry of Geology and Mineral Resources*), which was later reformed and incorporated into 中華人民共和國國土資源部 (the PRC Ministry of Land and Resources*), and a qualification of senior engineer issued by CNOOC in March 2002. Mr. Wang has been recognised for his contributions to the development of the technology of geology and was awarded certificates for such contributions by the PRC Ministry of Geology and Mineral Resources in December 1996.

Mr. Wang is currently performing the roles of chairman and chief executive officer of our Company. Under code provision A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should not be performed by the same individual. Taking into account Mr. Wang's strong expertise in the oil and gas industry, our Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by our Group. In order to maintain good corporate governance and fully comply with code provision, our Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Zhao Jindong (趙錦棟), aged 49, is our vice president and executive Director. He joined our Group in 2003 as a vice general manager. Mr. Zhao has over 28 years of experience in drilling and completion services of the oil and gas industry. Before joining our Group, Mr. Zhao was the senior drilling and completion engineer at 康菲石油公司 (ConocoPhillips Oil Company) from October 2002 to December 2003. He was employed by 菲利普斯中國有限公司 (Phillips China Inc.) (later known as 康菲石油中國有限公司 (Conoco Phillips China Inc.) from October 1997 to October 2002 where he was recognised for his exemplary performance and contributions to the operations in Xinjiang. He was also a director of 北京百勤恩瑞達石油技術有限公司 (Beijing Petro-king Enruida Oilfield Technology Co., Ltd.*) from its incorporation on 5 April 2006 to its deregistration on 11 October 2010. 北京百勤恩瑞達石油技術有限公司 was established in the PRC and its principal business activities were sales and provision of technical services of equipment and tools which were mainly used in drilling, well completion, well cementing and down hole operations. Mr. Zhao started his career as an engineer trainee at 地質礦產部石油鑽井研究所 (Drilling Institute of Minority of Geology*) in December 1983. Mr. Zhao holds approximately 14.08% of the issued share capital in King Shine and King Shine will directly hold approximately 32.74% of the total number of issued shares of the Company after the completion of the Global Offering. He continued his employment with the Drilling Institute of Minority of Geology where he became a senior engineer and an assistant manager of the drilling development department. Mr. Zhao graduated from 中國地質大學 (China Geology University*) with a diploma in drilling engineering in 1988.

Non-executive Directors

Mr. Lee Tommy (李銘浚), aged 35, is a non-executive Director. He joined our Group in December 2007 as a director of Petro-king Hong Kong. Mr. Lee Tommy has been the vice chairman and chief executive officer of Termbray Industries since 2008 and 2010 respectively. Prior to that, he was a vice president of a private company which is principally engaged in the manufacture and sale of printed circuit board from 2001 to 2008. He was primarily responsible for the overall management and strategic planning of this private company. He was also a director of Great Ally Limited, a company incorporated in Hong Kong, which was an investment holding company and was dissolved by deregistration under section 291AA of the Companies Ordinance on 3 June 2011. Mr. Lee Tommy studied Economics in the Seneca College of Canada.

In March 2010, the relevant governmental authority issued a certificate confirming that (i) it had imposed administrative penalties (行政處罰) on a PRC entity (“**PRC Entity A**”, in which Mr. Lee Tommy is one of the directors and one of the shareholders); and (ii) the administrative penalties were imposed for acts in violation of certain general customs regulatory provisions (一般違反海關監管規定的行為) which were not serious in nature (情節不嚴重). The administrative penalties amounting to RMB10 million were imposed on PRC Entity A because, during the period between 2006 and 2008, (i) PRC Entity A, without obtaining customs approval, supplied bonded materials (保稅進口原材料) meant for export sales (which enjoys certain tax exemptions) to a PRC entity (“**PRC Entity B**” (in which Mr. Lee Tommy is one of the directors since the violations and PRC Entity B was 75% owned by PRC Entity A at the time of violations and as at the Latest Practicable Date, PRC Entity B is wholly owned by PRC Entity A)) for manufacturing for PRC local sales; (ii) PRC Entity A, without obtaining customs approval, exchanged the PRC locally-purchased materials with bonded materials for

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

manufacturing for export sales; and (iii) PRC Entity A could not provide proper reasons for a certain amount of shortage in the bonded materials (collectively, the “**Violations**”). The aggregate amount of tax underpayment involved in the Violations was approximately RMB17 million. The reasons which caused the Violations were as follows:

- (A) at the material time, PRC Entity A was principally engaged in the manufacturing of certain electronic products (“**Products**”) for export sales and PRC Entity B was principally engaged in the manufacturing of the Products for PRC local sales with the production lines and the inventories of PRC Entity A and PRC Entity B located at the same factory premises. Due to time constraint and the fact that certain production and material control staff of PRC Entity A did not have thorough understanding of the relevant customs regulations, bonded materials and locally-purchased materials were inadvertently mixed leading to the manufacture by PRC Entity B of the Products for local sales comprising bonded materials meant for export sales; and
- (B) a trade processing manual (加工貿易手冊) is a record of the quantity of bonded material imported to PRC factories for manufacturing. Under normal circumstances, the trade processing manuals will be closed upon production completion using the actual material consumption rate in that particular production to calculate the balance of bonded material left, which will be reported to the relevant governmental authority. However, given that PRC Entity A underwent corporate restructuring in December 2007, it was required to close down its then trade processing manuals although production had not yet been completed and open new trade processing manuals under its new company name. In this connection, the original records in the then trade processing manuals had to be transferred to the new trade processing manuals. In such process, multiple trade processing manuals were consolidated into fewer volumes for convenience. Due to negligence of the custom handling staffs and their lack of experience in handling this matter, the inappropriate material consumption rate was applied for all the new trade processing manuals. As a result, the actual inventory level was not consistent with such inventory level reported to the relevant governmental authority under the new trade processing manuals.

As a shareholder and director of PRC Entity A, Mr. Lee Tommy was not involved in its daily operations directly. However, since the discovery of the Violations, the directors of PRC Entity A including Mr. Lee Tommy, have taken vast remedial measures including the procurement of the cessation of manufacturing in PRC Entity B and the limitation of PRC Entity B’s business to only the carrying on of trading, to prevent the occurrence of similar non-compliance incidents, and setting up comprehensive internal rules and guidelines which were implemented accordingly by the senior management. Such other remedial actions include: (i) improvement of internal control system regarding customs declaration by setting up an effective communication mechanism to enhance communication between various departments; (ii) adoption of internal auditing procedures to strengthen the management and checking of the data for customs declaration in order to detect and rectify any inaccuracy in the information reported to the relevant customs authority in a timely manner; and (iii) enhancement of employee’s knowledge towards the internal control system and relevant rules and regulations of the customs authority. As such, there have not been any non-compliance incidents ever since as confirmed by the relevant authorities.

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PRC Entity A has also proactively disclosed the Violations in the draft prospectus in relation to the listing application to CSRC in February 2012 (the “**PRC Entity A Listing Application**”) and the PRC Entity A Listing Application is being processed by CSRC and CSRC has no outstanding queries on the Violations up to the Latest Practicable Date.

All the other Directors and the Sponsor take the view that Mr. Lee Tommy is suitable and able to discharge his role as a non-executive Director under Rules 3.08 and 3.09 of the Listing Rules on the basis that (i) the Violations do not involve fraud of Mr. Tommy Lee and after the Violations, the directors of PRC Entity A (including Mr. Lee Tommy) have taken all necessary remedial steps to rectify and to improve its management system and PRC Entity A has been in compliance with applicable customs law and administrative regulations ever since the Violations; and (ii) the directors of PRC Entity A (including Mr. Lee Tommy) proactively made disclosures of the Violations in the prospectus in respect of PRC Entity A Listing Application to notify CSRC of the Violations.

Ms. Ma Hua (馬華), aged 37, is our non-executive Director. She is now the executive director of TCL創業投資有限責任公司 (TCL Capital*). She was TCL Corporation’s employee from January 2003 to February 2008 acting as the chairman’s corporate secretary. Prior to that, Ms. Ma had already been employed by TCL國際控股 (TCL International Holdings Ltd.) as an investor relations personnel from July 2001 to January 2003. Ms. Ma Hua obtained her Master of Business Administration from 中國人民大學 (Renmin University of China*) in January 2004 and graduated from 太原理工大學 (Taiyuan Technology University*) with a Bachelor degree double majoring in industry and foreign trade/English language in July 1998.

Mr. Ko Po Ming (高寶明), aged 54, is our non-executive Director. Mr. Ko graduated from The Chinese University of Hong Kong in 1982 with a Bachelor’s degree in Business Administration. Mr. Ko has over 30 years of experience in finance and investment banking business. Prior to co-founding Goldbond Capital Holdings Limited (“GCHL”) in 2003, he was the Head of Asian Corporate Finance of BNP Paribas Peregrine Capital Limited where he was in charge of the corporate finance business in Asia. GCHL was acquired by Piper Jaffray Companies (NYSE: PJC) in 2007 and its name was changed to Piper Jaffray Asia Holdings Limited. Since then and until September 2012, Mr. Ko served as the chief executive officer of PJA. Mr. Ko joined China Minsheng Banking Corp., Ltd Hong Kong Branch as a consultant in October 2012. Mr. Ko had acted as independent non-executive directors of a number of Hong Kong and PRC listed companies, including (i) Nanjing Panda Electronics Company Limited (stock code: 553) between 1996 and 1999; (ii) Dazhong Transport (Group) Company Limited (SHA: 600611) between 1997 and 2003; (iii) Chinese Energy Holdings Limited (formerly known as iMerchants Limited (stock code: 8009)) between 2000 and 2004; and (iv) Tianjin Capital Environmental Protection Group Company Limited (stock code: 1065) between 2003 and 2009. He was a Listing Committee member of the Main Board and GEM Board of the Stock Exchange between May 2003 and June 2009. At present, he is an adviser of Minmetals Capital (Hong Kong) Limited and also a trustee of St. Johnsbury Academy, an independent day and boarding secondary school. St. Johnsbury Academy is a non-profit corporation under section 501(c)(3) of the Internal Revenue Code in the United States of America.

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Independent non-executive Directors

Mr. He Shenghou (何生厚), aged 66, is our independent non-executive Director. Mr. He obtained his diploma in production engineering from 北京石油學院 (Beijing Petroleum Institute, now known as China University of Petroleum*) in July 1970. He has over 38 years of experience in oilfield development engineering and technology research and practice while being employed by Sinopec. Mr. He retired in December 2008 as Sinopec's vice executive commander. Mr. He is involved in several committees. He was a committee member of Sinopec's Science and Technology Committee. Since December 2000, Mr. He has been the vice chairman of 中國造船工程學會 (Chinese Society of Naval Architects and Marine Engineers*). He has also been the chairman of 石油工業標準化技術委員會第五屆油氣田開發專業委員會 (the Fifth Oil and Gas Development Professional Committee for the Oil Industry Standardisation Technology Committee*) since October 2001. Mr. He has been the vice chairman of 第六屆中國石油學會石油工程學會 (the Sixth China Petroleum Institute Petroleum Engineering Society*) since January 2004. In November 2007, Mr. He was engaged as a committee member of “大型油氣田及煤層氣開發”重大專項實施方案論證委員會 (the “Large-scale Oil and Gas Fields and CBM Development” Major Projects Implementation Planning Committee*) by the NDRC, the Ministry of Finance and the Ministry of Science and Technology. Mr. He has numerous achievements throughout his career. A recent achievement is the receipt of a Scientific Development Award certificate from 中國石油和化學工業聯合會 (China Petroleum and Chemical Industry Federation*) in October 2011.

Mr. Tong Hin Wor (湯顯和), aged 67, is our independent non-executive Director. He holds a diploma in management studies from the Hong Kong Polytechnic University. Mr. Tong has over 30 years of working experience in financial management. He was appointed as an independent non-executive director of Termbray Industries in 2008 where he has also been serving as a member of the audit committee. Mr. Tong was the group vice president of Elec & Eltek Corporate Services Limited from 1995 to 2004 and the group controller of Elec & Eltek (International) Limited in 1995. He was the financial controller of Karrie Industrial Company Limited, a company principally engaged in electronics and sheet metal manufacturing in 1993.

Mr. Wong Lap Tat Arthur (黃立達), aged 53, is our independent non-executive Director. He is also the chairman of our audit committee. Mr. Arthur Wong has more than 30 years of experience in the field of accounting. He is currently the chief financial officer of 北京瑞迪歐文化傳播有限責任公司 (Beijing Radio Cultural Transmission Co., Ltd.*). He was the chief financial officer of GreenTree Inns Hotel Management Group, Inc. from February 2011 to May 2012. He had also previously acted as the chief financial officer of Nobao Renewable Energy Holdings Limited from March 2010 to November 2010 and of Asia New-Energy Holdings Pte. Ltd. from June 2008 to December 2009. Prior to that, Mr. Arthur Wong built his career at Deloitte Touche Tohmatsu (“Deloitte”) from July 1982 to May 2008 where he left as a partner of the Beijing office. Mr. Arthur Wong received a Bachelor of Science in applied economics from the University of San Francisco in 1988 and completed a higher diploma of accountancy at Hong Kong Polytechnic University in 1982. He obtained his CPA accreditation from both the American Institute of CPAs and the Hong Kong Institute of CPAs. He is also a member of the Chartered Association of Certified Accountants. He is currently an independent non-executive director and the chair of the audit committee of Besunyen Holdings Company Limited (stock code: 926), VisionChina Media Inc. (NASDAQ: VISN), China Automotive Systems, Inc. (NASDAQ: CAAS) and Daqo New Energy Corp. (NYSE: DQ).

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SENIOR MANAGEMENT

Name	Age	Position	Date of Appointment
Mr. Du Heli (杜鶴立).....	42	Managing director	26 September 2011
Ms. Sun Jinxia (孫金霞).....	37	Vice president	26 October 2007
Mr. Zhang Taiyuan (張太元).....	47	Vice president	1 December 2004
Mr. Shu Wa Tung Laurence (舒華東).....	39	Chief financial officer	1 July 2010
Mr. Wong Kwok Ping Albert (王國平).....	58	Chief technology officer	1 June 2012
Mr. Xie Qingfan (謝慶繁).....	49	Chief engineer	13 March 2006
Ms. Zhang Xiling	51	Deputy general manager	12 January 2011
Mr. Chen Liang (陳亮).....	39	Deputy general manager	5 April 2012

Mr. Du Heli (杜鶴立), aged 42, is our managing director. He joined our Group in 2011 and he is primarily responsible for the management of the surface facility engineering department, the unconventional gas department and several other departments. Mr. Du completed his Executive Master of Business Administration programme in May 2012 from the University of Texas at Arlington, US. Mr. Du graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering, majoring in offshore petroleum engineering in 1992. Mr. Du has over 15 years of experience in offshore drilling and completion management of the oil and gas industry. From December 2006 to October 2011, Mr. Du was employed as the group manager of Weatherford Integrate Service and Engineering Resource at 威德福(中國)能源服務有限公司 (Weatherford (China) Energy Service Ltd.*). Mr. Du joined CNOOC (China) Limited in July 2000 where he had served as an operations department manager until 2002. Prior to that, he was employed by 菲利普斯中國有限公司 (Phillips China Inc.) (later known as 康菲石油中國有限公司 (Conoco Phillips China Inc.) from 1992 to 2000. Mr. Du has received numerous awards for his outstanding contributions from his previous employers.

Ms. Sun Jinxia (孫金霞), aged 37, is our vice president. Ms. Sun is responsible for the Group's daily operation of the business department, QHSE department and market development department. She joined our Group in 2003 as an assistant to general manager. She has over 15 years of experience in business management. Ms. Sun was a sales manager of 深圳威尼斯酒店 (the Venice Hotel Shenzhen*) between October 2001 and July 2002. Prior to that, she was a sales supervisor and sales manager of 深圳南海酒店有限公司 (Shenzhen Nanhai Hotel Limited*) from July 1997 to April 1998 and from April 1998 to June 2000, respectively. She completed her Master of Business Administration at the University of Ballarat, Australia in July 2004.

Mr. Zhang Taiyuan (張太元), aged 47, is our vice president. He joined our Group in 2004 as a senior drilling supervisor and has been subsequently promoted to director of international projects and also to deputy general manager. Mr. Zhang has over 26 years of experience in project management and drilling engineering of the oil and gas industry. He was an offshore drilling supervisor of Devon Energy China Ltd. prior to joining our Group from December 2002 to December 2004. Between

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January 2002 and December 2002, he was a project manager of CNPC. Mr. Zhang acted as a CNPC engineering professional representative for CNPC-Burlington (then known as CNPC-ENRON) from October 1997 to January 2002. Prior, he was employed by 川中油氣公司 (Chuanzhong Oil and Gas Company of SPA*) from August 1986 where he acted as a drilling engineer. He graduated from 西南石油學院 (Southwest Petroleum Institute*) in 1986 with a Bachelor of Engineering degree, majoring in drilling engineering. Mr. Zhang has accomplished numerous trainings including the IWCF Drilling Supervisor Level Practical Assessment & Written Test Programme and the Training of Hydrogen Sulfide Safety.

Mr. Shu Wa Tung Laurence (舒華東), aged 39, joined the Group in July 2010 as our chief financial officer and he is primarily responsible for the Group's overall financial strategies and daily management of the Group's financial and accounting functions. Mr. Shu graduated from Deakin University, Australia in 1994 with a Bachelor degree in Business majoring in Accounting. He received his CPA accreditation from both the Hong Kong Institute of CPAs and the Australian Society of CPAs in 1997 and completed his CFO Programme at 中歐國際工商學院 (China Europe International Business School) in 2009. Mr. Shu has over 18 years of experience in audit, corporate finance, and financial management. He joined Deloitte in 1994 and later became a manager of the Reorganisation Services Group of Deloitte and joined Deloitte & Touche Corporate Finance Limited (a corporate finance service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and company secretary of Texhong Textile Group Limited (stock code:2678) overseeing the group's financial management functions. From July 2008 to June 2010, Mr. Shu served as the chief financial officer of Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司) and oversaw the group's financial management functions and corporate finance activities as well as the daily management of the group's finance department. He is currently an independent non-executive director of Greater China Holdings Limited (stock code:431), HL Technology Group Limited (stock code:1087) and Perception Digital Holdings Limited (stock code:1822).

Mr. Wong Kwok Ping Albert (王國平), aged 58, is our chief technology officer. As our chief technology officer, Mr. Albert Wong oversees the technology development department of our Group. He joined our Group in 2011 after our acquisition of a majority of interests in Sheraton Investment. Mr. Albert Wong has over 12 years of experience in the oil and gas industry. He has been the managing director for both Star Petrotech and Stelkraft Coiled Tubing and Pumps Pte Ltd since 2009. Mr. Albert Wong was a Design cum Quality Manager in Halliburton Manufacturing in Singapore from 1990 to 1997. He was recognised by his previous employer to possess vast experience in the designing and development of downhole completion products. Mr. Albert Wong obtained his Master of Business Administration degree from the University of Warwick in UK in July 1995 and received his Bachelor of Science in mechanical engineering from Texas A & M University in USA in 1978. He is a member of the Society of Mechanical Engineers (ASME) and the Society of Petroleum Engineers (SPE). He received a Professional Engineer License from Texas Board of Professional Engineers, U.S..

Mr. Xie Qingfan (謝慶繁), aged 49, is our chief engineer and technical department manager primarily responsible for the management of production capabilities, the overseas project department and direction of services in challenging projects. He joined our Group in 2006 as the manager of the northwest region. Mr. Xie has over 30 years of experience in the oil and gas industry. He had acted

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

in various roles during his employment with 中石化中原石油勘探局 (Sinopec Zhongyuan Petroleum Exploration Bureau) between 1982 to 2005; such as engineering service centre director of the 鑽井工程技術研究院 (Drilling Engineering and Technology Research Institute*) in 2001, deputy chief engineer of the 鑽井管具工程處 (Drilling Pipe Tool Engineering Department*) in 2002, and senior engineer in 2005. He received numerous certificates for his contributions to this bureau from as early as 1985. For instance, he was presented with a Technology Advancement Certificate for his research on technology to prevent failure of drilling tools in February 2006 and for his research and development of PDC drill heads in February 2003. Mr. Xie completed a training course of electrical wireline freepoint & backoff provided by HOMCO in 1993 and received training for the operation of motorised freepoint equipment held by Applied Electronic Systems, Inc. in 2001. He graduated from 石油大學 (Petroleum University*) with a Bachelor degree majoring in mine machinery in July 1996.

Ms. Zhang Xiling, aged 51, joined our Group in 2011 as a deputy general manager and she is primarily responsible for project management and market development in equipment supplies and engineering services in the Middle East and in China. She has over 17 years of experience in the oil and gas industry. Prior to joining our Group, she was employed by 油企信通(北京)科技發展有限公司 (Infopetro Technology Development Ltd.) as a general manager from May 2002 to January 2011. She was employed by CNPC as the deputy chief of the engineering department between August 1982 and May 1989. Ms. Zhang received her Masters degree of science in petroleum engineering from the University of Alberta, Canada on 18 November 1993.

Mr. Chen Liang (陳亮), aged 39, is our deputy general manager and our manager of the unconventional gas department. He is primarily responsible for unconventional oil and gas project management and sales of multistage fracturing and acidising downhole systems. Mr. Chen has over 11 years of experience in the oil and gas industry. Before joining our Group in April 2012, he was, for some time, simultaneously the senior assistant president and completions director of 華油能源集團有限公司 (SPT Energy Group Inc.) between August 2005 and March 2012. From July 2001 to 2005, Mr. Chen was an employee of Schlumberger. He received his Masters degree in oil and gas exploration engineering in 2001 and obtained his Bachelors degree in petroleum engineering majoring in production engineering in 1996 at 江漢石油學院 (JiangHan Petroleum University*). Mr. Chen accomplished numerous trainings from 2001 to 2010 including the OPITO approved Basic Offshore Safety Induction Emergency Training in August 2001, the Well Completion & Productivity Course held by Network of Excellence in Training (NExT) in September 2001, the OFS-3: People Management Course in Beijing organised by Schlumberger in June 2004 and completed a shale gas ATW training held by the Society of Petroleum Engineers (SPE) continuing education courses in 2011. Mr. Chen has been a member of the SPE since 2008.

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗), aged 50, was appointed as the company secretary of our Company on 18 February 2013. He is the principal of Tung & Co., a law firm providing legal advice as to Hong Kong laws to our Group since 2009. He holds a Bachelor of Arts degree in law and accounting from The University of Manchester, the United Kingdom. He has over 20 years of experience as practising lawyer in Hong Kong. Mr. Tung currently serves as a joint company secretary of Jiangxi Copper Company Limited (stock code: 358), Harbin Electric Company Limited (stock code:

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

1133) and Qingling Motors Co. Ltd (stock code: 1122) and the sole company secretary of Yunbo Digital Synergy Group Limited (stock code: 8050), respectively. He is currently the internal legal adviser of Silver Grant International Industries Limited (stock code: 171). Mr. Tung is also an independent non-executive director of ICube Technology Holdings Limited (stock code: 139).

Mr. Tung is an external service provider engaged by us as our company secretary and Mr. Shu Wa Tung Laurence (舒華東), our Chief Financial Officer, will be the key contact person with whom Mr. Tung can contact.

CORPORATE GOVERNANCE

Our Directors recognise the importance of incorporating elements of good corporate governance in management and internal control procedures so as to achieve effective accountability.

Our Company has established the Audit Committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules and appointed a qualified accountant to oversee our Company's financial reporting procedures and internal controls so as to ensure compliance with the Listing Rules.

Corporate Governance

Our Company has adopted a system of corporate governance.

Our Company is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Our Company is also committed to the view that the independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. The independent non-executive Directors, are free of any business or other relationship with our Company, except being the independent non-executive Directors of our Company, which could interfere in any material manner with the exercise of their independent judgement.

AUDIT COMMITTEE

An audit committee was established by us on 18 February 2013 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control system. The members of our audit committee are Mr. Arthur Wong, Mr. Tong Hin Wor (湯顯和) and Mr. He Shenghou (何生厚). Mr. Arthur Wong is the chairman of the audit committee.

REMUNERATION COMMITTEE

A remuneration committee was established by us on 18 February 2013 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management of our Group. The members of the remuneration committee are Mr. He Shenghou (何生厚), Mr. Tong Hin Wor (湯顯和), Mr. Arthur Wong, Mr. Wang and Mr. Lee Tommy (李銘浚). Mr. He Shenghou (何生厚) is the chairman of the remuneration committee.

NOMINATION COMMITTEE

A nomination committee was established by us on 18 February 2013 with written terms of reference. The primary duties of the nomination committee are to make recommendations to the Board on the appointment of Directors and the management of the Board succession. The members of the nomination committee are Mr. Wang, Mr. Lee Tommy (李銘浚), Mr. He Shenghou (何生厚), Mr. Tong Hin Wor (湯顯和) and Mr. Arthur Wong. Mr. Wang is the chairman of the nomination committee.

SANCTION OVERSIGHT COMMITTEE

A sanction oversight committee was established by us on 1 November 2012 with written terms of reference. The primary duties of the sanction oversight committee are to assess sanctions risk that the Group may face and to determine whether the Group should embark on business opportunities with any sanctioned countries. The members of the sanction oversight committee are Mr. Arthur Wong, Mr. Wang and Mr. He Shenghou (何生厚). Mr. Arthur Wong is the chairman of the sanction oversight committee.

DIRECTORS AND SENIOR MANAGEMENT'S REMUNERATION

The remuneration received by Directors (including fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind) for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 were HK\$3,024,916, HK\$6,190,304, HK\$2,312,435 and HK\$1,642,135, respectively.

The aggregate amount of fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind paid to the five highest paid individuals of our Company, excluding Directors, for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 were HK\$4,894,793, HK\$15,576,987, HK\$4,006,276 and HK\$3,137,803, respectively.

Our Group has not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012. Further, none of our Directors had waived any remuneration during the same period.

Except as disclosed above, no other payments have been paid or are payable, in respect of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 by our Group to Directors.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

EMPLOYEES

As at the Latest Practicable Date, the Group had approximately 519 full-time employees. Set out below is a breakdown of the number of full time employees by function as of the same date:

<u>Division</u>	<u>Number of employees</u>
Management	28
Overseas project department	32
Commerce department	28
Human resources department.....	29
Drilling service department.....	18
Finance department	20
Production enhancement department.....	64
Well completion department.....	17
Integrated technology department.....	12
Marketing department	13
Manufacture department	78
Others.....	180
Total	<u>519</u>

RELATIONSHIP WITH STAFF

We recruit personnel from the open market. We provide technical as well as operational training to all new employees and on-going training for all employees.

The compensation package of the employees includes salary, bonus and other cash subsidies. In general, we determine employees salaries based on each employee's qualification, position and seniority. Our determination on salary raises, bonus and promotion is based on an evaluation of the performance of our employees through our review system.

The employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreement. We believe we have an amicable relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any strikes, work stoppages or labour disputes which affected our operations.

EMPLOYEES' BENEFITS PROVIDED BY THE GROUP

Save as disclosed in this section, our Group complies in all material aspects with all statutory requirements on social security insurance and housing accumulation fund or pension contribution in the jurisdictions where our Group operates.

PRC

All our PRC subsidiaries are required to make social security insurance and housing accumulation fund contributions for their respective employees in the PRC under applicable PRC laws and regulations.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

In respect of social security insurance, Petro-king Shenzhen and Shenzhen FST have fully contributed to their employees' social security insurance since April 2012 and June 2012, respectively. Prior to that, they had made contributions to social security insurance since their incorporation but had not made full contributions. Sun Oil was established in April 2011 and had completed the opening of its social security insurance account in June 2011. It started to make social security insurance contributions in June 2011, and we obtained confirmation from 深圳市社會保險基金管理局 (Shenzhen Administration Bureau of Social Security Funds*) on 21 May 2012 stating that Sun Oil had paid the social security insurance in full for its employees and did not have any outstanding payment, penalty, disagreement, dispute and litigation with the authority regarding the social insurance from June 2011 to February 2012. Dezhou Jiacheng had not made any contributions to its employees' social security insurance prior to January 2011 but it had paid (though not fully) the social security insurance contributions from January to December 2011. Dezhou Jiacheng has made contributions to its employees' social security insurance in full since January 2012.

In respect of housing accumulation funds, prior to 30 November 2010, local implementation rules and regulations regarding the housing accumulation funds were not established in Shenzhen. After 《深圳住房公積金暫行管理辦法》 (the Interim Administration Measures on Housing Accumulation Funds in Shenzhen*) came into effect on 20 December 2010, Petro-king Shenzhen began to make full contributions to its employees' housing accumulation funds. We obtained confirmation from 深圳市住房公積金管理中心 (Shenzhen Housing Accumulation Fund Administration Centre*) on 14 March 2012 stating that Petro-king Shenzhen had made full contributions for its employees' housing accumulation funds from January 2011 to February 2012 and it had never been penalised by the authority. Shenzhen FST had not made contributions to its employees' housing accumulation funds for the period from the date on which the abovementioned interim administration measures in Shenzhen became effective to May 2012. It has made full contributions to its employees' housing accumulation funds since June 2012. Sun Oil had completed the opening of its employee's housing accumulation funds account in May 2011 following its establishment in April 2011 and has since made full contributions. We obtained confirmation from 深圳市住房公積金管理中心 (Shenzhen Housing Accumulation Fund Administration Centre*) on 14 March 2012 that Sun Oil had made full contributions for its employees' housing accumulation funds from May 2011 to February 2012 and it had never been penalised by the authority. Dezhou Jiacheng has not made any contributions to its employees' housing accumulation funds.

As advised by our PRC Legal Advisers, for the outstanding social security insurance incurred before July 2011, in the event that the relevant authorities demand our Group to pay the relevant social security insurance but our Group does not do so within the prescribed time limit, an additional late payment at the daily rate of 0.2% of the outstanding amount will be imposed; for the outstanding social security insurance incurred after July 2011, our Group may be demanded by the relevant authorities to pay the relevant social security insurance with an additional late payment at the daily rate of 0.05% of the outstanding amount from the due date. For the outstanding housing accumulation funds, our Group may be demanded by the relevant authorities to pay the outstanding amount within a prescribed time limit, failing which the people's court may order for compulsory execution.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

We may be demanded by relevant authorities to effect the above payments within the prescribed time limits. According to the consultation with relevant government authorities by our PRC Legal Advisers, the local social security insurance and housing accumulation fund authorities normally would refer to 《中華人民共和國行政處罰法》 (the PRC Administration Penalty Law*) and would not demand the outstanding payment after the lapse of two years from the date of default.

As at the Latest Practicable Date, we had not received any notification from the relevant authorities alleging that we had not fully contributed to the social security insurance or the housing accumulation funds and demanding payment of the same before a stipulated deadline. Upon receipt of the request from the relevant authorities, if any, we intend to pay the outstanding social security insurance and housing accumulation funds and/or any late payment and/or penalty imposed by the relevant authorities accordingly. We estimate that as at the Latest Practicable Date, the aggregate of our outstanding social security insurance and housing accumulation fund contributions and possible penalty on amount outstanding as from July 2011 amounted to approximately RMB1.3 million, for which we had made provision of approximately RMB1.0 million. As advised by our PRC Legal Advisers, as we have made relevant provision for all payments related to the social security insurance and housing accumulation funds of our PRC subsidiaries, our business and financial conditions will not be adversely affected.

Hong Kong

In Hong Kong, our Group has participated in a mandatory provident fund scheme (the “MPF Scheme”) for our employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations. Contributions are made based on a percentage of the relevant employees’ total wages, and are charged to the statements of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contribution is vested fully with the relevant employees when it is contributed into the MPF Scheme.

Singapore

In Singapore, our Group has participated in central provident fund for our employees in Singapore in according with the applicable Singapore laws and regulations.

SHARE OPTION SCHEME

Our Company has conditionally adopted a Share Option Scheme pursuant to which selected participants may be granted options to subscribe for Shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds any equity interest. Our Directors believe that the implementation of the Share Option Scheme enable our Group to recruit and retain high calibre executives and employees. The principal terms of the Share Option Scheme are summarised under the section headed “Statutory and general information — E. Share Option Scheme” in Appendix V to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPLIANCE ADVISER

Our Company intends, before the Listing Date, to appoint China Galaxy International as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) if our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or if our Company's business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (iv) if the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

In addition, our compliance adviser will also provide, inter alia, the following services to us:

- (i) if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in paragraphs (i) to (iv) above;
- (ii) in relation to an application by us for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise us on our Company's obligations and in particular the requirement to appoint an independent financial adviser; and
- (iii) assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent the Directors form an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps, such as training.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for our Company's first full financial year commencing after the Listing Date.

In addition, after the Listing Date, our Company will retain legal adviser to advise on ongoing compliance and Listing Rules issues and other applicable laws and regulations in Hong Kong.

SHARE CAPITAL

The following is a description of the authorised number of Shares upon completion of the Global Offering:

Authorised number of Shares:

10,000,000,000 Shares with no par value

The following is a description of the Share in issue and to be issued, fully-paid or credited as fully-paid under the Global Offering:

Issued and to be issued, fully-paid or credited as fully-paid:

- (a) Assuming that the Over-allotment Option is not exercised at all and without taking into account any Shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Share Option Scheme, the Shares in issue immediately following the Capitalisation Issue and the Global Offering will be as follows:

10,102	Shares in issue as at the date of this prospectus
749,989,898	Shares to be issued pursuant to the Capitalisation Issue
250,000,000	Shares to be issued pursuant to the Global Offering

Total

1,000,000,000 Shares

- (b) Assuming that the Over-allotment Option is exercised in full but without taking into account any Shares which may be issued upon the exercise of any option granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Share Option Scheme, the Shares in issue immediately following the Capitalisation Issue and the Global Offering will be as follows:

10,102	Shares in issue as at the date of this prospectus
749,989,898	Shares to be issued pursuant to the Capitalisation Issue
250,000,000	Shares to be issued pursuant to the Global Offering
37,500,000	Shares to be issued upon exercise of the Over-allotment Option in full

Total

1,037,500,000 Shares

SHARE CAPITAL

ASSUMPTIONS

The above table assumes that the Global Offering and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme or any Shares which may be allotted and issued, or repurchased by our Company pursuant to the general mandate granted to our Directors to allot and issue or repurchase Shares referred to in the section headed “Share Capital — Issuing mandate” or the section headed “Share Capital — Repurchase mandate” below, as the case may be.

RANKING

The Offer Shares, including the Shares to be issued pursuant to the Over-allotment Option, rank *pari passu* in all respects with all other Shares as at their respective dates of issue, and in particular, will qualify in full for all dividends and other distributions declared, paid or made on the Shares in respect of a record date which falls after the date of this prospectus (other than the Capitalisation Issue).

PRE-IPO SHARE OPTION SCHEME

Our Company has adopted a pre-IPO share option scheme on 20 December 2010 (as amended by an addendum on 25 September 2012). The principal terms of the Pre-IPO Share Option Scheme are summarised in the section headed “Statutory and general information — D. Pre-IPO Share Option Scheme” in Appendix V to this prospectus. As at the Latest Practicable Date, 569 share options have been granted under the Pre-IPO Share Option Scheme.

THE SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 18 February 2013. The principal terms of the Share Option Scheme are set out in the section headed “Statutory and general information — E. Share Option Scheme” in Appendix V to this prospectus. As at the Latest Practicable Date, no share option had been granted under the Share Option Scheme.

ISSUING MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with such number of Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding the Shares which may be allotted and issued pursuant to the Over-allotment Option or the exercise of any options which may be granted pursuant to the Pre-IPO Share Option Scheme or the Share Option Scheme) plus the total number of Shares in issue repurchased by us (if any) under the repurchase mandate described below.

SHARE CAPITAL

This mandate will expire on the earliest occurrence of the following:

- (i) the conclusion of our Company's next annual general meeting;
- (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any applicable law to be held; or
- (iii) the date on which such mandate is revoked, varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company.

For further details of this general mandate, please see the section headed "Statutory and general information — A. Further information about our Company — 3. Resolutions of all the Shareholders passed on 18 February 2013" in Appendix V to this prospectus.

REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares not exceeding 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding the Shares which may be allotted and issued pursuant to the Over-allotment Option or the exercise of any options which may be granted pursuant to the Pre-IPO Share Option Scheme or the Share Option Scheme).

This mandate relates only to repurchases made on the Stock Exchange and/or any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the Listing Rules and all applicable laws. A summary of the relevant Listing Rules is set out in the section headed "Statutory and general information — A. Further Information about our Company — 5. Repurchase by our Company of its own securities" in Appendix V to this prospectus.

This mandate will expire on the earliest occurrence of the following:

- (i) the conclusion of our Company's next annual general meeting;
- (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any applicable law to be held; or
- (iii) the date on which such mandate is revoked, varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company.

For further information about this repurchase mandate, please refer to the section headed "Statutory and general information — A. Further information about our Company — 3. Resolutions of all the Shareholders passed on 18 February 2013" in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account of any Shares which are to be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are directly or indirectly, be interested in 10% or more of the total number of shares of any class of the Shares in issue carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Long position in the Shares

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of interest in our Company immediately after the Global Offering and Capitalisation Issue
Mr. Lee Lap (<i>note 1 and note 7</i>)	Settlor of a discretionary trust	340,774,104	34.08%
Mr. Lee Tommy (<i>note 1</i>)	Beneficiary of trust	340,774,104	34.08%
First Trend Management (PTC) Limited (<i>note 1</i>)	Trustee	340,774,104	34.08%
HSBC International Trustee Limited (<i>note 1</i>)	Trustee	340,774,104	34.08%
Lee & Leung (B.V.I.) Limited (<i>note 1</i>)	Interest in a controlled corporation	340,774,104	34.08%
Termbray Industries (<i>note 1</i>)	Interest in a controlled corporation	340,774,104	34.08%
Termbray Electronics (BVI) (<i>note 1</i>)	Interest in a controlled corporation	340,774,104	34.08%
Termbray Natural Resources (<i>note 2</i>)	Registered owner	340,774,104	34.08%
TCL Corporation (<i>note 3</i>)	Interest in a controlled corporation	74,242,724	7.42%
TCL HK (<i>note 3</i>)	Interest in a controlled corporation	74,242,724	7.42%
Excel Top Holdings Limited (<i>note 3</i>)	Interest in a controlled corporation	74,242,724	7.42%
Jade Max Holdings Limited (<i>note 3</i>)	Interest in a controlled corporation	74,242,724	7.42%

SUBSTANTIAL SHAREHOLDERS

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of interest in our Company immediately after the Global Offering and Capitalisation Issue
Jade Win Investment Limited (note 4)	Beneficial owner	74,242,724	7.42%
Mr. Wang (note 5)	Interest in a controlled corporation	327,410,414	32.74%
Ms. Zhou (note 5)	Interest of spouse	327,410,414	32.74%
King Shine (note 6)	Registered owner	327,410,414	32.74%

Notes:

- 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (BVI) which in turn holds 100% of the issued share capital of Termbray Natural Resources. Therefore, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited, First Trend Management (PTC) Limited, HSBC International Trustee Limited are taken to be interested in the number of Shares held by Termbray Natural Resources pursuant to Part XV of the SFO.
- Termbray Natural Resources will directly hold approximately 34.08% of the total number of issued shares of the Company after the completion of the Global Offering.
- TCL Corporation directly holds 100% of the issued share capital of TCL HK, which in turn holds 100% of the issued share capital of Excel Top Holdings Limited, which in turn holds 100% of the issued share capital of Jade Max Holdings Limited (BVI), which in turn holds 100% of the issued share capital of Jade Win Investment Limited. Therefore, TCL Corporation, TCL HK, Excel Top Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of Shares held by Jade Win Investment Limited pursuant to Part XV of the SFO.
- Jade Win Investment Limited will directly hold approximately 7.42% of the total number of issued shares of the Company after the completion of the Global Offering.
- Mr. Wang holds approximately 41.19% of the issued share capital in King Shine. Therefore, Mr. Wang is taken to be interested in the number of Shares held by King Shine pursuant to Part XV of the SFO. Ms. Zhou holds approximately 17.21% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the Shares in which Mr. Wang is interested for the purpose of the SFO and Mr. Wang is deemed to be interested in the Shares in which Ms. Zhou is interested for the purpose of the SFO.
- King Shine will directly hold approximately 32.74% of the total number of issued shares of the Company after the completion of the Global Offering.

SUBSTANTIAL SHAREHOLDERS

7. In January 1994, the Stock Exchange made a public censure against Mr. Lee Lap, chairman and chief executive of Termbray Industries, for acting in breach of his director's undertaking in that he caused, or failed to take steps (i) to avoid breaches of Rule 8.08 of the Listing Rules by failing to ensure an open market in Termbray Industries' shares and (ii) to avoid the creation of a false market in Termbray Industries' shares following its flotation by failing to release information which might have been expected materially to affect market activity in and the price of such shares in breach of paragraph 2 of the then listing agreement with the Stock Exchange. It was alleged in the public censure announcement that Mr. Lee Lap funded the acquisition of Termbray Industries' shares by his nephew and two companies owned and controlled by a son and a friend of Mr. Lee Lap in order that certain shares ostensibly in public hands were held by those parties and were subject to control by Mr. Lee Lap.

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account of any Shares which are to be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares of our Company which will fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are directly or indirectly, be interested in 10% or more of the total number of shares of any class of the Shares in issue carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Undertakings

Each of the Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to the Global Offering, he, she or it shall procure that the relevant registered holder(s) shall not, without the prior written consent to the Stock Exchange:

- (a) in the period commencing on the date by reference to which disclosure of his, her or its shareholding in our Company is made in this prospectus and ending on the date on which the date which is six months from the Listing Date (the "**First Six-month Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares or securities of our Company in respect of which he, she or it is shown by this prospectus to be the beneficial owner as at the Listing Date; and
- (b) at any time during six months commencing on the date on which the First Six-month Period expires (the "**Second Six-month Period**"), dispose of, enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in the immediately preceding paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he, she or it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Further details of undertakings given by our Controlling Shareholders are set out under the section headed "Underwriting" on page 356 and the section headed "Relationship with the Controlling Shareholders" on page 260 of this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, as set out in “Appendix I — Accountant’s Report” and other financial information appearing elsewhere in this prospectus. The financial statements have been prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on the assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions will depend on a number of risks and uncertainties over which we do not have control. Please see the section headed “Risk Factors” in this prospectus for further details.

OVERVIEW

We are a leading independent China-based provider of high-end oilfield services in terms of technical capability, overseas and offshore project experience and our revenue in 2011. We also are one of the few China-based oilfield services companies with the capability to offer high-end integrated oilfield service. We specialise in technically challenging projects which require high level of technical expertise, geological understanding and technological proficiency to accomplish, such as HTHP oilfields, high H₂S concentration oilfields, oil and gas fields with low permeability (tight and shale fields for instance), and offshore projects. We are also one of the major oilfield services providers of a number of high-end technologies (namely, turbine-drilling and multistage fracturing, which only a few Chinese independent oilfield services providers have the capability to undertake) in China in terms of number of jobs/wells completed.

We provide high-end services and products across various stages in the life of an oil or gas field, including the provision of services in well evaluation and appraisal, drilling, casing, well completion, well production, well workover, production enhancement and well abandonment, as well as the supply of oilfield services tools and equipment. Amongst our available services, we principally focus on providing consultancy services, oilfield project services in drilling, well completion and production enhancement, and on the supply of oilfield services tools and equipment. As at the Latest Practicable Date, our range of products mainly included packers, safety valves and wellhead control panels. We believe that our leading position in the market, our recognised capabilities, proven experience in domestic and overseas operations and personnel with international background and strong expertise in the oilfield services industry will put us in a significantly better position to benefit from the potential growth of oilfield services industry.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our results of operations and financial conditions have been and will continue to be affected by a number of factors, including those set forth in the “Risk factors” section in this prospectus and the following factors, some of which may not be within our control.

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General economic conditions and demand for oil and gas

Our results of operations are affected by the level of oilfield project activity and demand for high-end oilfield services, which depends on a number of factors including prices for oil and gas, the government policies over oil and gas exploration and production in countries and areas where we operate and the pace of development of oil and gas fields. Oil and gas prices are affected by the supply and demand for oil and gas, which in turn is highly dependent on the market sentiment on the social and political stability of the oil and gas supplying regions, the worldwide economic and financial market conditions and the overall global business environment.

While generally speaking the prolonged downturn in oil and gas prices could depress the level of oilfield project activities, which would likely in turn reduce the demand for high-end oilfield services, the impact of the fluctuations of oil and gas prices on the level of oilfield project activities and demand for high-end oilfield services may be offset or overcome by other factors such as the continuing world energy consumption growth in China in recent years in an environment where there aren't as many less challenging targets (which drives the increasing development and exploration of technically challenging wells and consequently have led to positive effect on the level of oilfield project activities and demand for high-end oilfield services). In short, the expected continuing world energy consumption growth will continue to support the level of oilfield project activities and will drive the increasing trend of developing and exploring technically challenging fields (which will be more particularly discussed in the ensuing section), which in turn will direct the trend in the Chinese market and around the world going forward towards more-demanding application and away from less-demanding applications and as such will lead to positive effect on the demand for high-end oilfield services. Furthermore, amid a more challenging environment for oil and gas exploration, development and production, it is expected that the proportion of demand for high-end oilfield services for a given level of oilfield project activities will continue to increase (as compared to the proportion of demand for low-end oilfield services for the same level of oil-field project activities).

Global energy consumption has increased significantly over the past decades and is expected to continue to increase. According to International Energy Outlook 2011 released by the EIA, world marketed energy consumption will grow by 52.5% from 505 quadrillion Btu in 2008 to 770 quadrillion Btu in 2035. Economic growth is among the most primary factors which drive the changes in world energy consumption. Following the world's economic recession starting in 2008 and as a result decrease of global energy consumption in 2009 for the first time since 1982, the global economy started to recover and global energy consumption began its rebound in 2010. According to BP Statistical Review of World Energy June 2011 and June 2012, global energy consumption grew by 5.6% in 2010 and despite the uncertainty in world economic growth primarily attributable to the current European debt crisis, global energy consumption grew by 2.5% in 2011. However, the centre of gravity for world energy consumption continues to shift from the OECD to emerging countries, especially those in Asia. According to EIA, China is expected to have the 2nd highest oil consumption growth only next to India, at a CAGR of 2.9% from 2008 to 2035, and China's total primary energy consumption is expected to grow from 86.2 quadrillion Btu in 2008 to 191.4 quadrillion Btu in 2035, representing a CAGR of 3.4%. To maintain the sustainable growth of its economy, the PRC government is expected to continue to support oilfield exploration, development and production in China in the foreseeable future, while overseas countries, such as those in the Middle East, Russia and Venezuela whose economies and state budgets rely heavily on the export of oil and oil by-products are also expected to continue to support the oilfield industry.

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In addition, the impact of the fluctuations of oil and gas prices on the level of oilfield project activities and demand for high-end oilfield services may be offset or overcome by (i) a trend of emphasis on unconventional gas resources development in China (which will be more particularly discussed in the next sub-section); (ii) the expected increase in import by China of oil and gas going forward which is expected to continue to contribute to aggressive pursuit of overseas exploration and production projects by Chinese NOCs in order to ensure adequate supplies of oil and gas to meet domestic consumption growth in light of fluctuating oil and gas prices; and (iii) the expected increase in the level of demand for high-end oilfield services for oilfield project activities amid a more challenging environment for oil and gas exploration, development and production (as compared to the level of demand for low-end oilfield services for the same level of oilfield project activities).

Given that the Group is a leading China-based provider of high-end oilfield services in terms of technical capability, overseas and offshore project experience and its revenue in 2011, the Directors consider that it will be able to capitalise on the expected positive effect on the level of high-end oilfield project activities and the demand for high-end oilfield services as stipulated in the foregoing paragraphs to sustain its profitability despite the fluctuations of the oil and gas prices.

Development of oil, conventional gas and unconventional gas fields

Oil and gas field development is a high-risk, capital intensive process involving long-lived assets. In addition to geologic risk, oil and gas operators are exposed to commodity price risk, execution risk, demand risk, and political risk. The political risk factor has two elements: fiscal framework (including sales prices, export volumes, cost recovery allowances, and taxation) and legal protections in case of contract disputes and expropriation.

Assuming a satisfactory financial and legal framework is in place, a low level of oilfield development in certain regions known to be rich in oil and conventional gas is largely attributable to the fact that (i) wells in such regions are usually technically challenging and therefore exploration and development of such wells may require high-end technology and tools and equipment and thus higher level of skills, knowledge and experience from the project team working for such wells; and (ii) it may be difficult for certain established international oil and gas companies with the necessary skill sets to enter into the market in these regions because of, for example, political reasons. As world energy consumption is expected to continue to rise, demand for oil and conventional gas and correspondingly oilfield exploration, development and production will grow. In China and around the world, oil and gas companies are finding it increasingly difficult to find and develop new reservoirs to replace the decline in output from existing oilfields. In the typical field development cycle, oil and gas companies first develop the easiest reservoirs and then move on to more challenging targets, which means that over time new fields to be developed will become deeper and have higher pressures and temperatures as a result. Accordingly, world energy consumption growth will drive the increase of level of oilfield project activities in regions known to be rich in oil and conventional gas where the current overall level of field development is relatively low. Thus, the trend in the Chinese market and around the world going forward will be towards more-demanding application and away from less-demanding applications. As a result, these regions which currently have a low level of oilfield development offer greater potential for discovering new oilfields and more growth opportunities for oil and gas

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companies and for high-end oilfield services providers. Conversely, a lack of new development of fields in a particular region may dampen the demand for oilfield services, which, if coupled with the fact that only low-risk projects are available and high-end technology is not required for such projects, will generally intensify the competition among the existing service providers in the market there.

In addition, according to the Spears Report, there is a trend of emphasis on unconventional gas resources development in China, mainly driven by the government's energy policies which were adopted following consideration of the size of the country's unconventional gas reserves and national demand. According to the Spears Report, the Chinese government has set up China's 12th Five-Year-Plan and the NDRC has issued the Shale Gas Development Five-Year-Plan (2011-2015). Under the Shale Gas Development Plan (2011-2015), China plans to produce 6.5 billion m³ of shale gas a year by 2015, and 60 - 100 billion m³ by 2020 and find 600 billion m³ of proven geological shale gas reserves and 200 billion m³ of recoverable reserves by 2015. CNEA and the Ministry of Finance of the PRC announced in 2012 that tax incentives and subsidies are provided to encourage oil companies to develop shale gas reserves. The Ministry of Land and Resources of the PRC issued five shale gas mineral exploration rights to CNPC, Sinopec and CNOOC. The geological conditions for the development of unconventional gas is tough and high-end technology and tools and equipment are required for exploration and development of such wells. The encouragement by the Chinese government to develop unconventional gas resources will therefore have positive effect on the level of high-end oilfield project activities and the demand for high-end oilfield services.

Given that the Group is a leading China-based provider of high-end oilfield services in terms of technical capability, overseas and offshore project experience and its revenue in 2011, the expected positive effect on the demand for high-end oilfield services as a result of the foregoing discussion and analysis will have a positive impact on our results of operations despite the fluctuations of the oil and gas prices.

Major customers

We derive a large portion of our revenue from the provision of oilfield services to subsidiaries and joint ventures of major PRC NOCs, such as Sinopec, CNPC and CNOOC. We also generate our revenue from the provision of oilfield services to international oil and gas companies. The three major PRC state-owned oil and gas companies have been expanding domestically and internationally in terms of their oilfield projects, and are expected to continue such expansion rapidly. It is also expected that international oil and gas companies will expand their operations in China. These rapid expansions are expected to further stimulate the demand for oilfield services. Our strong, stable and strategic relationships with some of these companies, coupled with our international experience and our proven track record in providing high-end technology and services, provide us with opportunities to grow in conjunction with their expansion and to extend our geographical coverage for our services. Accordingly, business development of these major PRC state-owned oil and gas companies and their international counterparts or the level of their demand for our services will have an impact on our results of operations.

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Nature of our major revenue sources

As a high-end oilfield services provider, we generally provide our services and products on a project basis, rather than on an on-going basis under long term contracts. The level of oilfield project activities that is driven by demand for oil and gas, field development ambition, oil and gas companies' business development as discussed in the preceding paragraphs will have an impact on the number of oilfield projects available for oilfield services providers. The fluctuation of the number of oilfield projects available and the nature of these projects for each year, coupled with the accounting policy in terms of revenue recognition, will therefore affect our yearly results of operations. All in all, our results of operations for any particular year are affected by the number and natures of projects we are able to secure and the timing of revenue recognition in that particular year.

Our competitive position in the market

The oilfield services industry is highly competitive. Oilfield services companies typically compete on the basis of experience, technology, servicing capacity, reliability and price. We currently deploy a pricing policy which reflects, amongst others, the value of our expertise and proficiency in providing high-end oilfield services (including but not limited to applying high-end technology), to maintain relatively high profit margin. Our results of operations are therefore generally affected by our competitiveness in terms of technology with reference to the availability and prevalence of high-end technology and services in the Chinese market. While currently in China relatively higher pricing is generally justified by the capabilities of providing reliable and quality high-end technology and services, the justification may be less convincing when high-end technology becomes more commonly applied across the industry among more Chinese oilfield services providers or when the leading high-end services providers fail to differentiate themselves and stand out from other providers in terms of its technology. Under such circumstances, high-end services providers may need to consider adjusting their pricing policy, leading to a lower profit margin. Accordingly, the rise of technological skills and knowledge of the Chinese oilfield services providers in general which increases the intensity of the competition in the high-end oilfield technology and services industry will have an impact on our results of operations.

Materials costs, employee benefit expenses and technical service fee

Materials costs, employee benefit expenses and technical service fee accounted for a major portion of our operating costs during the Track Record Period. For the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, these items in aggregate amounted to approximately HK\$158.2 million, HK\$414.4 million, HK\$373.7 million and HK\$369.5 million, respectively, representing 80.1%, 89.2%, 82.6% and 76.4% of our total operating costs, respectively. The materials used in our services principally include drill bit, turbine drilling tools drill pipe, tubing, wellhead and X'tree, swell packers, liner hangers, hydraulic pump, steel bar, control panels, electronic device, slickline tools packers and safety valves. Employee benefit expenses mainly relate to the wages, salaries and bonus of our employee and share-based payments to our selected employees, who are paramount to the provision of our services considering that our capability of delivering high-end oilfield technology and services relies on their background, experience and skills. Technical service fee includes cost for technical service provided by third party service providers for primarily our oilfield project services, such as lease of turbine drilling tools and issuance of research and study reports. Changes in the availability of any materials, technical services or appropriate personnel, and changes in their prices, fees or remuneration (as the case may be), could have a significant impact on our operating costs and results of operations.

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Taxation

Our operating results will be affected by changes in applicable tax rates, particularly those in PRC, Hong Kong and Singapore. Changes in applicable tax rates or the grant by relevant governmental authority of favourable tax treatment may have an impact on our results of operations. Please refer to our Accountant's Report in Appendix I to this Prospectus for details of our applicable tax rates.

Fluctuations in foreign currency exchange

During the Track Record Period, most of our transactions were denominated and settled in RMB, USD and HKD, and our reporting currency was HKD. We are therefore exposed to currency exchange risk. Fluctuations in exchange rates of RMB, HKD and USD may materially and adversely affect the value of our net assets, earnings or any declared dividends. In addition, any unfavourable movement in the exchange rate may also lead to an increase in our costs or a decline of our sales. Therefore, our results of operations may be materially and adversely affected by fluctuations in exchange rates.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of the Group was prepared in accordance with IFRS, which require the Group to use certain critical accounting estimates and the management of the Group to exercise its judgement in the process of applying accounting principles.

Therefore, when reviewing the financial information of the Group, you should consider (i) the selection of critical accounting policies; (ii) the judgement and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. The following are the most significant policies, estimates and judgements used in the preparation of the financial information of the Group.

Revenue recognition

Revenue is measured at 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 and discounts after eliminating sales within the Group.

We recognise revenue when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the Group; and when 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 measured until all contingencies relating to the activity have been resolved.

(a) Provision of oilfield project services

Revenue from provision of oilfield project services is recognised in the accounting period in which the services are accepted by customers (which means when after inspection, products and/or services are acknowledged and accepted by the customers through signing of the service acceptance form) and collectability of the related receivables is reasonably assured.

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(b) Provision of consultancy services

Revenue from provision of IPM services is recognised in the accounting period in which the services are accepted by the customers (which means when after inspection, services are acknowledged and accepted by the customers through signing of the service acceptance form) and collectability of the related receivables is reasonably assured. Revenue from provision of supervisory services is recognised in the accounting period in which the services are rendered and assessed on the basis of actual services provided.

(c) Manufacturing and sales of tools and equipment

Revenue from manufacturing and sales of tools and equipment is recognised on the transfer of risks and rewards of ownership of tools and equipment, which generally coincides with the time when the customer receives and accepts the goods.

(d) Agency fee income

Agency fee income is recognised in the accounting period upon the provision of services.

Taxation

We are subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognise 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 income tax and deferred tax provisions in the period in which such determination is made.

The tax expense for the Track Record Period comprises current and deferred tax. Tax is recognised in the profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

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 and its Group companies operate and generate taxable income. We periodically evaluate 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.

(b) Deferred income tax

Inside basis differences

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 financial information.

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However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred 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.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associate and jointly controlled entity, except for deferred income tax liability 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.

(c) Offsetting

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 tax 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.

Inventories

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 applicable variable selling expenses.

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 indicate 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 the carrying values of inventories and write-downs of inventories in the period which estimate has been changed.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

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If collection of trade 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.

Provision for impairment of trade receivables is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables. In making such judgement, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each customer and the current market conditions, and that there is no evidence of impairment present.

The amount of the provision is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited to the consolidated statements of comprehensive income.

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

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

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 are charged to the consolidated profit and loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual value over its estimated useful lives, as follows:

Leasehold improvements	Shorter of lease term or useful life of 5 years
Plant and machineries	3-5 years
Motor vehicles	5-10 years
Computer equipment	3-5 years
Furniture and fixtures	5 years

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The assets' residual values and useful lives are revised and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with carrying amounts and are recognised within "other losses, net" in the consolidated statements of comprehensive income.

Intangible assets — goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill is not subject to amortisation but is tested annually for impairment and is 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 goodwill's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of value in use and the fair value less costs to sell.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the reportable segment level.

Any impairment is recognised immediately as an expenses and is not subsequently reversed.

Intangible assets — Other than goodwill

Contractual customer relationships, contractual agreements on non-competition and incomplete sales contracts acquired in a business combination by way of acquisition are all recognised at fair value at the acquisition date. Amortisation is calculated using the straight-line method over the expected life of approximately two years, four years and six months and for contractual customer relationships, contractual agreements on non-competition and incomplete sales contracts respectively.

Computer software licences 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 five years.

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Share-based payment

The Group operates an equity-settled, share-based compensation plan, under which the Group 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 granted:

- including any market performance conditions (for example, an entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, remaining an employee of the entity over a specified time period)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company will issue new shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Associate

Associate is the entity which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit and loss of the investee after the date of acquisition. The Group's investment in associate includes goodwill identified on acquisition.

Jointly controlled entity

Jointly controlled entity is an entity which operates under a contractual arrangement between the Company or a Group entity and other parties, where the contractual arrangement establishes that the Company or a Group entity and one or more of the other parties share joint control over the economic activity of the entity. Investments in jointly controlled entity is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the parties' share of the profit or loss after the contractual arrangement.

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RESULTS OF OPERATIONS

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

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i> <i>(unaudited)</i>	<i>HK\$</i>
Revenue	286,677,682	558,261,469	559,490,832	437,543,602	571,077,139
Other income	5,078,248	13,652,423	8,816,593	7,419,646	4,693,547
Operating costs					
Material costs	(99,195,511)	(301,040,822)	(234,838,409)	(207,074,405)	(238,758,855)
Depreciation of property, plant and equipment	(1,859,272)	(2,583,822)	(3,885,365)	(2,715,448)	(5,201,507)
Amortisation of intangible assets	(3,095,471)	(3,151,718)	(10,602,109)	(6,003,506)	(7,627,322)
Impairment of intangible assets	—	(3,803,436)	—	—	—
Operating lease rental	(2,485,491)	(2,405,701)	(3,956,670)	(2,420,729)	(5,853,857)
Employee benefit expenses	(46,307,990)	(76,772,093)	(74,870,330)	(50,844,934)	(70,302,889)
Distribution expenses	(9,565,317)	(4,788,979)	(9,739,588)	(7,436,499)	(18,652,062)
Technical service fee	(12,740,307)	(36,548,256)	(63,964,866)	(41,892,180)	(60,438,906)
Research and development expenses	(1,502,936)	(3,914,105)	(3,741,460)	(2,654,338)	(4,339,046)
Other expenses	(20,011,080)	(28,541,476)	(45,699,538)	(23,804,215)	(64,088,713)
Other losses, net	(784,507)	(725,759)	(934,697)	(50,984)	(8,133,469)
Operating profit	<u>94,208,048</u>	<u>107,637,725</u>	<u>116,074,393</u>	<u>100,066,010</u>	<u>92,374,060</u>
Finance income	60,003	27,768	276,627	41,372	33,117
Finance costs	(1,344,899)	(2,057,041)	(3,574,063)	(2,528,165)	(5,856,362)
Finance costs, net	(1,284,896)	(2,029,273)	(3,297,436)	(2,486,793)	(5,823,245)
Share of profit/(loss) of an associate	—	598,597	492,291	(610,006)	(1,102,297)
Share of (loss)/profit of a jointly controlled entity	—	—	(1,312,861)	1,165,193	(43,226)
Gain on disposal of a jointly controlled entity	—	—	—	—	47,742,893
Profit before income tax	92,923,152	106,207,049	111,956,387	98,134,404	133,148,185
Income tax expense	(15,911,000)	(21,572,637)	(19,863,851)	(13,760,378)	(25,997,354)
Profit for the year/period	<u>77,012,152</u>	<u>84,634,412</u>	<u>92,092,536</u>	<u>84,374,026</u>	<u>107,150,831</u>
Profit for the year/period attributable to:					
Owners of the Company	77,611,446	84,634,412	86,847,607	81,737,731	104,438,357
Non-controlling interests	(599,294)	—	5,244,929	2,636,295	2,712,474
	<u>77,012,152</u>	<u>84,634,412</u>	<u>92,092,536</u>	<u>84,374,026</u>	<u>107,150,831</u>

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Discussion of certain key items of statements of comprehensive income

Revenue

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

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

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				<i>(unaudited)</i>	
Oilfield project services					
- Drilling	19,338,132	74,342,544	139,527,430	106,328,625	116,059,407
- Well completion	68,490,140	419,317,672	284,758,614	276,421,452	74,135,513
- Production enhancement	19,106,510	5,741,843	46,279,433	3,739,005	293,627,149
Total oilfield project services	106,934,782	499,402,059	470,565,477	386,489,082	483,822,069
Consultancy services					
- IPM services	69,019,633	37,746,912	41,347,693	25,565,405	34,683,193
- Supervisory services	11,626,012	15,218,913	12,806,678	9,635,716	12,263,414
Total consultancy services ...	80,645,645	52,965,825	54,154,371	35,201,121	46,946,607
Manufacturing and sales of tools and equipment	99,097,255	5,893,585	34,770,984	15,853,399	40,308,463
	<u>286,677,682</u>	<u>558,261,469</u>	<u>559,490,832</u>	<u>437,543,602</u>	<u>571,077,139</u>

Our revenue attributable to our oilfield project services recorded healthy growth from 2009 to 2011, mainly as a result of the increasing demand for oilfield services as a consequence of the rebound of global energy consumption starting from 2010 which followed the world's economic recession in 2008. Our revenue attributable to our consultancy services decreased from 2009 to 2011. The relatively high level of consultancy services in 2009 was primarily due to the fact that we had two relatively large IPM projects in Russia and Iran (in terms of revenue, amounting to approximately HK\$17.4 million and HK\$33.1 million respectively) in 2009 and the demand for our consultancy services was stable in 2010 and 2011. Our revenue attributable to manufacturing and sales of tools and equipment decreased from 2009 to 2010, but recorded significant growth from 2010 to 2011. The relatively high level of revenue in 2009 from manufacturing and sales of tools and equipment was mainly due to a one-off sale of tools and equipment to Algeria in 2009 which amounted to HK\$75.7 million. The increase from 2010 to 2011 was mainly courtesy of the consolidation of Shenzhen FST's revenue following our acquisition of a majority of interests in it in 2011. The increase from the nine

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months ended 30 September 2011 to the nine months ended 30 September 2012 was principally attributable to the growth of our business in production enhancement as we had won a few tenders for the performance of multistage fracturing for a number of wells in China partly off-set by the reduction in revenue in well completion following the completion of certain well completion projects in Iran. The Group in fact did certain business pitching, project planning, tools procurement and processing in the first nine months of 2012 in relation to well-completion business, and the relevant contracts relating to the Group's well completion services were completed and the corresponding revenue was recognised in the fourth quarter of 2012, for example the contracts with PDVSA, the customer in Venezuela.

The following table sets forth a breakdown of our revenue by the major geographical locations of the customers' oilfield project services and consultancy services, and of delivery for manufacturing and sales of tools and equipment for each of the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>
				<i>(unaudited)</i>	
China.....	50,616,450	106,896,817	161,203,319	64,935,610	422,521,497
The Middle East ^(Note 1)	148,071,946	450,490,907	395,109,908	370,859,506	48,341,825
Russia	59,053,724	—	708,930	—	45,151,738
Venezuela	—	—	—	—	20,689,765
Turkmenistan.....	—	—	—	—	22,552,819
Others ^(Note 2)	28,935,562	873,745	2,468,675	1,748,486	11,819,495
Total.....	<u>286,677,682</u>	<u>558,261,469</u>	<u>559,490,832</u>	<u>437,543,602</u>	<u>571,077,139</u>

Notes:

1. Our revenue from the Middle East mainly comprises revenue from Iran, Syria and Algeria.
2. The other countries mainly include Australia, The Republic of Trinidad and Tobago, Kazakhstan, Myanmar and Singapore.

Our revenue attributable to our operations in China increased from approximately HK\$50.6 million for the year ended 31 December 2009 to approximately HK\$107.0 million for the year ended 31 December 2010, and further to approximately HK\$161.2 million for the year ended 31 December 2011. The increase was mainly driven by the rapid growth in demand for our turbine-drilling and production enhancement services in China. The growth of our business in the production enhancement sector primarily drove the significant increase of our revenue attributable to our operations in China from approximately HK\$64.9 million for the nine months ended 30 September 2011 to approximately

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HK\$422.6 million for the nine months ended 30 September 2012. Our revenue attributable to our operations in the Middle East increased significantly from approximately HK\$148.1 million for the year ended 31 December 2009 to approximately HK\$450.5 million for the year ended 31 December 2010, mainly attributable to (i) our increasing involvement in consultancy services and oilfield project services in projects in the Middle East and (ii) the completion of a large number of our well completion projects in the Middle East in 2010 and recognising the relevant revenue. Our revenue attributable to our operations in the Middle East decreased from approximately HK\$450.5 million for the year ended 31 December 2010 to approximately HK\$395.1 million for the year ended 31 December 2011, primarily due to the decrease in revenue from well completion following completion of a large number of our well completion projects in the Middle East in 2010. Our revenue attributable to our operations in the Middle East decreased from approximately HK\$370.9 million for the nine months ended 30 September 2011 to approximately HK\$48.3 million for the nine months ended 30 September 2012 mainly as a result of the fact that the Group has not undertaken any new projects in Iran and Syria in 2012 in view of the sanction laws and regulations in various jurisdictions against Iran and Syria. The change of our results of operations in China and in the Middle East reflects our successful shift of focus to the China market. In 2010, there was no revenue attributable to our operations in Russia, which was primarily due to the fact that our customer, a Russian oil company for whom we provided consultancy services in Russia in 2009, did not require such services in 2010. In 2011, our consultancy services were required by such customer again. We were also required by such customer to provide consultancy services in 2012. Therefore, we recorded revenue from Russia in 2011 and for the nine months ended 30 September 2012. Our geographical presence and operations will continue to be largely driven by customer demand and movement, profit margin arising from the projects on offer, level of competition, and oil and gas productivity in a particular region. We have established regional offices in various cities in China and overseas to cater to customers' needs and allow easier access by customers to our services in different areas.

The Directors consider that the Group could sustain its business in the absence of business operations relating to Iran and Syria. The Group's revenue attributable to Iran and Syria was on a decreasing trend from 2010, dropping to approximately HK\$48.3 million for the nine months ended 30 September 2012 (which represents approximately 8.5% of the Group's total revenue for the nine months ended 30 September 2012), while the Group's revenue attributable to China and other countries which are not the subject of relevant sanctions laws or regulations in the US, EU, Australia or the BVI, or any sanctions adopted by the UN, in force as of the date hereof increased to approximately HK\$522.7 million for the nine months ended 30 September 2012 (which represents approximately 91.5% of the Group's total revenue for the nine months ended 30 September 2012). More importantly, the services and products provided by the Group are not confined to any particular jurisdictions, countries or customers. The Group's revenue and net profit even increased by 30.5% and 27.0%, respectively, for the nine months ended 30 September 2012, when compared to the nine months ended 30 September 2011, even after the Group faded out its operations in Iran and Syria. Subject to applicable laws and regulations, generally speaking, the Group may provide services and products to any areas or countries where there are oilfield project activities for any customers. Our Directors believe that the termination of our business in Iran will not affect the Group's business relationship with Sinopec Group in other geographical areas as the Directors consider that (a) the counterparty in Iran is only one of the many affiliates of Sinopec, while Sinopec Group is a large group company which has different subsidiaries and affiliates undertaking different projects in various countries/regions; (b) the subsidiaries and affiliates of Sinopec enjoy autonomy in selecting oilfield

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service provider; and (c) we have been continuing to perform contracts which were entered into with the subsidiaries or affiliates of Sinopec during the nine months ended 30 September 2012 and other ongoing contracts. Accordingly, the Group's presence and operations in Iran and Syria are principally customer-driven and are project-based. It follows from the above analysis that the disposal of Top Select by the Group and the cessation of undertaking business activities in connection with Iran or Syria would not have any material adverse financial, operational or reputational impact on the Group's business and financial position. The Directors confirm that there are no penalties, liabilities or risks associated with early termination of contracts relating to operations in Iran.

Other income

During the Track Record Period, the other income of the Group mainly consisted of agency fee income, which represented fees we received from suppliers for our introduction of their products to customers and fees received from other oilfield services providers for introducing product suppliers to them.

Material costs

Our material costs primarily comprise purchasing costs of assembling tools and materials and raw materials consumed. Our raw and assembling tools and materials principally include drill bit, drill pipe, turbine drilling tools, tubing, wellhead and X-mas tree, swell packers, liner hangers, hydraulic pump, steel bar, control panels, electronic device slickline tools, packers and safety valves.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment primarily consists of the depreciation expenses of our fixed assets such as our leasehold improvements, plant and machineries, motor vehicles, computer equipment and furniture and fixtures over their useful lives.

Amortisation of intangible assets

Our amortisation of intangible assets primarily consists of amortisation expenses of intangible assets that have a finite useful life, including contractual customer relationships, incomplete sales contracts, contractual agreements on non-competition and computer software.

Impairment of intangible assets

Impairment of intangible assets primarily consists of impairment expenses of intangible assets that have an indefinite useful live, primarily including goodwill.

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Goodwill of HK\$477,279,052 arose from the acquisition by the Group of the entire interests in Petro-king Shenzhen and Petro-king International in 2007. Other goodwill of HK\$42,873 resulted from acquisitions by the Group of interests in Beijing Petro-king Enruida Oilfield Technology Co., Ltd. in 2008. Accordingly, the amount of our goodwill as at 1 January 2009 was HK\$477,321,925. The amount was (i) increased by HK\$3,803,436 for the year ended 31 December 2009 to HK\$481,125,361 as at 31 December 2009 following acquisition by the Group of interests in Dezhou Jiacheng in 2009; (ii) decreased by HK\$3,846,309 for the year ended 31 December 2010 to HK\$477,279,052 as at 31 December 2010 as a result of impairment of HK\$3,803,436 attributable to Dezhou Jiacheng and the decrease in an amount of HK\$42,873 following the deregistration of Beijing Petro-king Enruida Oilfield Technology Co., Ltd. in 2010; (iii) increased by HK\$41,156,964 for the year ended 31 December 2011 to HK\$518,436,016 as at 31 December 2011 as a result of additional amount of HK\$40,117,422 following the acquisition by the Group of interests in Shenzhen FST in 2011 and an exchange difference of HK\$1,039,542; and (iv) increased by HK\$44,575,382 for the nine months ended 30 September 2012 to HK\$563,011,398 as a result of additional amount of HK\$44,722,264 following further acquisition by the Group of 5.5% interests in Sheraton Investment in June 2012 to the effect that it holds an aggregate of 51% interest in Sheraton Investment and an exchange difference of HK\$146,882. The goodwill amounting to HK\$3,803,436 resulted from the acquisition of Dezhou Jiacheng in May 2009 was attributable to business relationship developed in the manufacturing and sales of tools and equipment segment and the expected realisation of cost savings was the result of the specialised manufacturing capabilities and knowledge based on the oilfield tools and equipment of Dezhou Jiacheng. In addition, in view of its experience in the manufacturing of oilfield related tools and equipment, the goodwill was also composed of potential additional indications for identified products and relevant operational synergies. The goodwill amounting to HK\$40,117,422 resulted from the acquisition of Shenzhen FST in June 2011 was primarily attributable to economies of scale expected, acquired potential customer base and operational synergies from combining the operations of the Group and Shenzhen FST. In view of Shenzhen FST's specification in wellhead control and examination panels, equipment and devices (oilfield related equipment and tools), the Group was able to further increase its presence in the oilfield market by expansion in its variety of products. Due to the high-end technology required for its products, the Group was able to strengthen its technology capabilities and knowledge base for the development of new oilfield related products. The Group could also benefit from the acquired entity workforce in the manufacturing and sales of tools and equipment segment. The goodwill of HK\$44,722,264 arising from the acquisition of Sheraton Investment is attributable to economies of scale expected and operational synergies from combining the operations of the Group and Sheraton Investment. In view of its overseas operation, the Group is also expected to increase its presence in oilfield market. Please refer to the section headed "Critical accounting policies and estimates — Intangible assets — goodwill" of this section for details of the impairment calculations.

Operating lease rental

Our operating lease rental payments primarily consist of expenses incurred for lease of office, warehouses and employee housing.

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Employee benefit expenses

Employee benefit expenses primarily comprise directors' emoluments, employee wages, salaries and bonus, pension costs, share-based payments and other staff benefits, excluding employee benefit expenses attributable to research and development. The following table sets forth a breakdown of our employee benefit expenses for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				<i>(unaudited)</i>	
Wages, salaries and bonus	44,093,759	54,050,869	69,015,564	46,887,437	65,819,491
Pension costs	520,358	743,562	2,997,324	1,530,398	3,122,333
Other staff benefits	3,196,809	4,834,444	6,310,660	4,793,195	5,700,111
Share-based payments	—	21,057,323	288,242	288,242	—
Less: employee benefit expenses attributable to research and development	(1,502,936)	(3,914,105)	(3,741,460)	(2,654,338)	(4,339,046)
	<u>46,307,990</u>	<u>76,772,093</u>	<u>74,870,330</u>	<u>50,844,934</u>	<u>70,302,889</u>

Distribution expenses

Distribution expenses are selling and distribution costs which mainly include transportation costs for delivery of tools and equipment to customers.

Technical service fee

Technical service fee primarily consists of payment to third-party service providers for their technical services (mainly in relation to our services in drilling and production enhancement). The scope of services and support include the lease of turbine drilling tools, issuance of research and study reports and other forms of technical services.

Technical service fees also included commission expenses of HK\$3.3 million for the nine months ended 30 September 2012 in relation to the business in Venezuela, which was payable to an independent agent and was calculated based on certain percentage of the contract amount.

Research and development expenses

Our research and development expenses primarily consist of employee benefit expenses of our research employees.

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Expenditure in connection with research activities (“**research costs**”) is charged to expense in the period in which it is incurred. In the case of development costs, a distinction is drawn between purchased development assets (“**externally acquired**”) and self-created development assets (“**internally generated**”). Project costs attributable to externally acquired development assets are generally allocated to construction contract receivables on the basis of percentage of completion. Any surplus expense or income remaining after the end of a development project is amortised proportionately over the subsequent production phase. Development costs generated in the context of company-funded research and development projects are capitalised at the construction cost to the extent that they can be attributed directly to the product and on condition that the product’s technical and commercial feasibility have been proved. There must also be reasonable probability that the development activity will generate future economic benefits. The capitalised development costs comprise all costs directly attributable to the development process. Capitalised development costs are amortised on a scheduled basis over the expected product life cycle from the start of production onwards. Capitalised development costs, as well as previously capitalised development projects that have not been completed by the end of the financial year, are subjected to an impairment test at least once a year. An impairment charge is only recognised if the carrying amount of the capitalised asset exceeds the recoverable amount.

Other expenses

The other expenses primarily include entertainment expenses, travelling expenses, marketing expenses, auditor’s remuneration, professional service fee, office utilities, other tax-related expenses and custom duties and motor vehicles expenses.

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

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				<i>(unaudited)</i>	
Auditor’s remuneration.....	611,985	950,000	1,130,732	188,467	707,549
Communications.....	550,234	697,169	981,972	617,999	811,172
Professional service fee.....	959,742	3,438,149	3,512,932	3,057,518	15,117,600
Entertainment.....	3,442,759	4,459,694	6,289,806	2,709,728	10,291,179
Marketing expenses.....	541,292	1,009,379	2,427,663	1,216,509	1,391,865
Motor vehicle expenses.....	906,590	1,003,625	1,949,089	1,175,062	3,214,914
Travelling.....	6,959,009	6,765,201	9,940,208	5,131,366	12,277,974
Insurance.....	410,534	710,659	934,289	409,427	757,157
Office utilities.....	1,319,325	2,665,191	4,007,599	1,964,884	6,359,913
Other tax-related expenses and custom duties.....	1,927,738	5,854,833	10,685,193	4,547,135	8,840,674
Others.....	<u>2,381,872</u>	<u>987,576</u>	<u>3,840,055</u>	<u>2,786,120</u>	<u>4,318,716</u>
	<u>20,011,080</u>	<u>28,541,476</u>	<u>45,699,538</u>	<u>23,804,215</u>	<u>64,088,713</u>

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Entertainment expenses mainly include costs incurred for catering or other social events with existing or potential customers. Travelling expenses primarily consist of airfare, hotel and meal expenses incurred by our employees during the course of their business travel. Marketing expenses mainly include costs incurred for the marketing and promotion of the Group's business as well as costs for meeting venues. Other tax-related expenses mainly comprise stamp duty, business tax and tax paid to social security organisation in Iran. Others mainly include bank handling charges for wire transfer which amounted to HK\$990,000, HK\$526,000, HK\$592,000 and HK\$508,000 for each of the years ended 31 December 2009, 2010 and 2011 and for the nine months ended 30 September 2012, it also included the sponsorships to certain universities in the PRC for the scholarships in the oil related faculty which amounted to approximately HK\$1.2 million for the nine months ended 30 September 2012.

Other losses, net

During the Track Record Period, the other losses, net of the Group mainly consist of net foreign exchange gains/losses as a result of its ordinary course of business, loss on disposal of property, plant and equipment, loss on deregistration of one of its subsidiaries and fair value change on financial derivative instrument.

Finance costs, net

Net finance costs represent our interest expenses related to our bank borrowings netted against our interest income on bank deposits and net foreign exchange gains/losses on financing activities.

Share of profit/(loss) of an associate

The Group acquired 49% equity interest of Iranian Refinement on 1 April 2010. Iranian Refinement is engaged in provision of oilfield technology and services including trading of tools and equipment. The Group is entitled to 49% of the profit/(loss) generated by Iranian Refinement for the period from 1 April 2010 to 31 December 2010, for the year ended 31 December 2011 and for the nine months ended 30 September 2012.

Share of (loss)/profit of a jointly controlled entity

On 11 February 2011, the Group acquired 40% equity interest of Sheraton Investment at a consideration of SGD488,888 (equivalent to HK\$2,952,591 as at the transaction date). The Group's interest in Sheraton Investment was increased to 45.5% with HK\$1 consideration on 15 July 2011, and further increased to 51% in consideration of the issuance by the Company of 102 Voting Shares to Natural Peak on 21 June 2012. For the year ended 31 December 2011 and nine months ended 30 September 2012, the Group's share of loss of Sheraton Investment amounted to HK\$1,312,861 and HK\$43,226, respectively.

Sheraton Investment was incorporated on 9 June 2010. Prior to the acquisition on 11 February 2011, the board of directors of Sheraton Investment consisted of 2 directors nominated and appointed by Natural Peak. After the acquisition on 11 February 2011, the board of directors of Sheraton

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Investment consisted of 4 directors, of which 2 were nominated and appointed by Hero Gain and the other 2 were nominated and appointed by Natural Peak. Since the acquisition on 21 June 2012, the number of directors in board of directors of Sheraton Investment increased to 5 with one additional director nominated and appointed by the Company.

Gain on disposal of a jointly controlled entity

Following the increase of the Group's interests in Sheraton Investment to 51% , the Group recognised a gain of HK\$47,742,893 as "gain on disposal of a jointly controlled entity" for the nine months ended 30 September 2012 as a result of measuring at fair value its 45.5% equity interests in Sheraton Investment held before Sheraton Investment became the Group's subsidiary.

Income tax expense

The Company was incorporated in the BVI and under the current BVI tax regime, is not subject to income tax in the BVI. Our income tax expenses primarily consist of income tax payable by us at the prevailing rates in the PRC, Hong Kong and Singapore.

Subsidiaries of the Group established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012.

During the year ended 31 December 2010, the EIT rate for enterprises located in Shenzhen Special Economic Zone was changed from 20% to 22%. During the year ended 31 December 2011, the EIT rate for enterprises located in Shenzhen Special Economic Zone was changed from 22% to 24%. Therefore, the applicable EIT rate of Petro-king Shenzhen for each of the years ended 31 December 2009, 2010 and 2011 was 20%, 22% and 24%, respectively. For the nine months ended 30 September 2012, the applicable EIT rate was 25% for Petro-king Shenzhen. A subsidiary of the Group, Shenzhen FST, was entitled to a preferential EIT rate of (i) 20% for the year ended 31 December 2009 and (ii) 15% for each of the years ended 31 December 2010 and 2011 and nine months ended 30 September 2012, respectively, as it was approved by the local tax bureau authorities as a high-technologied enterprise. Shenzhen FST is entitled to such preferential enterprise income tax of 15% until the year ended 31 December 2012.

Our PRC subsidiary Dezhou Jiacheng applied for the registration of Small and Low-Profit Enterprise through regulatory tax bureau in 2011 and it enjoyed the EIT preferential treatment that its income was deducted by half for the purpose of calculating taxable income and it should be subject to the EIT at a tax rate of 20% in 2011.

The effective tax rate was 17.1%, 20.3%, 17.7%, 14.0% and 19.5% for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012.

The business activities of the Group in various geographical locations (other than PRC and Singapore) were rendered mainly by Petro-king International or Top Select. The relevant assessable profits (if any) of Petro-king International and Top Select in respect of their business activities were subject to Hong Kong profit tax during the Track Record Period. All relevant taxes in respect of the

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contracts of the Group in various geographical locations (other than the PRC, Hong Kong and Singapore) have been withheld by the Group's counterparties as required under the terms of the relevant contracts. The relevant terms generally provide that the relevant customers shall have the rights to withhold from monies payable to the Group for such amounts which the relevant customers are required to do so to ensure compliance with applicable local tax laws. Generally, the relevant customers (but not the Group) will be responsible for paying such withholding tax to the local authorities. The amount so withheld by the relevant customers are generally calculated based on certain rate reference to the contract amount in respect of the provision of services or products by the Group.

Segment Results

The following table sets forth the segment results of the Company for the periods indicated:

	Oilfield Project Services	Consultancy Services	Manufacturing and sales of tools and equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 December 2009				
Revenue from external customers	106,934,782	80,645,645	99,097,255	286,677,682
Segment results ⁽¹⁾	46,306,858	48,506,904	50,632,506	145,446,268
Segment results as a percentage of revenue	43.3%	60.1%	51.1%	50.7%
Year ended 31 December 2010				
Revenue from external customers	499,402,059	52,965,825	5,893,585	558,261,469
Segment results ⁽¹⁾	168,533,475	25,027,215	(1,973,985)	191,586,705
Segment results as a percentage of revenue	33.7%	47.3%	-33.5%	34.3%
Year ended 31 December 2011				
Revenue from external customers	470,565,477	54,154,371	34,770,984	559,490,832
Segment results ⁽¹⁾	176,464,261	23,856,043	10,635,816	210,956,120
Segment results as a percentage of revenue	37.5%	44.1%	30.6%	37.7%
Nine months ended 30 September 2012				
Revenue from external customers	483,822,069	46,946,607	40,308,463	571,077,139
Segment results ⁽¹⁾	201,409,011	22,843,569	48,719,430	272,972,010
Segment results as a percentage of revenue	41.6%	48.7%	120.9%	47.8%

⁽¹⁾ The segment results mainly included the material costs, technical service fee, depreciation, amortisation, operating lease rental, direct labour costs, share of profit/(loss) of a jointly controlled entity, gain on disposal of a jointly controlled entity and fair value change on financial derivative instrument allocated to each operating segment.

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

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i> <i>(unaudited)</i>	<i>HK\$</i>
Segment results	145,446,268	191,586,705	210,956,120	170,136,871	272,972,010
Other income.....	5,078,248	13,652,423	8,816,593	7,419,646	4,693,547
Material costs.....	(1,710,362)	(4,716,026)	(5,826,028)	(5,699,576)	(7,311,656)
Depreciation of property, plant and equipment.....	(1,219,940)	(979,653)	(820,681)	(708,700)	(1,313,577)
Amortisation of intangible assets..	(108,471)	(164,718)	(164,718)	(123,539)	(129,889)
Operating lease rental	(2,485,491)	(2,405,701)	(3,956,670)	(2,420,729)	(5,853,857)
Employee benefit expenses	(20,664,068)	(54,323,994)	(40,610,670)	(34,273,815)	(39,836,390)
Distribution expenses	(9,565,317)	(4,788,979)	(9,739,588)	(7,436,499)	(18,652,062)
Research and development expenses.....	(1,502,936)	(3,914,105)	(3,741,460)	(2,654,338)	(4,339,046)
Other expenses	(18,275,376)	(25,582,468)	(39,216,669)	(22,957,134)	(57,833,547)
Other losses, net.....	(784,507)	(725,759)	(934,697)	(50,984)	(2,321,806)
Finance income	60,003	27,768	276,627	41,372	33,117
Finance costs.....	(1,344,899)	(2,057,041)	(3,574,063)	(2,528,165)	(5,856,362)
Share of profit/(loss) of an associate	—	598,597	492,291	(610,006)	(1,102,297)
Profit before income tax	<u>92,923,152</u>	<u>106,207,049</u>	<u>111,956,387</u>	<u>98,134,404</u>	<u>133,148,185</u>

Nine months ended 30 September 2012 compared to nine months ended 30 September 2011

Revenue

Our revenue increased from approximately HK\$437.5 million for the nine months ended 30 September 2011 to approximately HK\$571.1 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$133.6 million or 30.5%. The significant increase was mainly attributable to the growth of our oilfield project services from the China market.

Oilfield project services

Our revenue attributable to our oilfield project services increased significantly from approximately HK\$386.4 million for the nine months ended 30 September 2011 to approximately HK\$483.8 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$97.3 million, or 25.2%. The increase was mainly due to the significant increase in revenue from production enhancement, offset by the decrease in revenue from well completion.

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Consultancy services

Our revenue attributable to our consultancy services increased from approximately HK\$35.2 million for the nine months ended 30 September 2011 to approximately HK\$47.0 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$11.8 million or 33.2%. The increase was primarily due to the increase of revenue from our IPM services which resulted from our IPM projects in Russia for the nine months ended 30 September 2012.

Manufacturing and sales of tools and equipment

Our revenue attributable to our manufacturing and sales of tools and equipment increased from approximately HK\$15.9 million for the nine months ended 30 September 2011 to approximately HK\$40.3 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$24.4 million or 153.5%. Such significant increase was primarily due to the business growth courtesy of the enhanced production capacities following the acquisition of a majority of interests in Shenzhen FST and Sheraton Investment in June 2011 and June 2012, respectively.

Other income

Our other income was approximately HK\$4.7 million for the nine months ended 30 September 2012, representing a decrease of approximately HK\$2.7 million or 36.5%, from approximately HK\$7.4 million for the nine months ended 30 September 2011. The decrease was mainly due to the slight decrease of our agency fee income from approximately HK\$6.9 million for the nine months ended 30 September 2011 to approximately HK\$4.3 million for the nine months ended 30 September 2012.

Material costs

Our material costs increased from approximately HK\$207.1 million for the nine months ended 30 September 2011 to approximately HK\$238.8 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$31.7 million or 15.3%. The increase was in line with the growth of our business in oilfield project services and manufacturing and sales of tools and equipment.

Depreciation of property, plant and equipment

Our depreciation of property, plant and equipment amounted to approximately HK\$5.2 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$2.5 million or 92.6%, from approximately HK\$2.7 million for the nine months ended 30 September 2011. The increase was primarily due to the increase in our plant and machineries which was in line with our business growth and was a consequence of our acquisition of majority interests in Shenzhen FST and Sheraton Investment.

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Amortisation of intangible assets

Our amortisation of intangible assets amounted to approximately HK\$7.6 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$1.6 million or 26.7%, from approximately HK\$6.0 million for the nine months ended 30 September 2011. The increase was primarily due to the increase of our contracted customer relationships and incomplete sales contracts following our acquisition of a majority of interests in Shenzhen FST and Sheraton Investment.

Operating lease rental

Our operating lease rental increased from approximately HK\$2.4 million for the nine months ended 30 September 2011 to approximately HK\$5.9 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$3.5 million or 145.8%. The increase was primarily due to additional premises occupied by our staff in connection with the increase in demand for our production enhancement services for the nine months ended 30 September 2012.

Employee benefit expenses

Our employee benefit expenses increased from approximately HK\$50.8 million for the nine months ended 30 September 2011 to approximately HK\$70.3 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$19.5 million or 38.4%. The increase was primarily due to the increase of wages, salaries and bonus as a result of the increase of the number of employees due to (a) our need to cope with increasing demand for our oilfield project services in China and other regions; and (b) the acquisition of Sheraton Investment and Shenzhen FST and consolidation of their employee benefit expenses to our Group.

Distribution expenses

Our distribution expenses were approximately HK\$18.7 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$11.3 million or 152.7%, from approximately HK\$7.4 million for the nine months ended 30 September 2011. The increase was primarily attributable to the increase of our transportation costs which resulted from the increase of our services in production enhancement and drilling.

Technical service fee

Our technical service fee increased from approximately HK\$41.9 million for the nine months ended 30 September 2011 to approximately HK\$60.4 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$18.5 million or 44.2%. The increase was primarily due to the business growth of our services in production enhancement and drilling.

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Research and development expenses

Our research and development expenses were approximately HK\$4.3 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$1.6 million or 59.3%, from approximately HK\$2.7 million for the nine months ended 30 September 2011. The increase was primarily due to the fact that we began research and development on issues relating to turbine-drilling, production enhancement and surface facilities.

Other expenses

Our other expenses increased from approximately HK\$23.8 million for the nine months ended 30 September 2011 to approximately HK\$64.1 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$40.3 million or 169.3%. The increase was primarily due to the increase of our professional service fees, entertainment expenses, motor vehicle expenses, travelling expenses, other tax-related expenses and custom duties and office utilities. The increase of our professional services fees was primarily attributable to the preparation for the Global Offering, while the increase of other items was in line with our business growth and our marketing efforts in China. Additionally, the increase of other tax-related expenses and custom duties was mainly attributable to the increase in the provision of consultancy services in Iran for the nine months ended 30 September 2012 compared with that for the nine months ended 30 September 2011.

The total estimated listing expenses (excluding underwriting commission) in connection with the Global Offering was approximately HK\$38.0 million, and for the nine months ended 30 September 2012, the Group incurred listing expenses amounting to approximately HK\$19.4 million, among which approximately HK\$15.3 million has been charged to the profit and loss and approximately HK\$4.1 million was capitalised as deferred expenses, which is expected to be charged against equity upon successful listing under relevant accounting standards. We estimate that the listing expense to be incurred and charged to the profit and loss in the financial period after 30 September 2012 will be approximately HK\$9.0 million.

Other losses, net

Our other net losses were approximately HK\$8.1 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$8.1 million, from HK\$50,984 for the nine months ended 30 September 2011. The increase was primarily attributable to the change of fair value of the derivative financial instrument of the Group of approximately HK\$5.8 million recorded in the nine months ended 30 September 2012 and the increase of foreign exchange loss from HK\$24,563 for the nine months ended 30 September 2011 to approximately HK\$2.2 million for the nine months ended 30 September 2012. The derivative financial instrument refers to the forward contract for the Group to further acquire the interest in Sheraton Investment in three tranches (as more particularly described in the section headed “History and development — Corporate history — (9) Acquisition of the Sheraton Group” on page 144 of this prospectus). The fair value of derivative financial instrument is determined based on the fair value of the issued shares and further acquired interests. The increase of foreign exchange loss was mainly attributable to Petro-king Shenzhen, given that approximately HK\$1.0 million out of the total HK\$2.2 million foreign exchange loss for the nine months ended 30

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September 2012 were attributable to the foreign exchange loss of Petro-king Shenzhen, which primarily resulted from the appreciation of US dollars (as certain liabilities of Petro-king Shenzhen should be settled in US dollars but were recognised in RMB, and US dollars appreciated after such expenses had been recognised).

Operating profits

As a result of the foregoing, our operating profit was approximately HK\$92.4 million for the nine months ended 30 September 2012, representing a decrease of approximately HK\$7.7 million or 7.7%, from approximately HK\$100.1 million for the nine months ended 30 September 2011. For the nine months ended 30 September 2012, we incurred more operating costs following our business expansion in 2012, including the increase of our technical services fee and other expenses from approximately HK\$41.9 million and HK\$23.8 million, respectively, for the nine months ended 30 September 2011 to approximately HK\$60.4 million and HK\$ 64.1 million, respectively, for the same period in 2012. The increase in our technical service fee was in line with the increase in our revenue, and hence such increase did not have material impact on the change of our operating profit margin. Our operating profit margin was approximately 16.2% for the nine months ended 30 September 2012, which was lower than that of 22.9% for the nine months ended 30 September 2011. The operating profit margin decreased from 22.9% for the nine months ended 30 September 2011 to 16.2% for the nine months ended 30 September 2012 mainly due to the increase in our employee benefit expense and other expenses which in particular includes the following reasons:

- (i) the increase of our employee benefit expenses by approximately HK\$19.5 million for the nine months ended 30 September 2012 compared with the amount in the comparative period in 2011. The increase in employee benefit expenses was mainly due to the fact that our average headcount almost doubled from 232 for the nine months ended 30 September 2011 to 416 for the nine months ended 30 September 2012 resulting from (a) our need to cope with increasing demand for our oilfield project services in China and other regions; and (b) the acquisition of Sheraton Investment and Shenzhen FST and consolidation of their employee benefit expenses to our Group. Our recorded employee benefit expenses from Sheraton Investment and Shenzhen FST for the nine months ended 30 September 2011 and 2012 were HK\$0.5 million and HK\$5.8 million, respectively. Going forward, the Group targets to maintain or even lower the employee benefit expenses to revenue ratio with reference to that in 2012 as our scale of operation continues to expand;
- (ii) the increase of our professional service fee from approximately HK\$3.1 million for the nine months ended 30 September 2011 to approximately HK\$15.1 million for the nine months ended 30 September 2012, which was principally incurred in connection with the Listing. We will not incur further professional service fee of such nature upon completion of the Listing;
- (iii) the increase of our travelling and entertainment expenses by approximately HK\$14.7 million for the nine months ended 30 September 2012 as compared with the amount in the comparative period in 2011. The increase in travelling and entertainment expenses was mainly attributable to the fact that we devoted more efforts to expanding our customer base, which was evidenced by the decrease of our revenue contribution percentage from Sinopec

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(from approximately 93.6% for the nine months ended 30 September 2011 to approximately 76.7% for the nine months ended 30 September 2012), and the fact that we secured new customers such as PDVSA and certain subsidiaries of CNPC during the nine months ended 30 September 2012. In addition, we increased the frequency of internal management meetings from twice a year to four times a year in order to enhance our internal controls and business review, which also resulted in more travelling and entertainment expenses. Going forward, we expect such expenses as percentage to revenue will remain stable or decrease as our scale of operation continues to expand; and

- (iv) A fair value adjustment of approximately HK\$5.8 million recognised as a loss for the nine months ended 30 September 2012 in the profit and loss in connection with our contractual agreement to acquire additional interests in Sheraton Investment in tranches before 30 April 2013 which was deemed to be a forward contract. Please refer to notes 3.3 and 9 of Appendix I for calculation of the fair value adjustment.

Finance costs, net

Our net finance costs were approximately HK\$5.8 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$3.3 million or 132.0%, from approximately HK\$2.5 million for the nine months ended 30 September 2011. The increase was primarily attributable to the increase of interest expenses which resulted from the fact that the balance of our bank borrowings increased from approximately HK\$83.7 million as at 30 September 2011 to approximately HK\$173.9 million as at 30 September 2012 and the interest rates accruing on our bank borrowings increased in 2012.

Share of loss of an associate

Our share of loss of an associate was approximately HK\$1.1 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$0.5 million or 83.3%, from approximately HK\$0.6 million for the nine months ended 30 September 2011, due to the fact that loss incurred by Iranian Refinement increased from the nine months ended 30 September 2011 to the nine months ended 30 September 2012.

Share of loss of a jointly controlled entity

Our share of loss of a jointly controlled entity was approximately HK\$43,226 for the nine months ended 30 September 2012, while we had share of profit of a jointly controlled entity of approximately HK\$1.2 million for the nine months ended 30 September 2011. The change represented a decrease of share of profit of approximately HK\$1.2 million or 100.0%. Our share of profit (loss) of a jointly controlled entity was attributable to our shareholding in Sheraton Investment.

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Gain on disposal of a jointly controlled entity

Following the increase of our interests in Sheraton Investment to 51% , we recognised a gain of HK\$47.7 million as “gain on disposal of a jointly controlled entity” for the nine months ended 30 September 2012 as a result of measuring at fair value its 45.5% equity interests in Sheraton Investment held before Sheraton Investment became our subsidiary.

Income tax expense

Our income tax expense was approximately HK\$26.0 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$12.2 million or 88.4%, from approximately HK\$13.8 million for the nine months ended 30 September 2011. The increase was primarily attributable to the fact that a relatively large portion of the Group’s revenue (as compared to the nine months ended 30 September 2011) was generated from the PRC and was therefore subject to PRC tax, whose rate was higher than the applicable tax rate to which our overseas subsidiaries that undertook our overseas projects were subject. The relatively higher figure of income tax expenses for the nine months ended 30 September 2012 was mainly resulted from the fact that substantial parts of the Group’s profits for the period were generated in the PRC, which is subject to a higher tax rate of 25%.

Profit for the period

As a result of the foregoing, our profit for the period was approximately HK\$107.2 million for the nine months ended 30 September 2012, representing an increase of approximately HK\$22.8 million or 27.0%, from approximately HK\$84.4 million for the nine months ended 30 September 2011. Our net profit margin decreased from 19.3% for the nine months ended 30 September 2011 to 18.8% for the nine months ended 30 September 2012, primarily due to the fact that (i) less income tax expenses were incurred in the nine months ended 30 September 2011 as most of the profits were derived by Petro-king Hong Kong, which is subject to a lower tax rate of 16.5%, whereas most of the profits from the nine months ended 30 September 2012 were generated in the PRC, which is subject to a higher tax rate of 25%; (ii) the increase of our distribution expenses, employee benefit expenses, other expenses and net losses, in particular listing expenses in connection with the Global Offering were also incurred in 2012.

Year ended 31 December 2011 compared to year ended 31 December 2010

Revenue

Our revenue increased from approximately HK\$558.3 million for the year ended 31 December 2010 to approximately HK\$559.5 million for the year ended 31 December 2011, representing an increase of approximately HK\$1.2 million or 0.2%, primarily due to the steady growth of our consultancy servicing business and the expansion of our business in manufacturing and sales of tools and equipment, partially offset by the slight contraction of our oilfield project services business, which despite such contraction remains our largest business segment.

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Oilfield project services

Our revenue attributable to our oilfield project services decreased from approximately HK\$499.4 million for the year ended 31 December 2010 to approximately HK\$470.6 million for the year ended 31 December 2011, representing a decrease of approximately HK\$28.8 million, or 5.8%. The decrease was primarily due to the decrease in revenue from well completion following completion of a large number of our well completion projects in the Middle East in 2010, which was partially offset by the growth in drilling and production enhancement in China in that year.

Consultancy services

Our revenue attributable to our consultancy services increased from approximately HK\$53.0 million for the year ended 31 December 2010 to approximately HK\$54.1 million for the year ended 31 December 2011, representing an increase of approximately HK\$1.1 million, or 2.1%. The slight increase was primarily due to the increased revenue from our IPM services in the Middle East, offset by decreased revenue from our supervisory services.

Manufacturing and sales of tools and equipment

Our revenue attributable to our manufacturing and sales of tools and equipment increased from approximately HK\$5.9 million for the year ended 31 December 2010 to approximately HK\$34.8 million for the year ended 31 December 2011, representing an increase of approximately HK\$28.9 million, or 489.8%. Such significant increase was primarily due to the consolidation of Shenzhen FST's revenue following our acquisition of a majority of interests in it in 2011.

Other income

Our other income was approximately HK\$8.8 million for the year ended 31 December 2011, representing a decrease of approximately HK\$4.9 million, or 35.8%, from approximately HK\$13.7 million for the year ended 31 December 2010. The decrease was primarily due to the decrease of our agency fee income by approximately 40.7% from approximately HK\$13.5 million for the year ended 31 December 2010 to approximately HK\$8.0 million for the year ended 31 December 2011, resulting from the fact that the quantity of the products introduced by us to customers decreased and thus our commission income from product suppliers decreased correspondingly.

Material costs

Our material costs decreased from approximately HK\$301.0 million for the year ended 31 December 2010 to approximately HK\$234.8 million for the year ended 31 December 2011, representing a decrease of approximately HK\$66.2 million or 22.0%. Such decrease mainly (i) was in line with the contraction of our services in well completion under our oilfield project services segment (given that amongst the material costs, a relatively larger portion was attributable to well completion services in comparison with other services); and (ii) was a consequence of our ability to purchase raw materials from PRC and other Asian suppliers (including the Sheraton Group) who we believe are able to manufacture products, components and parts that attain relevant international standards at relatively lower prices.

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Depreciation of property, plant and equipment

Our depreciation of property, plant and equipment amounted to approximately HK\$3.9 million for the year ended 31 December 2011, representing an increase of approximately HK\$1.3 million, or 50.0%, from approximately HK\$2.6 million for the year ended 31 December 2010. The increase was primarily due to the increase in our plant and machineries following our acquisition of a majority of interests in Shenzhen FST.

Amortisation of intangible assets

Our amortisation of intangible assets amounted to approximately HK\$10.6 million for the year ended 31 December 2011, representing an increase of approximately HK\$7.4 million, or 231.3%, from approximately HK\$3.2 million for the year ended 31 December 2010. The increase was primarily due to the increase of our contracted customer relationships and incomplete sales contracts following our acquisition of a majority of interests in Shenzhen FST.

Impairment of intangible assets

We did not have any impairment of intangible assets for the year ended 31 December 2011. Our impairment of intangible assets for the year ended 31 December 2010 amounted to approximately HK\$3.8 million as a result of the impairment of our goodwill which arose from Dezhou Jiacheng due to reallocation of substantial part of the manufacturing operations to other Group member.

Operating lease rental

Our operating lease rental increased from approximately HK\$2.4 million for the year ended 31 December 2010 to approximately HK\$4.0 million for the year ended 31 December 2011, representing an increase of approximately HK\$1.6 million, or 66.7%. The increase was primarily due to the increase in manufacturing premises occupied by us, which was in line with the growth of our business in manufacturing and sales of tools and equipment in 2011 following our acquisition of a majority of interest in Shenzhen FST and the expansion of our geographical presence by way of establishing more regional offices.

Employee benefit expenses

Our employee benefit expenses decreased from approximately HK\$76.8 million for the year ended 31 December 2010 to approximately HK\$74.9 million for the year ended 31 December 2011, representing a decrease of approximately HK\$1.9 million, or 2.5%. The decrease was primarily attributable to the fact that the Pre-IPO Share Option Scheme was adopted in 2010 and there was a provision for share-based payment of approximately HK\$21.1 million for the year ended 31 December 2010 while the provision for the same item only amounted to approximately HK\$0.3 million for the year ended 31 December 2011. Excluding the effect of the forgoing provision for share-based payment, the increase of wages, salaries and bonus was due to the increase of employees due to (a) our need to cope with increasing demand for our oilfield project services in China and other regions; and (b) the acquisition of Sheraton Investment and Shenzhen FST and consolidation of their employee benefit expenses to our Group.

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Distribution expenses

Our distribution expenses were approximately HK\$9.7 million for the year ended 31 December 2011, representing an increase of approximately HK\$4.9 million, or 102.1%, from approximately HK\$4.8 million for the year ended 31 December 2010. The increase was primarily attributable to the increase of our transportation costs which resulted from the increase of our drilling services.

Technical service fee

Our technical service fee increased from approximately HK\$36.5 million for the year ended 31 December 2010 to approximately HK\$64.0 million for the year ended 31 December 2011, representing an increase of approximately HK\$27.5 million, or 75.3%. The increase was primarily due to the business growth of our services in drilling, offset by the contraction of our services in well completion. Our technical service fee in the fourth quarter of 2011 was relatively high (as compared to the other three quarters of 2011: The technical service fees for the nine months ended 30 September 2011 was approximately HK\$41.9 million while that for the year ended 31 December 2011 was approximately HK\$64.0 million) mainly as a result of the fact that we provided relatively more turbine-drilling services and production enhancement services (which as previously disclosed mainly contributed to the incurring of technical service fee) in the fourth quarter of 2011 (as compared to the provision of well completion and other services).

Research and development expenses

Our research and development expenses were approximately HK\$3.7 million for the year ended 31 December 2011, representing a decrease of approximately HK\$0.2 million, or 5.1%, from approximately HK\$3.9 million for the year ended 31 December 2010. The decrease was primarily because there were less research and development projects in 2011 compared with 2010.

Other expenses

Our other expenses increased from approximately HK\$28.5 million for the year ended 31 December 2010 to approximately HK\$45.7 million for the year ended 31 December 2011, representing an increase of approximately HK\$17.2 million, or 60.4%. The increase was primarily due to the increase of our entertainment expenses, travelling expenses, marketing expenses, other tax-related expenses and utilities, which was in line with (i) our marketing efforts in China as we strategically shifted our focus to China in 2011 for the optimisation of our geographical coverage and (ii) our substantial operations in the overseas market.

Other losses, net

Our other net losses were approximately HK\$0.9 million for the year ended 31 December 2011, representing an increase of approximately HK\$0.2 million, or 28.6%, from approximately HK\$0.7 million for the year ended 31 December 2010. The increase was primarily due to (i) the fact that we recorded net foreign exchange gains of approximately HK\$0.4 million as a result of our ordinary course of business for the year ended 31 December 2010, while we had net foreign exchange loss of approximately HK\$0.8 million for the year ended 31 December 2011; and (ii) the increase of our loss

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on disposals of property, plant and equipment from HK\$53,068 for the year ended 31 December 2010 to HK\$101,070 for the year ended 31 December 2011 mainly attributable to the increase in our plant, property and equipment following our acquisition of a majority of interests in Shenzhen FST, primarily offset by the fact that we incurred loss on deregistration of one of our subsidiaries.

Operating profit

As a result of the foregoing, our operating profit was approximately HK\$116.1 million for the year ended 31 December 2011, representing an increase of approximately HK\$8.5 million, or 7.9%, from approximately HK\$107.6 million for the year ended 31 December 2010. Our operating profit margin was approximately 20.7% for the year ended 31 December 2011, which was higher than that of 19.3% for the year ended 31 December 2010. The higher operating profit margin was primarily attributable to the decrease of our material costs and employee benefit expenses in 2011, offset by the increase of technical service fee in 2011. Our operating profit margin for the year ended 31 December 2011 was lower than that for the nine months ended 30 September 2011 mainly as a result of the fact that in 2011 the revenue recognition pattern in terms of timing did not follow the usual pattern (being having relatively high revenue in the second half of a year, particularly in the fourth quarter, as previously disclosed) and as such we did not record relatively higher revenue in the second half or in the fourth quarter of 2011. The revenue recognition pattern in terms of timing didn't follow the usual pattern in 2011 mainly because we were undergoing a transition period in terms of shift of geographical focus to the Chinese market, and as such the sharp decrease of revenue attributable to Iran and Syria in the fourth quarter of 2011 contributed to the unusually (relatively) low level of revenue in the fourth quarter of 2011.

Finance costs, net

Our net finance costs were approximately HK\$3.3 million for the year ended 31 December 2011, representing an increase of approximately HK\$1.3 million, or 65.0%, from approximately HK\$2.0 million for the year ended 31 December 2010. The increase was primarily attributable to the increase of interest expenses which resulted from the fact that the amount of our bank borrowings increased from approximately HK\$76.7 million as at 31 December 2010 to approximately HK\$103.3 million as at 31 December 2011 and the interest rates accruing on our bank borrowings increased in 2011.

Share of profit of an associate

Our share of profit of an associate was approximately HK\$0.5 million for the year ended 31 December 2011, representing a decrease of approximately HK\$0.1 million, or 16.7%, from approximately HK\$0.6 million for the year ended 31 December 2010, due to the fact that profit generated from Iranian Refinement decreased in 2011.

Share of loss of a jointly controlled entity

Our share of loss of a jointly controlled entity amounted to approximately HK\$1.3 million for the year ended 31 December 2011, attributable to our shareholding in Sheraton Investment.

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Income tax expense

Our income tax expense was approximately HK\$19.9 million for the year ended 31 December 2011, representing a decrease of approximately HK\$1.7 million, or 7.9%, from approximately HK\$21.6 million for the year ended 31 December 2010. The decrease was primarily due to the fact that more operating profit was generated from our overseas subsidiaries in 2010 where the tax rate applicable was lower. Effective tax rate decreased from 20.3% in 2010 to 17.7% in 2011. The slight decrease in effective tax rate mainly resulted from the share-based payments of approximately HK\$21.1 million incurred by the Company during 2010, in which any income and expense of the Company was not subject to income tax because it was incorporated in the BVI.

Profit for the year

As a result of the foregoing, our profit for the year was approximately HK\$92.1 million for the year ended 31 December 2011, representing an increase of approximately HK\$7.5 million or 8.9% from approximately HK\$84.6 million for the year ended 31 December 2010. Our net profit margin increased from 15.2% for the year ended 31 December 2010 to 16.5% for the year ended 31 December 2011, primarily due to a higher operating profit margin in 2011.

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

Revenue

Our revenue increased significantly from approximately HK\$286.7 million for the year ended 31 December 2009 to approximately HK\$558.3 million for the year ended 31 December 2010, representing an increase of approximately HK\$271.6 million, or 94.7%, primarily due to our strong business growth in the Middle East (as a result of the winning of a Sinopec affiliates' project in Iran and the expansion of the range of products and services that we offer under our business in oilfield project segment). In particular, the significant growth of our oilfield project services business was the major driver of our overall business growth. In addition, the increase in the number of projects in China and hence the corresponding revenue also contributed to the increase of our revenue in 2010. The details of our revenue growth are further discussed below by each business division.

Oilfield project services

Our revenue attributable to our oilfield project services significantly increased from approximately HK\$106.9 million for the year ended 31 December 2009 to approximately HK\$499.4 million for the year ended 31 December 2010, representing an increase of approximately HK\$392.5 million, or 367.2%. Our revenue from our oilfield project services business recorded significant increase mainly because (i) of the strong growth of our services in well completion in the Middle East which we believe was partly contributed by our involvement in projects in that region by way of providing consultancy services in previous year; and (ii) our revenue from our oilfield project services in drilling increased from approximately HK\$19.3 million for the year ended 31 December 2009 to approximately HK\$74.3 million for the year ended 31 December 2010, representing an increase of approximately HK\$55.0 million, or 285.0%, primarily due to the increased demand for our turbine-drilling services in China. The increase was slightly offset by the decrease of revenue

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attributable to our services in production enhancement from approximately HK\$19.1 million for the year ended 31 December 2009 to approximately HK\$5.8 million for the year ended 31 December 2010. The relatively high level of our production enhancement revenue in 2009 was mainly due to the fact that we had the largest production enhancement project in Northern China (in terms of revenue, amounting to approximately HK\$12.7 million) in 2009.

Consultancy services

Our revenue attributable to our consultancy services decreased from approximately HK\$80.6 million for the year ended 31 December 2009 to approximately HK\$53.0 million for the year ended 31 December 2010, representing a decrease of approximately HK\$27.6 million, or 34.2%. The decrease was primarily due to (i) the fact that our Russian client for whom we provided services in 2009 in Russia did not require our services in 2010; and (ii) decreased revenue contribution from our consultancy services in the Middle East in 2010.

Manufacturing and sales of tools and equipment

Our revenue attributable to our manufacturing and sales of tools and equipment decreased from approximately HK\$99.2 million for the year ended 31 December 2009 to approximately HK\$5.9 million for the year ended 31 December 2010, representing a decrease of approximately HK\$93.3 million, or 94.1%. The relatively high level of revenue attributable to our manufacturing and sales of tools and equipment in 2009 was primarily due to the fact that we had our two largest trading transactions with an aggregate sales of approximately HK\$96.8 million in 2009.

Other income

Our other income was approximately HK\$13.7 million for the year ended 31 December 2010, representing an increase of approximately HK\$8.6 million, or 168.6%, from approximately HK\$5.1 million for the year ended 31 December 2009. The increase was primarily due to the increase of our agency fee income by approximately 275.0% from approximately HK\$3.6 million for the year ended 31 December 2009 to approximately HK\$13.5 million for the year ended 31 December 2010 resulting from the increase of quantity of the products introduced by us to customers and for oilfield service providers.

Material costs

Our material costs increased from approximately HK\$99.2 million for the year ended 31 December 2009 to approximately HK\$301.0 million for the year ended 31 December 2010, representing an increase of approximately HK\$201.8 million, or 203.4%. Such increase mainly resulted from the significant growth of our oilfield project services business.

Depreciation of property, plant and equipment

Our depreciation of property, plant and equipment amounted to approximately HK\$2.6 million for the year ended 31 December 2010, representing an increase of HK\$0.7 million, or 36.8%, from approximately HK\$1.9 million for the year ended 31 December 2009. The increase was primarily due to the increase in plant and equipment, which was in line with the growth of our business.

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Amortisation of intangible assets

Our amortisation of intangible assets increased from approximately HK\$3.1 million for the year ended 31 December 2009 to approximately HK\$3.2 million for the year ended 31 December 2010, representing an increase of approximately HK\$0.1 million, or 3.2%.

Impairment of intangible assets

We did not have any impairment of intangible assets for the year ended 31 December 2009. Our impairment of intangible assets for the year ended 31 December 2010 amounted to approximately HK\$3.8 million as a result of the impairment of our goodwill which arose from Dezhou Jiacheng due to the plan of reallocation of substantial part of the manufacturing operations to other Group member.

Operating lease rental

Our operating lease rental decreased slightly from approximately HK\$2.5 million for the year ended 31 December 2009 to approximately HK\$2.4 million for the year ended 31 December 2010, representing a decrease of approximately HK\$0.1 million, or 4.0%.

Employee benefit expenses

Our employee benefit expenses increased from approximately HK\$46.3 million for the year ended 31 December 2009 to approximately HK\$76.8 million for the year ended 31 December 2010, representing an increase of approximately HK\$30.5 million, or 65.9%. The increase was primarily due to (i) the fact that the Pre-IPO Share Option Scheme was adopted in 2010 and there was a provision for share-based payment of approximately HK\$21.1 million for the year ended 31 December 2010 and (ii) the increase of wages, salaries and bonus which was in line with the increase of the number of employees.

Distribution expenses

Our distribution expenses were approximately HK\$4.8 million for the year ended 31 December 2010, representing a decrease of approximately HK\$4.8 million, or 50.0%, from approximately HK\$9.6 million for the year ended 31 December 2009. The decrease was primarily due to the reduction of transportation costs for the delivery of tools and equipment for our trading transactions in 2010 corresponding to the reduction in trading transactions in 2010.

Technical service fee

Our technical service fee increased from approximately HK\$12.7 million for the year ended 31 December 2009 to approximately HK\$36.5 million for the year ended 31 December 2010, representing an increase of approximately HK\$23.8 million, or 187.4%. The increase was primarily due to additional costs for technical services in line with the strong business growth of our services in drilling and well completion.

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Research and development expenses

Our research and development expenses were approximately HK\$3.9 million for the year ended 31 December 2010, representing an increase of approximately HK\$2.4 million, or 160.0%, from approximately HK\$1.5 million for the year ended 31 December 2009. The increase was primarily due to the fact that we engaged independent third party research institute for our research and development in 2010 while we did not do so in 2009.

Other expenses

Our other expenses increased from approximately HK\$20.0 million for the year ended 31 December 2009 to approximately HK\$28.5 million for the year ended 31 December 2010, representing an increase of approximately HK\$8.5 million, or 42.5%. The increase was primarily due to the increase of our entertainment expenses, professional service fees, marketing expenses and office utilities, as a result of our substantial business growth in 2010.

Other losses, net

Our other net losses were approximately HK\$0.7 million for the year ended 31 December 2010, representing a decrease of approximately HK\$0.1 million, or 12.5%, from approximately HK\$0.8 million for the year ended 31 December 2009. The decrease was primarily due to the fact that we recorded net foreign exchange gains of approximately HK\$0.4 million as a result of our ordinary course of business for the year ended 31 December 2010, partially offset by the fact that we incurred loss on deregistration of one of our subsidiaries.

Operating profit

As a result of the foregoing, our operating profit was approximately HK\$107.6 million for the year ended 31 December 2010, representing an increase of approximately HK\$13.4 million, or 14.2%, from approximately HK\$94.2 million for the year ended 31 December 2009. Our operating profit margin was approximately 19.3% for the year ended 31 December 2010, which was lower than that of 32.9% for the year ended 31 December 2009. The high operating profit margin in 2009 was primarily attributable to the fact that one of our largest trading transactions in 2009, whose revenue amounting to approximately HK\$75.7 million with respective materials cost of HK\$29.3 million and distribution expense of HK\$6.5 million, recording operating profit margin of 52.8% which was higher than our projects or transactions in 2010.

Finance costs, net

Our net finance costs were approximately HK\$2.0 million for the year ended 31 December 2010, representing an increase of approximately HK\$0.7 million, or 53.8%, from approximately HK\$1.3 million for the year ended 31 December 2009. The increase was primarily attributable to the increase of interest expenses which resulted from the fact that the amount of our bank borrowings increased from approximately HK\$24.2 million as at 31 December 2009 to approximately HK\$76.7 million as at 31 December 2010 and the interest rates accruing on our bank borrowings increased in 2010.

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Share of profit of an associate

Our share of profit of an associate was approximately HK\$0.6 million for the year ended 31 December 2010.

Income tax expense

Our income tax expense was approximately HK\$21.6 million for the year ended 31 December 2010, representing an increase of approximately HK\$5.7 million, or 35.8%, from approximately HK\$15.9 million for the year ended 31 December 2009. Such increase reflects the growth of our profit before income tax. Effective tax rate increased from 17.1% in 2009 to 20.3% in 2010. The slight increase in effective tax rate mainly resulted from the share-based payments of approximately HK\$21.1 million incurred by the Company during 2010, in which any income and expenses of the Company was not subject to income tax because it was incorporated in the BVI.

Profit for the year

As a result of the foregoing, our profit for the year was approximately HK\$84.6 million for the year ended 31 December 2010, representing an increase of approximately HK\$7.6 million, or 9.9% from approximately HK\$77.0 million for the year ended 31 December 2009. Our net profit margin decreased from 26.9% for the year ended 31 December 2009 to 15.2% for the year ended 31 December 2010, primarily due to a lower operating profit margin in 2010.

CONSOLIDATED BALANCE SHEETS

The following table sets forth our consolidated balance sheets as at 31 December 2009, 2010 and 2011 and 30 September 2012:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
ASSETS				
Non-current assets				
Property, plant and equipment	7,573,094	10,444,281	20,723,244	39,756,302
Intangible assets	487,813,156	480,815,129	525,928,146	575,039,262
Investment in an associate ...	—	610,006	1,102,297	—
Investment in a jointly controlled entity	—	—	1,639,730	—
Deferred tax assets	483,719	499,027	—	3,405,902
	495,869,969	492,368,443	549,393,417	618,201,466

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	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Current assets				
Inventories	31,320,820	46,092,086	91,927,038	258,166,106
Trade and other receivables and prepayments	149,201,244	540,484,036	471,816,230	580,192,745
Pledged bank deposits	15,508,480	45,419,670	48,756,417	19,037,928
Cash and cash equivalents ...	98,054,427	106,006,482	72,633,116	51,081,595
	294,084,971	738,002,274	685,132,801	908,478,374
Total assets	<u>789,954,940</u>	<u>1,230,370,717</u>	<u>1,234,526,218</u>	<u>1,526,679,840</u>
EQUITY				
Capital and reserves				
attributable to owners of the Company				
Share capital	275,044,825	662,644,041	662,644,041	671,891,801
Other reserves	13,328,824	39,003,685	47,689,553	46,500,609
Retained earnings	102,609,283	187,243,695	273,100,684	257,539,041
	390,982,932	888,891,421	983,434,278	975,931,451
Non-controlling interests	(504,309)	—	19,561,171	34,433,868
Total equity	<u>390,478,623</u>	<u>888,891,421</u>	<u>1,002,995,449</u>	<u>1,010,365,319</u>
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	10,257,986	10,244,983	12,873,620	13,322,849
	10,257,986	10,244,983	12,873,620	13,322,849
Current liabilities				
Trade and other payables	68,006,748	228,529,521	100,927,369	311,085,935
Derivative financial instrument	—	—	—	1,335,185
Current income tax liabilities	10,946,280	26,030,642	14,401,258	16,703,552
Shareholders' loans	286,021,046	—	—	—
Bank borrowings	24,244,257	76,674,150	103,328,522	173,867,000
	389,218,331	331,234,313	218,657,149	502,991,672

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	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Total liabilities	399,476,317	341,479,296	231,530,769	516,314,521
Total equity and liabilities	789,954,940	1,230,370,717	1,234,526,218	1,526,679,840
Net current (liabilities)/assets	(95,133,360)	406,767,961	466,475,652	405,486,702
Total assets less current liabilities	400,736,609	899,136,404	1,015,869,069	1,023,688,168

Discussion of key balance sheet items

Property, plant and equipment

Property, plant and equipment consists of leasehold improvements, plant and machineries, motor vehicles, computer equipment and furniture and fixtures. The increase of the balance of our property, plant and equipment from 2009 to 30 September 2012 was primarily due to the expansion of our business (which led to the need for more equipment, plant and machineries, motor vehicles and furniture and fixtures) and our acquisition of a majority of interests in Shenzhen FST and Sheraton Investment.

Intangible assets

Our intangible assets primarily consist of goodwill. Please refer to the section headed “Results of operations — Discussion of certain key items of statements of comprehensive income — Impairment of intangible assets” of this section for details of our goodwill. The increase of amount of our intangible assets from approximately HK\$487.8 million as at 31 December 2009 to approximately HK\$575.0 million as at 30 September 2012 was mainly due to the increase of our goodwill, contractual customer relationships and incomplete sales contracts following our acquisitions of a majority of interests in Shenzhen FST and Sheraton Investment.

Inventory

Our inventory mainly consists of:

- raw materials in relation to our business in manufacture and sales of tools and equipment;
- assembling materials for tools required for or consumed in the cause of providing oilfield project services, such as well drilling tools, well completion tools and fracturing tools, and the assembled tools; and

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- finished goods in relation to our business in manufacturing and sales of tools and equipment such as safety valves and packers, and wellhead control panels and other equipment.

The following table sets out a summary of our inventory balances as at the end of the periods indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Raw materials	1,094,428	1,224,415	6,918,572	9,069,442
Assembling materials	28,418,857	42,087,648	73,425,281	226,302,025
Work in progress	739,400	796,396	3,226,606	15,378,659
Finished goods	<u>1,068,135</u>	<u>1,983,627</u>	<u>8,356,579</u>	<u>7,415,980</u>
	<u>31,320,820</u>	<u>46,092,086</u>	<u>91,927,038</u>	<u>258,166,106</u>

The increase in our inventory balance from approximately HK\$31.3 million as at 31 December 2009 to approximately HK\$46.1 million as at 31 December 2010 reflected the growth of our business, and the significant increase from approximately HK\$46.1 million as at 31 December 2010 to approximately HK\$91.9 million as at 31 December 2011 was a consequence of increase in our inventory level that resulted from (i) the fact that we procured considerable purchase of inventories at the end of 2011 for our fracturing projects in China which were scheduled to be delivered in 2012; and (ii) the integration of inventories attributable to Shenzhen FST following the acquisition of a majority of interests in it in 2011. The further increase in our inventory balance to approximately HK\$258.2 million as at 30 September 2012 was primarily due to the fact that we generally have a higher amount of inventory at the end of the first three quarters of a year in anticipation of services to be performed in the final quarter as we generally record higher revenue in the second half of a year (particularly in the 4th quarter). As at 31 December 2012, HK\$155.4 million, or 60.2% of our inventory as at 30 September 2012, had been sold or utilised.

During the Track Record Period, the material costs amounted to HK\$99,195,511, HK\$301,040,822, HK\$234,838,409 and HK\$238,758,855, respectively.

Our inventory turnover days were 91 days, 47 days, 107 days and 198 days for the three years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012. The inventory turnover days are calculated using the following formula:

Inventory turnover days = (beginning balance of inventory for the period + ending balance of inventory for the period)/2/material costs x 365 days for a year (or 270 days for a nine-month period).

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Our inventory turnover days decreased from 91 days in 2009 to 47 days in 2010, primarily due to (i) an increase of HK\$201.8 million, or 203.4%, in material costs from 2009 to 2010 which was in line with the significant growth of our oilfield project services business and (ii) the fact that we had a lower level of trading transaction and the corresponding inventory in 2010, and therefore the increase of inventory balance from 2009 to 2010 was not proportional to that of material costs for the same period. In particular, our material costs increased significantly from approximately HK\$99.2 million for the year ended 31 December 2009 to approximately HK\$301.0 million for the year ended 31 December 2010, representing an increase of approximately 203.4%. Such increase was in line with the significant growth of our revenue from oilfield project services business, which resulted from the completion of a number of our projects in the Middle East in December 2010. As the relevant inventories for these projects were delivered in December 2010, the increase of the average inventory balance from the year ended 31 December 2009 to the year ended 31 December 2010 was relatively small (as compared to the increase of material costs). The closing balance of inventory for the year ended 31 December 2010 and the average inventory balance for the year ended 31 December 2010 were approximately HK\$46.1 million and HK\$38.7 million respectively, while the closing balance of inventory for the year ended 31 December 2009 and the average inventory balance for the year ended 31 December 2009 were approximately HK\$31.3 million and HK\$24.7 million respectively. Thus, the increase of the average inventory balance from the year ended 31 December 2009 to the year ended 31 December 2010 was approximately HK\$14.0 million, or 56.7%. As the calculation of the inventory turnover days was based on dividing the material costs by the average inventory balance, the disproportional increase between material costs and average inventory balance from 2009 to 2010 contributed to the decrease of inventory turnover days from 2009 to 2010. Our inventory turnover days increased from 47 days in 2010 to 107 days in 2011, primarily due to the significant increase of our inventory balance from approximately HK\$46.1 million as at 31 December 2010 to approximately HK\$91.9 million as at 31 December 2011. The significant increase of our inventory balance from 2010 to 2011 mainly resulted from the integration of inventories attributable to Shenzhen FST and the considerable purchase of inventories at the end of 2011 for delivery in 2012 for our fracturing projects in China. The significant increase of our inventory balance in 2011 contributed to the significant increase of our average inventory balance for the year ended 31 December 2011. On the other hand, as disclosed earlier, the material costs decreased from approximately HK\$301.0 million for the year ended 31 December 2010 to approximately HK\$234.8 million for the year ended 31 December 2011. Given the calculations of the inventory turnover days, the significant increase of our consequently average inventory balance together with the decrease of our material costs contributed to the significant increase of our inventory turnover days from 2010 to 2011. Our inventory turnover days increased to 198 days for the nine months ended 30 September 2012 primarily due to the fact that our inventory balance as at 30 September 2012 increased significantly to approximately HK\$258.2 million. The significant increase of our inventory balance as at 30 September 2012 contributed to the significant increase of our average inventory balance for the nine months ended 30 September 2012. This primarily contributed to the significant increase of our inventory turnover days for the nine months ended 30 September 2012.

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Trade and other receivables and prepayments

The following table sets forth our trade and other receivables and prepayments as of the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade receivables	120,441,189	454,572,790	350,290,543	453,706,588
Other receivables and prepayments	<u>28,760,055</u>	<u>85,911,246</u>	<u>121,525,687</u>	<u>126,486,157</u>
	<u>149,201,244</u>	<u>540,484,036</u>	<u>471,816,230</u>	<u>580,192,745</u>

Trade receivables

Our trade receivables are mainly amounts due from customers for merchandise sold or services performed in the ordinary course of business. Our trade receivables balance mainly relates to our oilfield project services and consultancy services. Our trade receivables increased from approximately HK\$120.4 million as at 31 December 2009 to approximately HK\$454.6 million as at 31 December 2010 primarily due to the growth of our business and the fact that a number of contracts related to our Iran project were completed in December 2010, thus resulting in a considerable amount of trade receivables as at 31 December 2010. Similarly, the completion of a number of our projects in the Middle East in December 2010 and the subsequent settlement of the corresponding trade receivables primarily contributed to the decrease of our trade receivables from approximately HK\$454.6 million as at 31 December 2010 to approximately HK\$350.3 million as at 31 December 2011. Our trade receivables increased from approximately HK\$350.3 million as at 31 December 2011 to approximately HK\$453.7 million as at 30 September 2012 primarily attributable to (i) the strong growth of our business in production enhancement for the nine months ended 30 September 2012; and (ii) the fact that we completed some of the production enhancement projects as at 30 September 2012 and therefore the revenue of which was recognised pending settlement by customers. As at 31 December 2012, approximately HK\$187.0 million, or 41.2% of our trade receivables as at 30 September 2012, had been settled.

As disclosed previously, it is common that the major customers of China-based oilfield services providers are mainly those subsidiaries and affiliates of the three state-owned oil companies, namely CNPC, Sinopec and CNOOC. These customers being state-owned entities normally request us to provide a credit period of over 180 days, which has resulted in a longer credit period of our trade receivables. We believe that the request by the subsidiaries and affiliates of the three state-owned oil companies for such a long credit period is industry practice. In addition, the Group's operations are driven by the demand of its customers on a project basis and such demand is subject to seasonal variations. The Group generally execute relatively more projects and record relatively higher revenue in the second half of the year, and believe that such seasonal variations principally result from the tendency of the Group's PRC customers to execute more projects in the bottom half of each years as most of them set annual budgets early in the year and incur the budgeted capital expenditures later in

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the year, particularly in the fourth quarter. Furthermore, the facts that under our oilfield project services we grant to our customers, upon their request, a quality assurance deposit (typically being approximately 5% to 10% of the service fee under the relevant contracts) which they may withhold until up to 18 months after the service acceptance date, and that our revenue mainly attributed to those attributable to our oilfield project services during the Track Record Period further increase our trade receivable balances during that period. Thus, demand by our PRC customers in the fourth quarter of a year for oilfield services to be completed before the year end (and as a result the revenue of which will be recognised for that particular year), together with a request for a long credit period of our trade receivables and for our quality assurance deposit, often contributes to a larger amount of trade receivables as at the end of the year. We usually give our customers a credit term of up to six months from the delivery of our services or tools and equipment (subject to withholding of a small percentage for particular services), although such terms may vary depending on the type of business delivered, the customers' payment record, business volume and their market position in their relevant industry. To ensure that our credit risks relating to our trade receivables are minimised, before accepting any new customers, we apply an internal credit assessment policy to assess the potential customer's credit quality. We take into account the customer's financial position, past experience and other factors. Credit risk is managed at both company and Group level. The Group's business department (商務部) is responsible for managing and analysing the credit risk for each of their new customers through a stringent customer selection criteria before payment and delivery terms and conditions are offered. Non-state-owned oil company customers without a long term business relationship are normally offered a minimal amount of credit or with a payment terms of 30% deposits before the Group can deliver goods to them. We consider state-owned oil companies as good customers with high credit rating and normally offer open account with a credit period of up to 180 days, as bad debt risk associated with those state-owned oil companies is negligible. We have not experienced any bad debt during the Track Record Period. We take regular review on the breakdown and ageing analysis of trade receivables, any long outstanding balances will be followed up by a specific customer account manager.

The respective actual turnover days of three of the Group's customers who are PRC state-owned oil and gas companies, namely Sinopec, CNPC and CNOOC and the average trade receivables turnover days of all of our customers during the Track Record Period were as follows:

	Year ended 31 December			Nine months ended 30 September
	2009	2010	2011	2012
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Sinopec	199	189	273	215
CNPC	N/A	N/A	127	166
CNOOC	146	34	86	63
Average for all customers	176	188	263	190

Note: Trade receivables turnover days = (beginning of respective trade receivables for the period + ending balance of trade receivables for the period)/2/the respective revenue x 365 days for a year (or 270 days for a nine-month period).

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To further strengthen our management and control of credit risks, since June 2012 we have progressively implemented additional measures, such as reviewing our trade receivables from specific major customers on a monthly basis and assigning specific management personnel for chasing those long outstanding trade receivables from such major customer with an active but friendly approach, considering the issuance of a legal letter for chasing long outstanding trade receivables if any customer's financial position deteriorates, and making specific provision if we consider that any specific trade receivables are unrecoverable. On 1 October 2012, we have formed a management committee comprising of Mr. Wang and Ms. Sun Jinxia to supervise and enhance the implementation of our management and credit risk control measures, and two specific management personnel has been assigned to chase long outstanding trade receivables. Since June 2012 when the additional measures have been progressively implemented, there is continued improvement in collecting trade receivables. The management committee had also paid specific attention to these long outstanding receivables which were being chased by specific management personnel but considered that they were recoverable and hence no provision would be made. While keeping our focus in the PRC, we will also continue to explore the diversification of our customer base from China-based state-owned oil companies to international oil and gas companies and overseas regional and local oil and gas companies in view of the fact that those international/overseas oil companies normally request for payment terms with a relatively shorter credit period than those state-owned enterprise in the PRC, which is more favourable to us. In 2012, the Group has successfully developed a major new customer in South America, which is of cash on delivery payment terms. We consider that the trade receivables to be of good credit quality since most counterparties have strong financial position and no history of defaults. Based on the foregoing, the Sponsor and the Directors consider that the measures adopted by the Group in relation to management and control of credit risks will be effective to improve the Company's collection of outstanding trade receivables.

The following table sets forth the ageing analysis of our trade receivables at the respective balance sheet dates:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Up to 3 months	44,245,857	368,716,769	153,547,439	219,317,360
3 to 6 months	12,663,534	40,992,150	133,925,718	91,302,782
6 to 12 months	53,009,621	5,396,048	14,913,743	100,422,009
Over 12 months	10,522,177	39,467,823	47,903,643	42,664,437
	<u>120,441,189</u>	<u>454,572,790</u>	<u>350,290,543</u>	<u>453,706,588</u>

As at 31 December 2009, 2010 and 2011 and 30 September 2012, trade receivables of approximately HK\$72.1 million, HK\$85.9 million, HK\$160.6 million and HK\$205.0 million were past due but not impaired. These past due receivables were from a number of independent customers who had good trade record and had no history of default with us, and the balance of past due receivables from Sinopec on a group basis amounted to approximately HK\$71.1 million, HK\$77.6 million, HK\$128.8 million and HK\$177.7 million as at 31 December 2009, 2010, 2011 and 30 September 2012,

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respectively, accounting for approximately 98.6%, 90.3%, 80.2% and 86.7% of the total past due receivables as at 31 December 2009, 2010, 2011 and 30 September 2012, respectively. Our trade receivables that were past due but not impaired increased from approximately HK\$85.9 million as at 31 December 2010 to approximately HK\$160.6 million as at 31 December 2011 mainly attributable to the fact that most of such trade receivables as at 31 December 2010 was attributable to Yadavaran Project in Iran and there were large amount of revenue recognised towards the end of the year, and thus was not past due as at the end of 2010. On the other hand, the trade receivables as at 31 December 2011 was recognised relatively more evenly throughout the year, and thus there was a relatively larger amount of past due trade receivables as at the end of 2011. These past due trade receivables were primarily due from the affiliates of Sinopec, who being a state-owned entities, normally requests for a longer credit period and sometimes settles the relevant trade receivables after the due date. One of such affiliates with the largest outstanding past due balance as at 31 December 2011 accounted for an increase of HK\$77.9 million in past due trade receivables compared with its balance as at 31 December 2010 due to longer payment periods from their own respective customers. However, we have taken measures to ensure settlement and have effectively cleared the entire outstanding balance of the past due trade receivables as at 31 December 2011 from this affiliate in 2012. Based on past experience and the credit quality of our customers, most of whom are subsidiaries or affiliates of Sinopec (which is a state-owned oil company, has good trade record with us and has no history of default with us), and taking into account the fact that we take regular review as the ageing analysis of trade receivables and any long aged balances will be followed by specific customer account manager and district manager, we consider that there is no evidence of impairment in respect of our past due receivables and that these balances are fully recoverable and we generally consider the credit risks relating to our trade receivables to be relatively insignificant. As such, the Directors consider that provision for these balances is not necessary. During the Track Record Period, except for those contracts relating to sales to Syria which were entered into by Top Select (which were disposed of by the Group on 9 November 2012 to Mr. Yang Yingwei, a past employee of the Group responsible for the Yadavaran Project and an Independent Third Party), that had been suspended before the relevant products were provided as a result of Syria's political unrest (with an aggregate contract amount of approximately HK\$92.2 million), the Group has not experienced any material variations of the final trade receivables from the contract sum.

Our trade receivables turnover days for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 were 176 days, 188 days, 263 days and 190 days, respectively. The trade receivables turnover day is calculated using the following formula:

Trade receivables turnover days = (beginning of trade receivables for the period + ending balance of trade receivables for the period)/2/revenue x 365 days for a year (or 270 days for a nine-month period).

Our trade receivables turnover days slightly increased from 176 days in 2009 to 188 days in 2010, primarily due to the significant increase of both our revenue and our trade receivables from 2009 to 2010. Our trade receivables turnover days increased from 188 days in 2010 to 263 days in 2011, primarily due to (i) the fact that the trade receivables turnover days were computed from dividing the revenue by the average of the trade receivables opening and closing balance; and (ii) the significant increase of our average trade receivables in 2011 while our revenue only recorded marginal increase for the same year. The significant increase of our average trade receivables from 2010 to 2011

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was a result of the fact that there was a significant increase in the opening balance of trade receivables from 2010 to 2011 as our trade receivables increased from approximately HK\$120.4 million as at 31 December 2009 to approximately HK\$454.6 million as at 31 December 2010 due to the reasons set forth under our discussions on change of our trade and other receivables and prepayments. More particularly, although the trade receivables increased significantly from approximately HK\$120.4 million as at 31 December 2009 to approximately HK\$454.6 million as at 31 December 2010, the average trade receivables for the purpose of calculating the trade receivables turnover days for the year ended 31 December 2010 amounted to HK\$287.5 million. On the other hand, although the trade receivables decreased and improved from approximately HK\$454.6 million as at 31 December 2010 to approximately HK\$350.3 million as at 31 December 2011, the average trade receivables for the purpose of calculating the trade receivables turnover days for the year ended 31 December 2011 increased to HK\$402.5 million, representing an increase of HK\$115 million, or 40%. The increase of average trade receivables for the year ended 31 December 2011, coupled with the marginal increase of revenue from 2010 to 2011, resulted in the continual increase of turnover days. Our trade receivables turnover days decreased from 263 days in 2011 to 190 days for the nine months ended 30 September 2012, primarily attributable to (i) the fact that a substantial portion of the trade receivables arising from the projects in the Middle East which were completed in 2011 was settled before 30 September 2012, which mainly resulted in a lesser extent of increment of trade receivables with reference to the increment of revenue; (ii) the computation of the trade receivables turnover days; and (iii) the credit periods granted to the production enhancement project in China in 2012 were relatively shorter in comparison to other projects in China of the Group.

Other receivables and prepayments

The following table sets forth our other receivables and prepayments as of the dates indicated:

	As at 31 December			As at
	2009	2010	2011	30 September
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other receivables from related parties:				
- Associate ^(note 1)	—	3,612,779	5,478,030	7,642,283
- Jointly controlled entity ^(note 2)	—	—	7,767,400	—
- Other related party ^(note 3)	—	—	86,199	53,226
Business related prepayments	22,043,633	74,261,204	69,649,039	80,325,777
Others	6,716,422	8,037,263	38,545,019	38,464,871
	<u>28,760,055</u>	<u>85,911,246</u>	<u>121,525,687</u>	<u>126,486,157</u>

Notes:

- (1) The associate is Iranian Refinement. As at the Latest Practicable Date, upon the disposal of Top Select, Iranian Refinement was no longer the associate of the Company. The outstanding amount due to the Group which was interest-free and non-trade in nature as at the Latest Practicable Date amounted to approximately HK\$1.9 million, which the Group expected to be settled by the end of March 2013.

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- (2) The jointly controlled entity is Sheraton Investment.
- (3) The other related party is Mr. Wang, a Director and a Controlling Shareholder. The receivables from Mr. Wang represent the cash advanced to him which was fully settled as at the Latest Practicable Date.

As at 31 December 2009, we did not record any receivables from related parties, while the receivables from related parties increased from approximately HK\$3.6 million as at 31 December 2010 to approximately HK\$13.3 million as at 31 December 2011. Our receivables from related parties decreased from approximately HK\$13.3 million as at 31 December 2011 to approximately HK\$7.7 million as at 30 September 2012. The increase in 2009 to 2010 was primarily due to the advance that we made to Iranian Refinement, while the increase in 2011 primarily resulted from advance made to the Sheraton Group and further advances made to Iranian Refinement, and the decrease in 2012 was primarily attributable to the decrease of other receivables from jointly controlled entity of approximately HK\$7.8 million for the nine months ended 30 September 2012 as Sheraton Investment was no longer a jointly controlled entity after it became a subsidiary of the Group in June 2012.

Our business related prepayments include prepayments for purchases of inventories and prepayments for rents. Our business related prepayments increased from approximately HK\$22.0 million as at 31 December 2009 to approximately HK\$74.3 million as at 31 December 2010, subsequently decreased to approximately HK\$69.6 million as at 31 December 2011, and increased to approximately HK\$80.3 million as at 30 September 2012. The increase in 2010 was primarily due to our significantly increased purchase of inventories for our projects in the Middle East for the same year, while the decrease in 2011 primarily resulted from the decrease in our purchase of inventories. Such decrease was offset by the fact that we began to purchase relevant materials as we made bids for production enhancement projects to be performed in 2012. The increase of our business related prepayments to approximately HK\$80.3 million as at 30 September 2012 was mainly due to our increased purchase of inventories for our well completion projects for our projects in Venezuela for PDVSA and our production enhancement projects in China, offset by the fact that certain materials to which the business related prepayments as at 31 December 2011 related were consumed in the first half of 2012.

Others include other receivables from and advance to third parties, VAT recoverables, rental deposits, deferred expenses and cash advances to staff for the purpose of our operations. Other receivables from and advance to third parties include (i) unamortised expenditures and third party recoverables arising from prepayments in relation to our projects; and (ii) a loan of approximately HK\$24.3 million advanced to a minority shareholder of Shenzhen FST in 2011 for facilitating the cashflow of such vendor. The loan was interest-free, unsecured and approximated its fair value, and has been settled in August 2012. The increase of the balance under item "Others" from 2009 to 2012 was mainly due to the increase of cash advances to our staff, offset by the decrease of our other receivables from third parties. Our other receivables from and advance to third parties increased from approximately HK\$0.7 million as at 31 December 2009 to approximately HK\$1.5 million as at 31 December 2010, subsequently increased to approximately HK\$27.2 million as at 31 December 2011, and decreased to approximately HK\$3.4 million as at 30 September 2012. The increase from 2009 to 2010 resulted from the fact that we paid down-payment for purchase of vehicles in 2010 and that there were third party recoverables arising from prepayments in relation to our supervisory services projects in 2010, while the increase from 2010 to 2011 was mainly attributable to the loan advanced to a

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minority shareholder of Shenzhen FST, and the decrease from 2011 to 2012 was primarily attributable to the settlement in August 2012 of the foregoing loan by the minority shareholder of Shenzhen FST. Our cash advances to staff increased from approximately HK\$1.3 million as at 31 December 2009 to approximately HK\$2.2 million as at 31 December 2010, subsequently increased to approximately HK\$10.4 million as at 31 December 2011, and further increased to approximately HK\$20.9 million as at 30 September 2012. The increase from 2009 to 2010 was in line with our business growth and the significant increase from 2010 to 2011 mainly resulted from our increased efforts on marketing and the opening of a number of our regional offices. The increase from 2011 to 2012 was in line with our business growth.

Trade and other payables

The following table sets forth our trade and other payables as of the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Trade payables	3,878,853	204,157,558	10,213,515	119,924,788
Other payables	<u>64,127,895</u>	<u>24,371,963</u>	<u>90,713,854</u>	<u>191,161,147</u>
	<u>68,006,748</u>	<u>228,529,521</u>	<u>100,927,369</u>	<u>311,085,935</u>

Trade payables

Our trade payables are obligations to pay for goods, raw materials, assembling tools and materials or services that have been acquired in the ordinary course of business from suppliers. Our trade payables increased significantly from approximately HK\$3.9 million as at 31 December 2009 to approximately HK\$204.2 million as at 31 December 2010, subsequently decreased to approximately HK\$10.2 million as at 31 December 2011, and then increased to approximately HK\$119.9 million as at 30 September 2012. The increase in 2010 was primarily due to the fact that a large amount of assembling tools and materials were purchased and consumed towards the end of 2010 for our projects in the Middle East. The decrease in 2011 primarily resulted from the fact that a considerable amount of trade payables as at 31 December 2010 had been settled following completion of certain projects in the Middle East in 2010. The increase as at 30 September 2012 was mainly due to (i) the fact that we had credit terms (generally of 30 days from the delivery date in respect of the balance payment) for our purchases of assembling tools and materials required for our production enhancement services in 2012 while we were not granted any credit terms for our purchases of similar materials in 2011; and (ii) the increase of materials we had purchased for and consumed in the provision of production enhancement services for the nine months ended 30 September 2012. As at 31 December 2012, HK\$116.8 million, or 97.4% of our trade payables as at 30 September 2012, had been settled.

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The following table sets forth the aging analysis of our trade payables (including amounts due to related parties of trading in nature) at the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
0 to 30 days	1,181,173	195,808,680	8,725,896	63,492,475
31 to 60 days	201,632	99,160	66,447	47,796,130
61 to 90 days	235,912	704,958	21,074	3,480,495
Over 90 days	2,260,136	7,544,760	1,400,098	5,155,688
	3,878,853	204,157,558	10,213,515	119,924,788

Generally speaking, our suppliers (other than those who do not grant any credit period) grant us a credit period of up to three months in respect of the balance payment from the delivery date.

Our trade payables turnover days for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 was 34 days, 112 days, 131 days and 59 days, respectively. The trade payables turnover day is calculated using the following formula:

Trade payables turnover days = (beginning of trade payables for the period + ending balance of trade payables for the period)/2/(material costs + technical service fee) x 365 days for a year (or 270 days for a nine-month period).

Our trade payables turnover days increased from 34 days in 2009 to 112 days in 2010, primarily due to the significant increase of our trade payables from 2009 to 2010 for the reasons set forth under our discussions on change of our trade and other payables, offset by the substantial increase of our material costs and technical service fees (which was in line with our business growth). Our trade payables turnover days increased from 112 days in 2010 to 131 days in 2011, primarily due to the slight increase of our average trade payables from 2010 to 2011 while our material costs and technical service fees recorded slight decrease for the same year (which was in line with the change of our business environment). Our trade payables turnover days decreased from 131 days in 2011 to 59 days for the nine months ended 30 September 2012 primarily due to the fact that (i) the trade payables turnover days were computed from dividing the material costs plus technical service fee by the average of trade payables opening and closing balance; and (ii) while our trade payables balance as at 30 September 2012 was approximately HK\$119.9 million, representing an increase of approximately HK\$109.7 million or 1,075.5%, from approximately HK\$10.2 million as at 31 December 2011, our average trade payables decreased from approximately HK\$107.2 million for the year ended 31 December 2011 to approximately HK\$65.1 million for the nine months ended 30 September 2012 as a result of a relatively low opening balance of trade payables.

The Directors confirm that there has been no material defaults by the Group in payments of its trade payables during the Track Record Period.

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Other payables

The following table sets forth our other payables as of the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other payables to related party ^(note 1)	71,690	518,565	—	—
Consideration payable for acquisition of subsidiaries ^(note 2)	678,300	—	49,809,160	27,411,362
Receipt in advance	43,966,053	136,125	1,751,409	3,309,817
Others	<u>19,411,852</u>	<u>23,717,273</u>	<u>39,153,285</u>	<u>160,439,968</u>
	<u>64,127,895</u>	<u>24,371,963</u>	<u>90,713,854</u>	<u>191,161,147</u>

Notes:

- (1) The related party is Mr. Wang. The other payables from Mr. Wang represent cash advances from and paid on behalf of the Group by Mr. Wang, a Director and a Controlling Shareholder.
- (2) The subsidiaries are Shenzhen FST and Dezhou Jiacheng.

Our receipt in advance primarily consists of prepayments by our customers for our services and/or tools and equipment. Our receipt in advance recorded significant decrease from approximately HK\$44.0 million as at 31 December 2009 to approximately HK\$0.1 million as at 31 December 2010, primarily due to the fact that (i) payment terms vary on a case-by-case basis and the number of cases where there was prepayment decreased from 2009 to 2010; and (ii) a number of our projects in the Middle East were completed at the end of 2010 and accordingly as at 31 December 2010 certain sums of receipt in advance relating to these projects were recognised as revenue. Except for 2009, we generally do not have significant receipt in advance as at the end of the year. Our receipt in advance increased from approximately HK\$1.8 million as at 31 December 2011 to approximately HK\$3.3 million as at 30 September 2012, mainly attributable to the fact that payment terms vary on a case-by-case basis and there was an increase in the number of prepayment cases from the year ended 31 December 2011 to the nine months ended 30 September 2012.

Others mainly include other payables to third parties, accrued expenses (which comprise of payroll and welfare and others), VAT payable and other tax and surcharge payables (such as business tax (營業稅), city maintenance and construction tax (城市維護建設稅) and additional education tax (教育附加稅)), and as at 30 September 2012, also include dividend payable. Other payables to third parties mainly include payables for distribution expenses, employee reimbursements and travelling and other administrative payables. The increase in other payables from approximately HK\$39.2

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million as at 31 December 2011 to approximately HK\$160.4 million as at 30 September 2012 was mainly due to the fact that (i) a dividend payable of HK\$120 million was recorded as at 30 September 2012; (ii) the other payables to third parties increased from approximately HK\$4.5 million as at 31 December 2011 to approximately HK\$10.2 million as at 30 September 2012, primarily due to the integration of other payables to third parties attributable to Sheraton Investment; and (iii) the accrued expenses (others) increased from approximately HK\$0.6 million as at 31 December 2011 to approximately HK\$6.2 million as at 30 September 2012, primarily due to our preparation for the Global Offering. The increase in other payables from approximately HK\$23.7 million as at 31 December 2010 to approximately HK\$39.2 million as at 31 December 2011 was primarily due to (i) the increase of our VAT payable and other tax and surcharge payables following our acquisition of a majority interests in Shenzhen FST and (ii) the increase of our payroll and welfare accrued expenses, which was in line with the increase of the number of employees. The increase from approximately HK\$19.4 million as at 31 December 2009 to approximately HK\$23.7 million as at 31 December 2010 was primarily due to the increase of our third party payables.

The Directors confirm that there has been no material defaults by the Group in payments of its other payables during the Track Record Period.

Current asset and current liability position

The following table sets forth our current assets, current liabilities and net current assets/(liabilities) as at the dates indicated:

	As at 31 December			As at 30 September	As at 31 December
	2009	2010	2011	2012	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i> <i>(unaudited)</i>
Current assets					
Inventories	31,320,820	46,092,086	91,927,038	258,166,106	163,269,915
Trade and other receivables and prepayments	149,201,244	540,484,036	471,816,230	580,192,745	755,793,786
Pledged bank deposits	15,508,480	45,419,670	48,756,417	19,037,928	37,150,643
Cash and cash equivalents	98,054,427	106,006,482	72,633,116	51,081,595	134,492,230
	294,084,971	738,002,274	685,132,801	908,478,374	1,090,706,574

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	As at 31 December			As at 30 September	As at 31 December
	2009	2010	2011	2012	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i> <i>(unaudited)</i>
Current liabilities					
Trade and other payables	68,006,748	228,529,521	100,927,369	311,085,935	497,202,845
Derivative financial instrument	—	—	—	1,335,185	1,335,185
Current income tax liabilities	10,946,280	26,030,642	14,401,258	16,703,552	32,448,603
Shareholders' loans	286,021,046	—	—	—	—
Bank borrowings	24,244,257	76,674,150	103,328,522	173,867,000	198,689,503
	<u>389,218,331</u>	<u>331,234,313</u>	<u>218,657,149</u>	<u>502,991,672</u>	<u>729,676,136</u>
Net current (liabilities)/assets ..	<u>(95,133,360)</u>	<u>406,767,961</u>	<u>466,475,652</u>	<u>405,486,702</u>	<u>361,030,438</u>

We recorded net current assets of approximately HK\$406.8 million, HK\$466.5 million and HK\$361.0 million as at 31 December 2010, 2011 and 2012 and HK\$405.5 million as at 30 September 2012, respectively, but we experienced net current liabilities of approximately HK\$95.1 million as at 31 December 2009. We had net current liabilities of approximately HK\$95.1 million as at 31 December 2009 primarily because there was a shareholders' loans of approximately HK\$286.0 million which was interest-free, unsecured and repayable on demand and was subsequently capitalised through allotment and issuance by the Company of its shares to the relevant shareholders on 20 October 2010.

The decrease of approximately HK\$44.5 million in net current assets from 30 September 2012 to 31 December 2012 was mainly due to a decrease in inventories of approximately HK\$94.9 million, an increase in trade and other payables of approximately HK\$186.1 million, an increase in current income tax liabilities of approximately HK\$15.7 million and an increase in bank borrowings of approximately HK\$24.8 million, partially offset by an increase in trade and other receivables and prepayment of approximately HK\$175.6 million, an increase in pledged bank deposits of approximately HK\$18.1 million and an increase in cash and cash equivalents of approximately HK\$83.4 million.

The decrease of approximately HK\$61.0 million in net current assets from 31 December 2011 to 30 September 2012 was mainly due to an increase in trade and other payables of approximately HK\$210.2 million, an increase in bank borrowings of approximately HK\$70.5 million, an increase in current income tax liabilities of approximately HK\$2.3 million, a decrease in cash and cash equivalents of approximately HK\$21.5 million and a decrease in pledged bank deposits of approximately HK\$29.7 million, partially offset by an increase in inventories of approximately HK\$166.2 million and an increase in trade and other receivables and prepayments of approximately HK\$108.4 million.

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The increase of approximately HK\$59.7 million in net current assets from 31 December 2010 to 31 December 2011 was mainly due to an increase in inventories of approximately HK\$45.8 million, a decrease in trade and other payables of approximately HK\$127.6 million, a decrease in current income tax liabilities of approximately HK\$11.6 million and an increase in pledged bank deposits of approximately HK\$3.4 million, partially offset by a decrease in trade and other receivables and prepayments of approximately HK\$68.7 million, a decrease in cash and cash equivalents of approximately HK\$33.4 million, and an increase in bank borrowings of approximately HK\$26.6 million.

The increase of approximately HK\$501.9 million in net current assets from 31 December 2009 to 31 December 2010 was mainly due to an increase in trade and other receivables and prepayments of approximately HK\$391.3 million, a decrease in shareholders' loans of approximately HK\$286.0 million, an increase in pledged bank deposits of approximately HK\$29.9 million, an increase in inventories of approximately HK\$14.8 million, and an increase in cash and cash equivalents of approximately HK\$8.0 million partially offset by an increase in trade and other payables of approximately HK\$160.5 million, an increase in bank borrowings of approximately HK\$52.4 million and an increase in current income tax liabilities of approximately HK\$15.1 million.

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

During the Track Record Period, we funded our operations principally with cash generated from our operations, equity contributions from our shareholders and proceeds of bank borrowings. As at 31 December 2012, we had cash and cash equivalents of approximately HK\$134.5 million. We primarily use our cash for funding of our operating activities and repayment of our bank borrowings. The Directors expect that the Group will continue to principally rely on cash generated from our operations and proceeds of bank borrowings, supplemented by shareholders' contributions where necessary, to fund our operations.

Our primary objective of capital management is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may obtain borrowings from financial institutions or related parties, issue new shares or sell assets. We review and analyse our trade payables, trade receivables and cash on a regular basis. We closely monitor our trade receivables and have established procedures to manage and control the recoverability of the trade receivables. We may also obtain bank borrowings if required. We have not experienced in the past and do not expect in the foreseeable future to have any significant difficulties in meeting our repayment obligations when they become due.

To strengthen our operating cashflow, we have recently started to negotiate with our suppliers for payment and credit terms with relatively longer payment period than our current terms which are more favourable to us. In addition, we have been actively exploring market opportunities with international

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and overseas oil companies which normally require a relatively shorter credit period than those subsidiaries or affiliates of China state-owned oil companies. Furthermore, as at 31 December 2012, we had undrawn facilities of approximately HK\$168.0 million under our banking facilities from our major bankers to facilitate our increasing demand of working capital requirement.

The following table presents selected cash flow data from our consolidated cash flow statements for each of the three years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012:

	For the year ended 31 December			For the nine months ended 30 September	
	2009	2010	2011	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				<i>(unaudited)</i>	
Net cash generated from/(used in) operating activities	102,580,650	(105,949,820)	6,998,641	65,487,115	(131,744,488)
Net cash (used in)/generated from investing activities	(23,462,028)	(38,726,622)	(63,741,203)	(65,040,534)	39,322,389
Net cash (used in)/generated from financing activities	<u>(23,503,335)</u>	<u>153,201,355</u>	<u>24,142,831</u>	<u>4,327,015</u>	<u>70,564,760</u>
Net increase/(decrease) in cash and cash equivalents	55,615,287	8,524,913	(32,599,731)	4,773,596	(21,857,339)
Cash and cash equivalents at beginning of year/period	42,407,769	98,054,427	106,006,482	106,006,482	72,633,116
Exchange gains/(losses) on cash and cash equivalents	31,371	(572,858)	(773,635)	(731,038)	305,818
Cash and cash equivalents at end of year/period	<u><u>98,054,427</u></u>	<u><u>106,006,482</u></u>	<u><u>72,633,116</u></u>	<u><u>110,049,040</u></u>	<u><u>51,081,595</u></u>

Cash flow from / (used in) operating activities

During the Track Record Period, our cash generated from operations was principally from the receipt of payments for the oilfield services we provided. Our cash used in operations was principally for purchases of raw materials, assembling tools and materials and technical service fee, and payments for employee benefit expenses.

For the nine months ended 30 September 2012, we had cash generated from operations before working capital change of approximately HK\$113.1 million and a net cash used in operations of approximately HK\$131.7 million. The difference of HK\$244.8 million mainly attributed to the decrease in working capital of approximately HK\$210.5 million. The net working capital outflow was due to (i) increase in inventories of approximately HK\$158.4 million; (ii) increase in trade and

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other receivables and prepayments of approximately HK\$136.2 million; and (iii) increase in trade and other payables of HK\$84.1 million. Inventories increased because we purchased a large amount of materials for our provision of production enhancement services for the nine months ended 30 September 2012. The growth of our business in production enhancement for the nine months ended 30 September 2012 also contributed to the increase of our trade receivables and other receivables and prepayments as well as our trade and other payables.

For the year ended 31 December 2011, we had cash generated from operations before working capital changes of HK\$130.4 million and net cash generated from operations of HK\$7.0 million. The difference of HK\$123.4 million reflects mainly the decrease in working capital of approximately HK\$83.1 million and payment of income tax of approximately HK\$36.8 million. The net working capital outflow before the elimination of pre-acquisition's balances of a newly acquired subsidiary upon consolidation was due to (i) an increase in inventories of HK\$34.5 million; and (ii) decrease in trade and other payable of HK\$159.5 million, which were offset by a decrease in trade and other receivables of HK\$110.9 million. Inventories increased in line with our forecasted sales activities in the coming year. Trade and other payables decreased because we paid our suppliers early to ensure timely delivery of primarily assembling tools and materials for our rapidly increasing project services activities. Trade and other receivables decreased in line with our settlement schedule in 2011. The reason for the differences of the above working capital as compared with changes in balance sheet was the acquisition of a subsidiary, where the pre-acquisition's balances of a newly acquired subsidiary would be eliminated upon consolidation, and the exchange differences during the year.

For the year ended 31 December 2010, we had cash generated from operations before working capital changes of HK\$138.6 million and net cash used in operations of HK\$105.9 million. The difference of HK\$244.5 million reflects mainly the decrease in working capital of approximately HK\$235.4 million. The net working capital outflow was due to (i) an increase in inventories of HK\$14.0 million; (ii) increase in trade and other receivables of HK\$378.8 million; and (iii) increase in trade and other payables of HK\$157.4 million. Inventories increased because we purchased a large amount of assembling tools and materials in line with our business expansion. Trade and other payables as well as trade and other receivables increased because of a large project in Middle East in December 2010.

For the year ended 31 December 2009, we had cash generated from operations before working capital changes of HK\$99.2 million and net cash generated from operation of HK\$102.6 million. The difference of HK\$3.4 million reflects mainly the increase in working capital of approximately HK\$25.4 million. The net working capital inflow before the elimination of pre-acquisition's balances of a newly acquired subsidiary upon consolidation was due to (i) an increase in inventories of HK\$11.9 million; (ii) decrease in trade and other receivables of HK\$16.1 million; and (iii) increase in trade and other payables of HK\$21.2 million. Inventories increased in line with our forecasted sales activities in the coming year. Trade and other payables increased as our business growth created more demand for financial resources and it took us longer to make payments, as well as the increase in receipt in advance for a project in Middle East. Trade and other receivables decreased in line with our settlement schedule in 2009. The reason for the differences of the above working capital as compared with changes in balance sheet was the acquisition of a subsidiary, where the pre-acquisition's balances of a newly acquired subsidiary would be eliminated upon consolidation, and the exchange differences during the year.

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Cash flow (used in)/generated from investing activities

During the Track Record Period, our cash outflow for investing activities was principally for (i) acquisition of or investment in companies engaging in oilfield services-related business which we believed would facilitate the growth of our business; (ii) purchase of property, plant and equipment; (iii) pledge of bank deposits; (iv) loan to a third party. The cash inflow from investing activities relates primarily to repayment of loan to a minority shareholder of Shenzhen FST and pledge of bank deposits.

For the nine months ended 30 September 2012, we had net cash generated from investing activities of approximately HK\$39.3 million, mainly due to the decrease in pledged bank deposits of approximately HK\$29.6 million as a result of the release of performance bonds related to our projects in the Middle East, and repayment of loan to a minority shareholder of Shenzhen FST of approximately HK\$24.3 million offset by the purchases of property, plant and equipment of approximately HK\$15.3 million.

For the year ended 31 December 2011, we had net cash used in investing activities of approximately HK\$63.7 million, mainly due to the acquisition of a majority interests in Shenzhen FST of approximately HK\$11.4 million, the purchases of property, plant and equipment of approximately HK\$13.5 million, loan to a minority shareholder of Shenzhen FST of approximately HK\$24.3 million and the advance to a jointly controlled entity (being Sheraton Investment) of approximately HK\$7.8 million. The net cash used in investing activities for the year ended 31 December 2011 primarily contributed to the net decrease in cash and cash equivalents as at 31 December 2011.

For the year ended 31 December 2010, we had net cash used in investing activities of approximately HK\$38.7 million, mainly due to an increase in pledged bank deposits of approximately HK\$29.2 million, the purchases of property, plant and equipment of approximately HK\$5.4 million and the advance to an associate, Iranian Refinement, of approximately HK\$3.6 million.

For the year ended 31 December 2009, we had net cash used in investing activities of approximately HK\$23.5 million, mainly due to an increase in pledged bank deposits of approximately HK\$15.5 million, the acquisition of a subsidiary, Dezhou Jiacheng, of approximately HK\$6.1 million and the purchases of property, plant and equipment of approximately HK\$1.2 million.

Cash flow from / (used in) financing activities

During the Track Record Period, we derived our cash inflows from financing activities principally from bank borrowings and advances from shareholders. The cash outflows from financing activities relates primarily to repayments of bank borrowings and advances to related parties.

For the nine months ended 30 September 2012, we had net cash inflows from financing activities of approximately HK\$70.6 million, mainly due to proceeds of bank borrowings of approximately HK\$291.5 million, offset by repayments of bank borrowings of approximately HK\$220.0 million.

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For the year ended 31 December 2011, we had net cash inflows from financing activities of approximately HK\$24.1 million, mainly due to proceeds of bank borrowings of approximately HK\$180.4 million, offset by repayments of bank borrowings of approximately HK\$155.7 million.

For the year ended 31 December 2010, we had net cash inflows from financing activities of approximately HK\$153.2 million, mainly due to proceeds of bank borrowings of approximately HK\$204.7 million and the proceeds from equity contribution by TCL HK through issuance by the Company of its ordinary shares of approximately HK\$101.3 million, offset by repayments of bank borrowings of approximately HK\$153.5 million.

For the year ended 31 December 2009, we had net cash used in financing activities of approximately HK\$23.5 million, mainly due to repayments of bank borrowings of approximately HK\$61.6 million and the repayments of advances from related parties of approximately HK\$38.0 million offset by proceeds of bank borrowings of approximately HK\$76.1 million.

WORKING CAPITAL

Taking into account the financial resources available to the Group including internally-generated funds, the available banking facilities and the estimated net proceeds from the Global Offering and considering the expected use of proceeds as set out in the section headed “Future plans and use of proceeds — Use of proceeds” on page 354 of this prospectus, the Directors are of the opinion that the Group has sufficient working capital to meet its present working capital requirements, that is for at least the next 12 months from the date of this prospectus.

INDEBTEDNESS

Bank borrowings

The following table sets forth our bank borrowings as at the end of year/period indicated:

	As at 31 December			As at 30 September	As at 31 December
	2009	2010	2011	2012	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Portion of term loans due for repayment within one year	19,644,257	73,274,150	101,128,522	172,567,000	197,689,503
Portion of term loans due for repayment after one year which contain a repayment on demand clause	4,600,000	3,400,000	2,200,000	1,300,000	1,000,000
	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>	<u>198,689,503</u>

(unaudited)

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Our bank borrowings increased to HK\$76.7 million as at 31 December 2010 as compared to HK\$24.2 million as at 31 December 2009, further to HK\$103.3 million as at 31 December 2011 and subsequently to HK\$173.9 million as at 30 September 2012 primarily because we borrowed more funds from banks as working capital to support the growth of our business and for 2011 and 2012 also for funding the payment of the consideration for acquisition of interests in Shenzhen FST and the Sheraton Group.

Our bank borrowings were denominated in USD, HKD and RMB, and the weighted average effective interest rates per annum as at 31 December 2009, 2010 and 2011 and 30 September 2012 was 3.4%, 4.2%, 5.2% and 4.4%, respectively.

As at 31 December 2012, our bank borrowings were secured by one or a combination of the following: (i) our trade receivables; (ii) a guarantee provided by a Director, Mr Wang; (iii) a guarantee provided by Termbray Industries and/or (iv) a guarantee provided by King Shine, which amounted to HK\$124.0 million, HK\$135.6 million, HK\$24.3 million and HK\$29.2 million, respectively. The relevant banks agreed in January and February 2013 in principle to the release of guarantees provided by Mr. Wang, Termbray Industries and King Shine upon Listing. The Directors confirm that there had been no enforcement of or liabilities arising from any of the foregoing guarantees during the Track Record Period and up to the Latest Practicable Date. Set out below is a breakdown of our secured and unsecured bank borrowings:

	As at 31 December			As at 30 September	As at 31 December
	2009	2010	2011	2012	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i> <i>(unaudited)</i>
Secured bank borrowings ...	24,244,257	64,939,150	60,177,022	157,969,300	197,457,103
Unsecured bank borrowings	—	11,735,000	43,151,500	15,897,700	1,232,400
	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>	<u>198,689,503</u>

As at 31 December 2009, 2010 and 2011 and 30 September 2012, the amount of undrawn borrowing facilities of the Group was approximately HK\$44.9 million, HK\$152.3 million, HK\$140.8 million and HK\$95.7 million, respectively.

The Directors confirm that there are no material covenants relating to the Group's outstanding bank borrowings.

As at 31 December 2012, the amount of drawn and undrawn borrowing facilities of the Group was approximately HK\$198.7 million and HK\$168.0 million, respectively.

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During the Track Record Period, we have not experienced difficulties in obtaining bank borrowings due to the recent global financial market volatility and implementation of credit tightening policies in certain countries. Based on such experience, the Directors do not expect that the recent global financial market volatility and implementation of credit tightening policies in certain countries will have a material adverse effect on the Group's ability to obtain bank borrowings.

The Directors confirm that there had been no material defaults by the Group in payment of its bank borrowings during the Track Record Period.

Shareholders' loans

The following table sets forth our shareholders' loans as at the end of year/period indicated:

	As at 31 December			As at 30 September	As at 31 December
	2009	2010	2011	2012	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
					<i>(unaudited)</i>
Shareholders' loans	<u>286,021,046</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

We recorded shareholders' loans of approximately HK\$286.0 million as at 31 December 2009. The shareholders' loans, which were denominated in HKD, were interest-free, unsecured and repayable on demand and were capitalised through allotment and issuance by the Company of its shares to the relevant shareholders on 20 October 2010. Accordingly, we had no shareholders' loans as at 31 December 2010 and 2011 and as at 30 September 2012.

Contingent liabilities

The following table sets out the performance bonds issued by banks to the Group's customers as at the dates indicated below:

	As at 31 December			As at 30 September	As at 31 December
	2009	2010	2011	2012	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
					<i>(unaudited)</i>
Performance bonds.....	<u>—</u>	<u>34,393,671</u>	<u>37,275,730</u>	<u>—</u>	<u>—</u>

Performance bonds relate to the guarantees provided by the banks to the Group's customers in respect of the oilfield project services or consultancy services in overseas projects. In the event of non-performance, the customers may call upon the performance bonds and the Group would be liable to the banks in respect of the performance bonds provided.

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Except as disclosed in “Financial information — Indebtedness” above, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 31 December 2012.

We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

CAPITAL EXPENDITURE

Our capital expenditure represents additions to property, plant and equipment of approximately HK\$1.2 million, HK\$5.4 million, HK\$13.5 million and HK\$15.3 million for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, respectively. Our planned future capital expenditure mainly include the purchase of additional plant, machineries and land and acquisition and investment in opportunities which we believe would facilitate the growth of our business. We estimate that capital expenditures for the year ended 31 December 2012 will be approximately HK\$136.4 million.

CAPITAL COMMITMENTS

During the Track Record Period, we did not have any capital commitments contracted but not provided for in respect of acquisition of property, plant and equipment.

MAJOR FINANCIAL RATIOS

The following table sets forth the major financial ratios for and as of the respective dates.

	As of 31 December			As of
	2009	2010	2011	30 September 2012
Current ratio ⁽¹⁾	0.76	2.23	3.13	1.81
Quick ratio ⁽²⁾	0.68	2.09	2.71	1.29
Gearing ratio ⁽³⁾	35%	NA	3%	11%
Return on equity ⁽⁴⁾	22%	13%	10%	14%
Return on assets ⁽⁵⁾	10%	8%	7%	10%

Notes:

(1) current assets / current liabilities

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- (2) $(\text{current assets} - \text{inventories}) / \text{current liabilities}$
- (3) $(\text{net debt}) / \text{total capital}$
- (4) $\text{profit for the period} / ((\text{total equity at the beginning of the period} + \text{total equity at the end of the period}) / 2)$, which is annualised for the nine months ended 30 September 2012 by multiplying $^{3}/_{4}$.
- (5) $\text{profit for the period} / ((\text{total assets at the beginning of the period} + \text{total assets at the end of the period}) / 2)$, which is annualised for the nine months ended 30 September 2012 by multiplying $^{3}/_{4}$.

Current ratio

Our current ratios were 0.76, 2.23, 3.13 and 1.81 as of 31 December 2009, 2010 and 2011 and 30 September 2012, respectively. The increase of our current ratio from 0.76 for the year end 2009 to 2.23 for the year end 2010 was mainly due to the substantial increase of trade receivables as a result of our increase operation scale while our current liabilities had decreased as a result of the capitalisation of the shareholder's loans in 2010. The further increase of our current ratio to 3.13 for the year end 2011 was mainly due to the substantial decrease in our trade payables we had settled a considerable amount of trade payables as at 31 December 2010 following completion of certain projects in the Middle East. Our current ratio for as at 30 September 2012 has decreased to 1.81, mainly due to the substantial increase of trade payables as a results of the material increase of materials we had purchased for the provision of production enhancement services.

Quick ratio

Our quick ratios were 0.68, 2.09, 2.71 and 1.29 as of 31 December 2009, 2010 and 2011 and 30 September 2012, respectively. The increase of quick ratios from 2009 to 2010 corresponded to the increase in our current ratios. The increase in quick ratio from 2010 to 2011 was less than the increase of current ratio for the same period, as we had a substantial increase in inventory in 2011 as a result of growth of our operation scale and the integration of inventory of Shenzhen FST following the acquisition of its majority interests by us. The decrease in quick ratio from 31 December 2011 to 30 September 2012 is mainly a result of the decrease in current ratio for the reason as discussed above.

Gearing ratio

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "bank borrowings" and "shareholders' loans" as shown in the consolidated balance sheets) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheets plus net debt.

FINANCIAL INFORMATION

We have an aspired gearing target which is commercially defensible and takes into consideration our ability to operate on a stand-alone basis. The gearing ratios as at 31 December 2009, 2010 and 2011 and 30 September 2012 were as follows:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Shareholders' loans	286,021,046	—	—	—
Bank borrowings	24,244,257	76,674,150	103,328,522	173,867,000
Less: cash and cash equivalents ..	<u>(98,054,427)</u>	<u>(106,006,482)</u>	<u>(72,633,116)</u>	<u>51,081,595</u>
Net debt/(cash)	212,210,876	(29,332,332)	30,695,406	122,785,405
Total equity	<u>390,478,623</u>	<u>888,891,421</u>	<u>1,002,995,449</u>	<u>1,010,365,319</u>
Total capital	<u>602,689,499</u>	<u>859,559,089</u>	<u>1,033,690,855</u>	<u>1,133,150,724</u>
Gearing ratio	35%	N/A	3%	11%

Our gearing ratio recorded significant decreased from 35.2% as at 31 December 2009 to 3.0% as at 31 December 2011, primarily due to (i) the capitalisation of shareholders' loans by way of allotment and issuance by the Company of Shares to the relevant Shareholders in 2010; (ii) injection of capital by the TCL Investment and; (iii) our net profit generated in 2010 and 2011. Gearing ratio was not applicable as at 31 December 2010 as the amount of our cash and cash equivalents exceeded our total borrowings which led to net cash instead of net debt. Our gearing ratio as at 30 September 2012 has increased to 11%, mainly due to the increase in bank borrowing while cash and cash equivalent has decreased when compared to end of 2011.

Return on equity

Our return on equity were 22%, 13%, 10% and 14% for the year/period of 31 December 2009, 2010 and 2011 and 30 September 2012, respectively. Our return on equity decrease from 13% for the year end 2010 to 10% for the year ended 2011 as (i) our other expenses increased substantially in 2011 due to our increased market effort in China as well as our substantial operation in overseas market and (ii) increase of our amortisation of intangible assets by HK\$7.4 million primarily due to the increase of our contracted customer relationships and incomplete sales contracts following our acquisition of a majority interests in Shenzhen FST. Our annualised return on equity increased to 14% for the period ended 30 September 2012, mainly as a result of substantial increase in the annualised net profit as compared to 2011, while total equity has stayed stable.

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Return on assets

Our return on assets were 10%, 8%, 7% and 10% for the year/period of 31 December 2009, 2010 and 2011 and 30 September 2012, respectively. Our return on assets had been stable during the Track Record Period. Our annualised return on assets increased to 10% for the period ended 30 September 2012, mainly as a result of substantial increase in the annualised net profit as compared to 2011, while total assets increased in a lesser extent.

OPERATING LEASE ARRANGEMENTS

We lease various offices, warehouses and staff quarter under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
No later than 1 year	1,745,250	2,376,441	3,998,988	12,415,713
Later than 1 year and no later than 5 years	1,448,207	1,316,769	1,022,231	13,881,348
Later than 5 years	1,129,778	—	—	—
	<u>4,323,235</u>	<u>3,693,210</u>	<u>5,021,219</u>	<u>26,297,061</u>

MARKET RISKS

We are exposed to various types of market risks in the ordinary course of our business, including those set out below. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

Currency risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currency that is not the currency of the primary economic environment in which the entity operates.

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To manage foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, we mitigate the risk by maintaining USD and RMB bank accounts to pay for the transactions denominated in these currencies. The following tables set forth a sensitivity analysis on our net-post-tax profit with reference to change on the foreign exchange rates as at the dates indicated:

	The Group's net-post tax profits			
	For the year ended 31 December			For the nine months ended 30 September
	2009	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HKD against USD				
— Weakened 1%	+1,434	-1,098	-943	+324
— Strengthened 1%	<u>-1,434</u>	<u>+1,098</u>	<u>+943</u>	<u>-324</u>
HKD against RMB				
— Weakened 5%	+462	+364	-9	-30
— Strengthened 5%	<u>-462</u>	<u>-364</u>	<u>+9</u>	<u>+30</u>

Interest rate risk

Our interest rate risk arises from bank borrowings, pledged bank deposits and cash and cash equivalents. Borrowings issued at variable rates expose us to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk. As our gearing ratio has decreased as from 2009 and since then has remained relatively low (comparing to its major competitors), the Directors consider that the interest rate risk exposure of the Group is relatively low and accordingly, we have not conducted and currently do not conduct any hedging activities in relation to our exposure on interest rate risk. We analyse our interest rate exposure on a regular basis and will consider the interest rate exposure when entering into any financing, renewal of existing positions and alternative financing transactions.

Our practice is to manage our interest cost through monitoring and reviewing interest rate changes in the market and its impact to our financial performance. For each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, our borrowings at variable rates were denominated in HKD, USD and RMB. The following table sets forth a sensitivity

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analysis on our post-tax profits with reference to change in basis points on interest rates accruing on HKD-denominated borrowings, USD-denominated borrowings and RMB-denominated borrowings as at the dates indicated:

	The Group's net post-tax profits			
	For the year ended 31 December			For the nine months ended 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Change in basis points on interest rates accruing on borrowings				
+100.....	-35,000	-110,000	-407,000	-1,191,000
-100.....	<u>+35,000</u>	<u>+110,000</u>	<u>+407,000</u>	<u>+1,191,000</u>

Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to the customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent rated parties with a good reputation are accepted. For credit exposures to our customers, we assess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Credit risk is managed at the company level, except for credit risk relating to trade receivable balances. Each of our local members is responsible for managing and analysing the credit risk for each of their new customers before standard payment and delivery terms and conditions are offered.

As at 31 December 2009, 2010, 2011 and 30 September 2012, all cash and cash equivalents and pledged bank deposits, were deposited with major financial institutions in the PRC and Hong Kong, which we believe are of good credit quality.

We have policies in place to ensure that sales of our services and products are made to customers with sufficient level of creditworthiness and we generally grants our customers a credit term of up to six months. We have concentrations of credit risk which arise from trade receivables from certain customers. The outstanding amounts of our accounts receivable from Sinopec as at 31 December 2009, 2010 and 2011 and 30 September 2012 accounted for approximately 97.2%, 96.3%, 92.2% and 84.6% of our trade receivables as at the relevant dates, respectively. Sinopec, a PRC state-owned enterprise, is of good credit quality within the oilfield project services and consultancy services business segment. We do not believe that our credit risk in relation to this customer is significant, considering the fact that Sinopec is a large business enterprise with solid financial positions. No other customer accounted for more than 10% of the trade receivable balance for the as at 31 December 2009, 2010, 2011 and the nine months ended 30 September 2012.

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Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed/credit facilities. The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. The Group's management believes that there is no significant liquidity risk as the Group has sufficient facilities to fund its operations and debt servicing requirements and to satisfy its future working capital and other financing requirements from its operating cash flows and available bank financing. Please also refer to the section headed "Liquidity and capital resources — Financial resources" of this section for details of our sources of funding and liquidity management.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules upon the listing of the Shares on the Stock Exchange.

DISTRIBUTABLE RESERVES

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

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2012

Estimated consolidated profit attributable to owners of the
Company for the year ended 31 December 2012 ^(Note 1)not less than HK\$170.0 million

Unaudited pro forma estimated earnings per Share for the
year ended 31 December 2012 ^(Note 2)not less than HK\$0.17

Notes:

- (1) The bases on which the above profit estimate has been prepared are set out in Appendix III to this prospectus. Our Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2012 based on the audited consolidated results of our Group for the nine months ended 30 September 2012 and the unaudited consolidated results of our Group based on management accounts for the three months ended 31 December 2012. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in Note 2 of Section II in Appendix I to this prospectus.
- (2) The calculation of unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2012, assuming that our Company had a total of 1,000,000,000 Shares were in issue assuming that the Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2012. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or Share Option Scheme, or any shares which may be allotted and issued or repurchased by our Company pursuant to a general mandate.

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UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the owners of the Company as of 30 September 2012 as if the Global Offering had taken place on 30 September 2012 assuming the over-allotment is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 September 2012 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2012 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2012 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per share (Note 3)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on an Offer Price of HK\$2.78 per share	<u>400,892</u>	<u>648,957</u>	<u>1,049,849</u>	<u>1.05</u>
Based on an Offer Price of HK\$3.39 per share	<u>400,892</u>	<u>799,299</u>	<u>1,200,191</u>	<u>1.20</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at 30 September 2012 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 30 September 2012 of HK\$975,931,451 with an adjustment for the intangible assets as at 30 September 2012 of HK\$575,039,262.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.78 and HK\$3.39 per Share, respectively, after deduction of the underwriting fees and other estimated related fees and expenses and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option, any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Share Option Scheme.

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- (3) The unaudited pro forma net tangible asset per Shares is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares were in issue assuming that the Global Offering has been completed on 30 September 2012 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option, any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Share Option Scheme or any Share which be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2012.

DIVIDENDS AND DIVIDEND POLICY

We declared dividends on 19 June 2012 of HK\$120,000,000, payable to the shareholders of the Company whose names were registered in the Company's register of members as at 30 June 2010 on a pro rata basis.

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

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

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 September 2012, and no event since 30 September 2012 has occurred that would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the sub-section headed “Business strategies” under the section headed “Business” on page 186 this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised, the net proceeds from the Global Offering, after deducting the underwriting fees and estimated expenses payable by us in connection with the Global Offering, are estimated to be approximately HK\$710.2 million assuming an Offer Price of HK\$3.09 (being the mid-point of the indicative Offer Price range of HK\$2.78 to HK\$3.39). Our Directors presently intend to apply the net proceeds as follows:

- (1) up to 35%, or approximately HK\$248.6 million, will be used for, among other things:
 - (a) construction of production plant in Huizhou, Guangdong, PRC, estimated to be approximately RMB75 million (equivalent to approximately HK\$93.0 million), payment of which is expected to be 60% in the first half of 2013, and the remaining 40% in the second half of 2013;
 - (b) purchase of manufacturing machinery, estimated to be approximately RMB75 million (equivalent to approximately HK\$93.0 million), payment of which is expected to be from the second half of 2013;
 - (c) purchase of equipment and software for research and development, estimated to cost approximately RMB27 million (equivalent to approximately HK\$33.5 million) to RMB35 million (equivalent to approximately HK\$43.4 million), payment of which is expected to be from the second half of 2013; and
 - (d) recruitment of technicians and engineers, amounting to approximately RMB19 million (equivalent to approximately HK\$23.6 million) to RMB21 million (equivalent to approximately HK\$26.0 million), payment of which is expected to be from the second half of 2013,

in order to establish a research and development and manufacturing base in the PRC to (i) centralise the Group’s research and development functions; and (ii) increase the Group’s manufacturing capacities of well completion, drilling, production enhancement tools and equipment and ancillary products (such as oil-based drilling fluid and stimulation chemicals), and surface facility products;

FUTURE PLANS AND USE OF PROCEEDS

- (2) up to 30%, or approximately HK\$213.1 million, will be used for the acquisition of a range of production enhancement related tools and equipment to expand our scale of operations on unconventional gas (including tight and shale gas), including but not limited to coiled tubing equipment, high pressure pumping trucks, blender trucks, fracturing vans with centralised control units, manifold trucks and liquid and sand tanks and other accessory tools.

It is expected that about 30% of the purchase cost will be paid in the first half of 2013, and the remaining 70% in the second half of 2013;

- (3) up to 15%, or approximately HK\$106.5 million, will be used for investment in the Group's research and development in new services and technologies, such as turbine drilling tools, oil-based drilling mud, surface facility products and multistage fracturing tools and chemicals for unconventional gas field, in order to further broaden our services and product lines, which investment includes cost of employing additional engineers for research and development, purchase of material and accessories for research and development purpose, and consultancy fee for external technical support;
- (4) up to 10%, or approximately HK\$71.0 million for (i) enhancement of regional offices in the PRC and overseas; (ii) conducting exhibitions and technical seminars; and (iii) facilitating the business of our newly established regional office in Venezuela, in order to market and promote the Group's services and products with a view to further developing new customers and penetrating into the PRC and international markets to increase our market share; and
- (5) the remaining balance will be used for general working capital purposes.

If the Offer Price is set at HK\$3.39 per Offer Share (being the high end of the indicative Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds of the Global Offering will increase by approximately HK\$73.8 million. If the Offer Price is set at HK\$2.78 per Offer Share (being the low end of the indicative Offer Price range), and assuming that the Over-allotment Option is not exercised, the net proceeds of the Global Offering will decrease by approximately HK\$76.6 million. If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase by approximately HK\$112.4 million, assuming an Offer Price of HK\$3.09 per Offer Share (being the mid-point of the indicative Offer Price range). We intend to adjust the allocation of the net proceeds to the above uses, on pro rata basis.

Should the Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of the Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we intend to hold such funds in short-term deposits with licenced banks and/or authorised financial institutions in Hong Kong for so long as it is in our best interests.

UNDERWRITING

HONG KONG UNDERWRITERS

CCB International Capital Limited
CIMB Securities Limited
China Galaxy International Securities (Hong Kong) Co., Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, the Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares to be offered as mentioned herein (including the additional Shares to be issued pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement and the International Placing Agreement having been duly executed and delivered and having become unconditional in accordance with its terms, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Offer Shares are subject to termination. The Sole Global Coordinator (for themselves and on behalf of the Hong Kong Underwriters) (after consultation with the Joint Bookrunners) shall be entitled to terminate their obligations under the Hong Kong Underwriting Agreement, if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - i. any new law, statute, ordinance, rule, guideline, regulation, opinion, notice, circular, order, judgement, decree or ruling (“**Laws**”) or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of BVI, Hong Kong, the PRC or any other relevant jurisdiction (collectively, the “**Relevant Jurisdictions**” and individually, a “**Relevant Jurisdiction**”); or

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- ii. any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national or international financial, political, military, industrial, economic, currency exchange rates, exchange control, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting the Relevant Jurisdictions; or
- iii. any suspension or limitation on trading in shares or securities generally on the New York Stock Exchange, the Stock Exchange, the SGX-ST, Tokyo Stock Exchange, the London Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement, payment or clearance services or procedures in or affecting BVI, Hong Kong, Singapore, the PRC, the U.S., the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- iv. a change or development occurs involving a change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations or currency exchange rates in Singapore, BVI, Hong Kong, the PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- v. any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of any Group Company, or customer confidence, including but not limited to any action, suit, proceeding, litigation or claim of any third party being threatened or instigated against any Group Company, or any investigation of any Group Company or an order for suspension of business by any government department or authority; or
- vi. any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- vii. any moratorium on or disruption in banking activities or foreign exchange trading or settlement or clearance services in or affecting Singapore, BVI, Hong Kong, the PRC, the U.S., the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- viii. any outbreak or escalation of hostilities (whether or not war is or has been declared) or act for terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving directly or indirectly Singapore, BVI, Hong Kong, Japan, the PRC, any member of the European Union, the United States or any other relevant jurisdiction or any escalation thereof, or the declaration by Singapore, BVI, Hong Kong, Japan, the PRC, any member of the European Union, the United States or any other relevant jurisdiction of a national emergency or war; or

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- ix. any event of force majeure, including without limitation any act of God, war, riot, public disorder, civil commotion, fire, flood, earthquake, explosion, outbreak of disease or epidemic, terrorism (whether or not responsibility has been claimed), labour dispute, strike or lock-out involving directly or indirectly Singapore, BVI, Hong Kong, Japan, the PRC, any member of the European Union, the United States or any other relevant jurisdiction; or
- x. the imposition of any economic sanctions, in whatever form, directly or indirectly, by Singapore, Hong Kong, Japan, the PRC, any member of the European Union, the United States or any other relevant jurisdiction on Singapore, BVI, Hong Kong, Japan, the PRC, any member of the European Union, the United States or any other relevant jurisdiction; or
- xi. a Director being charged or indicted or retained with an indictable offence or prohibited by operation of law or otherwise disqualified from directorship, or the commencement by our governmental authority of any investigation or other action against any Director in his or her capacity as such or an announcement by any governmental authority that it intends to take any such actions; or
- xii. the chairman or chief executive officer of the Company vacating his or her office in circumstances where the operations of the Group will be materially and may, in the sole and absolute discretion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), be adversely affected; or
- xiii. non-compliance of this prospectus (or any other documents used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules, the Articles of Association, the Companies Ordinance, the Securities and Futures Ordinance or any other applicable Laws by any of the Company, the Controlling Directors, or the executive Directors,

which, in each case or in the aggregate in the sole and absolute opinion of the Sole Global Coordinator (for themselves and on behalf of the Hong Kong Underwriters) after consultation with the Joint Bookrunners:

- (A) is or may be or is likely to be materially adverse to or materially or prejudicially affect, the business, financial or other condition or prospects of the Company or the Group or, to any present or prospective shareholder of the Company in his/her/its capacity as such; or
- (B) has or might have or is likely to have a material adverse effect on the success of the Hong Kong Public Offering, the International Placing or the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or

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- (C) makes or will or may make it inadvisable, inexpedient, impracticable or not commercially viable to proceed with or to market the Hong Kong Public Offering, the International Placing or the Global Offering, or for a material part of the Hong Kong Underwriting Agreement, the International Placing Agreement, the Hong Kong Public Offering, the International Placing or the Global Offering to be performed or implemented in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Sole Global Coordinator:
- i. of any breach of any of the warranties given by the Company, the Controlling Shareholders and the executive Directors in the Hong Kong Underwriting Agreement to be untrue, inaccurate or misleading in any respect which is or, in the sole and absolute opinion of the Sole Global Coordinator (after consultation with the Joint Bookrunners), likely to be, material in the context of the Global Offering when given or repeated; or
 - ii. of any breach on the part of the Company, any of the Controlling Shareholders or any of the executive Directors of any of the provisions of the Hong Kong Underwriting Agreement or the International Placing Agreement; or
 - iii. that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the Prospectus Date, constitute a material omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) after consultation with the Joint Bookrunners in its sole and absolute opinion to be material in the context of the Global Offering; or
 - iv. any statement contained in this prospectus, the Application Forms, the formal notice, other offering documents or any announcements in the agreed form issued by the Company in connection with the Global Offering (including any supplement or amendment thereto) was, when it was issued, or has become untrue, incorrect or misleading in any respect, or that any estimates, forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice, other offering documents or any announcements in the agreed form issued by the Company in connection with the Global Offering (including any supplement or amendment thereto) is not, in the sole and absolute discretion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) after consultation with the Joint Bookrunners, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - v. there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of the Group or any of the Controlling Shareholders or the executive Directors pursuant to the indemnities referred to in the Hong Kong Underwriting Agreement; or

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- vi. of any valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of the Group or in respect of which the Company or any member of the Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or
- vii. that a petition is presented for the winding-up or liquidation of the Company or any member of the Group or the Company or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of the Company or any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or any member of the Group or anything analogous thereto occurs in respect of the Company or any member of the Group, which in the sole and absolute opinion of the Sole Global Coordinator after consultation with the Joint Bookrunners, may or is likely to be material in the context of the Global Offering provided that the Sole Global Coordinator shall, to the extent practicable, seek to consult with the Company on the effect of any such development, or
- viii. that approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- ix. that the Company withdraws any of the offering documents issued in connection with the Global Offering (and/or any other documents used in connection with the contemplated subscription of the Offer Shares, the “**Offer Documents**”); or
- x. that any person (other than any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- xi. of, other than with the approval of the Sole Global Coordinator after consultation with the Joint Bookrunners, the issue or requirement to issue by the Company of any supplement or amendment to this Prospectus (or to any other documents used in connection with the contemplated subscription of the Shares) pursuant to the Companies Ordinance, the Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange and/or the SFC; or
- xii. of any prohibition on the Company by any governmental authority for whatever reasons from offering, allotting, issuing or selling of the Shares pursuant to the terms of the Global Offering,

then the Sole Global Coordinator may, and upon giving notice in writing to the Company and the Hong Kong Underwriters, terminate the Hong Kong Underwriting Agreement with immediate effect.

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International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Placing Agreement with, among others, the International Underwriters, the Sole Global Coordinator, the Joint Lead Managers and the Joint Bookrunners on or about 27 February 2013, shortly after determination of the Offer Price.

Under the International Placing Agreement, subject to the conditions set forth therein, the International Underwriters are expected to severally agree to purchase or procure purchasers for the International Placing Shares initially being offered pursuant to the International Placing. It is expected that the International Placing Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Placing Agreement is not entered into, the Global Offering will not proceed.

We expect to grant to the Sole Global Coordinator, on behalf of the International Underwriters, the Over-allotment Option exercisable at any time and from time to time from the date of the International Placing Agreement until the 30th day after the last date for lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 37,500,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing, solely to cover over-allocations, if any, in the International Placing.

Commissions and expenses

The Hong Kong Underwriters will receive an underwriting commission of 3% on the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 3% on the aggregate Offer Price of the International Placing Shares initially offered under the International Placing. CCBIC shall be entitled to a minimum fee of US\$2.3 million, if the total amount of the underwriting commission and the sponsor fee payable to CCBIC is less than US\$2.3 million. In addition, the Company may, in its sole discretion, pay to the Underwriters an additional discretionary incentive fee of up to 1% of the Offer Price per Offer Share. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters (but not the Hong Kong underwriters).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$62.3 million in total (based on the Offer Price of HK\$3.09, being the mid-point of the indicative Offer Price range between HK\$2.78 and HK\$3.39, and assuming the Over-allotment Option is not exercised) and will be payable by us.

UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders (namely the King Shine Controlling Shareholder Group and the Termbray Controlling Shareholder Group) has

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undertaken to the Stock Exchange, our Company and each of the Joint Lead Managers that save as disclosed in this prospectus and except pursuant to the Global Offering (including the Over-allotment Option), he or she or it will not and shall procure that the relevant registered holder(s) will not in the period commencing on the date by reference to which disclosure of his or her or its shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in our Shares commence on the Stock Exchange (the “**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he or she or it is shown by this prospectus to be the beneficial owner as at the Listing Date.

Each of the King Shine Controlling Shareholder Group and the Termbray Controlling Shareholder Group has further undertaken to the Stock Exchange that save as disclosed in this prospectus, he or she or it will not and shall procure that the relevant registered holder(s) will not in the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in the above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she or it would cease to be a controlling shareholder (as defined under the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders (namely the King Shine Controlling Shareholder Group and the Termbray Controlling Shareholder Group) has also undertaken to the Stock Exchange, to our Company and each of the Joint Lead Managers that within the period commencing on the date by reference to which disclosure of his or her or its shareholding is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the securities of our Company commence on the Stock Exchange, he or she or it shall:

- (1) when he or she or it pledges or charges any securities beneficially owned by him or her or it in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2), immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (2) when he or she or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that save in connection with the Global Offering or the Over-allotment Option, no further Shares or securities convertible into equity securities of the Company will be issued by us, or form the subject of any agreement by us to such an issue, within six months from the date on which our Shares first commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) except in the circumstances permitted pursuant to Rule 10.08 of the Listing Rules.

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UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

We have undertaken to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the International Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Pre-IPO Share Option Scheme, the Share Option Scheme or with the prior written consent of the Sole Global Coordinator, and unless in compliance with the requirements of the Listing Rules, we shall not at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date, (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of the Shares or any securities of the Company or any of its subsidiaries or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or securities or any interest therein; (c) enter into any transaction with the same economic effect as any transaction specified in the foregoing sub-paragraphs; or (d) offer to or agree to do any of the foregoing or announce any intention to do so, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise. In the event of an issue or disposal of any Shares or any interest therein after the date falling six months after the Listing Date, we will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

Each of the King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources has undertaken to each of us, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the International Underwriters that during the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “**First Period**”), he or she or it will not and will procure that none of his/her/its associates (as defined in the Listing Rules) or companies controlled by him/it or any nominee or trustee holding in trust for him/her/it will, except pursuant to the Global Offering or for any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, where applicable, without the prior written consent of the Sole Global Coordinator (which consent shall not be unreasonably withheld or delayed) and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or Encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein), owned directly or indirectly by any of the King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources (including any of them holding as a custodian) as at the Listing Date; (ii) enter into any swap or other arrangement that

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transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; (iii) enter into any transaction with the same economic effect as any transaction described in the foregoing sub-paragraphs; or (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in the foregoing sub-paragraphs, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise or offer to or agree to do any of the foregoing or announce any intention to do so.

Each of the King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources has further undertaken to each of us, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the International Underwriters that:

- (a) during the period of six months commencing on the date on which the First Period expires (the “**Second Period**”), he or she or it will not and will procure that none of his/her/its associates (as defined in the Listing Rules) or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it will, except pursuant to the Global Offering or for any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, where applicable, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or Encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein), owned directly or indirectly by any of the King Shine Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources (including any of them holding as a custodian); (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; (iii) enter into any transaction with the same economic effect as any transaction described in the foregoing sub-paragraphs; or (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in the foregoing sub-paragraphs, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise or offer to or agree to do any of the foregoing or announce any intention to do so, if, immediately following such transaction, it will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of the Company or would together with the other King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources cease to be controlling shareholders (as the term is defined in the Listing Rules) of the Company; and

UNDERWRITING

- (b) in the event of any transactions stipulated in the sub-paragraphs in (a) above by any King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources during the Second Period, he/she/it will severally with the other King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any of the Shares or other securities of the Company.

Each of the King Shine Controlling Shareholder Group, Termbray Industries, Termbray Electronics (BVI) and Termbray Natural Resources has undertaken to each of us, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters that, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is twelve months from the Listing Date:

- (a) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of the Company beneficially owned by him/her/it for a bona fide commercial loan, as soon as practical inform us and the Joint Bookrunners in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (b) upon any indication received by him/her/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares will be disposed of, immediately inform us and the Joint Bookrunners in writing of such indications.

SPONSOR'S AND UNDERWRITERS' INTEREST IN THE COMPANY

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commission and expenses are set forth under "Commissions and expenses" above.

Save as disclosed above, none of the Sole Global Coordinator, Joint Bookrunners, Joint Lead Managers or the Underwriters is interested legally or beneficially in shares of our Company or any of its subsidiaries or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of its members nor any interest in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. We intend to initially make available up to 250,000,000 Shares under the Global Offering, of which 225,000,000 Shares will be conditionally placed pursuant to the International Placing to professional, institutional and other investors and the remaining 25,000,000 Shares will be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under “The Hong Kong Public Offering”).

The 250,000,000 Offer Shares initially being offered in the Global Offering will represent approximately 25% of our enlarged total number of issued Shares immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” on page 356 of this prospectus.

Investors may apply for the Shares under the Hong Kong Public Offering or apply for or indicate an interest for the Shares under the International Placing, but may not apply under both of these methods for the Offer Shares. In other words, you may only receive Offer Shares under either the Hong Kong Public Offering or the International Placing, but not under both of these methods.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a several basis under the terms of the Hong Kong Underwriting Agreement and is subject to the Company and the Joint Bookrunners, on behalf of the Underwriters, agreeing on the Offer Price. The Hong Kong Public Offering and the International Placing are subject to the conditions set forth in the subsection headed “Conditions of the Global Offering” herein. The Hong Kong Underwriting Agreement and the International Placing Agreement are expected to be conditional upon each other.

Number of Shares initially offered

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement and described in the section below headed “Conditions of the Global Offering”) for the subscription in Hong Kong of, initially 25,000,000 Shares at the Offer Price (representing approximately 10% of the total number of the Offer Shares).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The Sole Global Coordinator, on behalf of the Underwriters, may after consultation with the Joint Bookrunners, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the Company's consent, reduce the number of Hong Kong Offer Shares that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. The Joint Bookrunners, on behalf of the Underwriters, may also based on the level of interest expressed by prospective investors during the book-building process (where considered appropriate), and with the Company's consent reduce the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such reduction, the Company will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.petro-king.cn) notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once they are submitted, even if the number of Hong Kong Offer Shares is reduced as described in this paragraph.

Subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering, the total number of Shares available under the Hong Kong Public Offering will represent approximately 25% of the Company's enlarged total number of issued Shares immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised. It is to be divided equally into two pools for allocation purposes (subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering): pool A and pool B. The Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Shares with an aggregate subscription price of HK\$5 million or less (excluding the amounts of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%). The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for our Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage of 1%, SFC transaction levy

STRUCTURE OF THE GLOBAL OFFERING

of 0.003% and Stock Exchange trading fee of 0.005%) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within pool A or pool B, and between the two pools, and any application for more than 12,500,000 Hong Kong Offer Shares will be rejected.

Reallocation

The allocation of the Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more of the number of Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, such that the total number of Shares available under the Hong Kong Public Offering will be increased to 75,000,000 Shares (in the case of (i)), 100,000,000 Shares (in the case of (ii)) and 125,000,000 Shares (in the case of (iii)) representing approximately 30%, 40% and 50% of the Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator (after consultation with the Joint Bookrunners and the Company) deems appropriate. In addition, the Sole Global Coordinator may, in its sole discretion (after consultation with the Joint Bookrunners and the Company), allocate Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant’s application may be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he or she has been or will be placed or allocated Offer Shares under the International Placing.

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The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.39 per Share in addition to any brokerage fee, SFC transaction levy and Stock Exchange trading fee payable on each Share. If the Offer Price, as finally determined in the manner described in the section headed “Pricing of the Global Offering” below, is less than the maximum price of HK\$3.39 per Share, appropriate refund payments (including the brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set forth below in the section headed “How to Apply for Hong Kong Offer Shares” on page 376 of this prospectus.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

The International Placing is expected to be fully underwritten by the International Underwriters on a several basis. The Company expects to enter into the International Placing Agreement relating to the International Placing on the Price Determination Date.

Number of Shares offered

Subject to reallocation as described above, the number of Offer Shares to be initially offered under the International Placing will be 225,000,000 Shares, representing approximately 90% of the Offer Shares under the Global Offering.

Allocation

Pursuant to the International Placing, 225,000,000 Offer Shares will be conditionally placed on behalf of the Company, by the International Underwriters or through selling agents appointed by them. The International Placing will involve selective marketing of the Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of International Placing Shares will be determined by the Sole Global Coordinator (after consultation with the Company and the Joint Bookrunners), and will be effected in accordance with the “book-building” process described in the section headed “Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the Company’s benefit and that of the Shareholders as a whole.

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The Directors, the Sole Global Coordinator (on behalf of the Underwriters) (after consultation with the Joint Bookrunners) and the Company will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION AND STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Company has granted an Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Placing Agreement up to the 30th day after the last day for lodging of applications under the Hong Kong Public Offering and from time to time, to require the Company to allot and issue up to an aggregate of 37,500,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share at which Offer Shares were initially offered under the International Placing, to cover over-allocations in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. The Sole Global Coordinator may, at its option, also cover such over-allocations by purchasing the Offer Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 3.61% of the Company's enlarged total number of issued Shares immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In order to facilitate settlement of over-allocations in connection with the International Placing, Jade Win Investment Limited entered into the Stock Borrowing Agreement. Under the Stock Borrowing Agreement, Jade Win Investment Limited agrees with the Stabilising Manager (or its affiliates), that if requested by the Stabilising Manager (or its affiliates), it will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilising Manager (or its affiliates) up to an aggregate of 37,500,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the International Placing, if any.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, provides that:

- such stock borrowing arrangement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Jade Win Investment Limited under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;

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- the same number of Shares so borrowed may be returned to Jade Win Investment Limited or its nominees (as the case may be) not later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between the parties;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable listing rules, laws, rules and regulatory requirements; and
- no payment will be made to Jade Win Investment Limited by the Stabilising Manager in relation to such borrowing arrangement.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the International Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date. Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, when market demand for the Shares will be determined, which is expected to be on or around 27 February 2013, and in any event on or before 5 March 2013, by agreement between the Joint Bookrunners, on behalf of the Underwriters, and the Company and the number of Shares to be allocated under various offerings will be determined shortly thereafter. The Offer Price will not be more than HK\$3.39 per Offer Share and is expected to be not less than HK\$2.78 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Global Offering must pay, on application, the maximum price of HK\$3.39 per Offer Share plus 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK\$3,424.17 for one board lot of 1,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If the Offer Price, as finally determined in the manner described below, is lower than HK\$3.39, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus monies) to successful applicants, without interest. Further details are set forth in the section headed “How to Apply for Hong Kong Offer Shares” on page 376 of this prospectus.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the Company’s consent, reduce the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. The Joint Bookrunners, on behalf of the Underwriters, may also based on the level of interest expressed by prospective investors during the book-building process (where considered appropriate), reduce the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such reduction, the Company will, as

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soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.petro-king.cn) notices of the reduction in the indicative Offer Price range. Upon issue of these notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners, on behalf of the Underwriters, and us, will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once they are submitted, even if the number of Hong Kong Offer Shares and/or the Offer Price range is reduced as described in this paragraph. In the absence of any notice of reduction published as described in this paragraph, the Offer Price, if agreed upon between the Company and the Joint Bookrunners, on behalf of the Underwriters, will be within the Offer Price range as stated in the prospectus.

The net proceeds of the Global Offering accruing to the Company (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$633.7 million, assuming an Offer Price of HK\$2.78 per Share, or approximately HK\$784.0 million, assuming an Offer Price of HK\$3.39 per Share (or if the Over-allotment Option is exercised in full, approximately HK\$734.8 million, assuming an Offer Price of HK\$2.78 per Share, or approximately HK\$907.3 million, assuming an Offer Price of HK\$3.39 per Share).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Shares available under the Hong Kong Public Offering, are expected to be announced on 5 March 2013 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, CCBIC, as stabilising manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view

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to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. CCBIC has been appointed as the stabilising manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the Hong Kong Securities and Futures Ordinance.

Any such stabilising activity will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilisation including the Securities and Futures (Price Stabilising) Rules made under the Hong Kong Securities and Futures Ordinance. However, there is no obligation on the stabilising manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the stabilising manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilisation activity is required to be brought to an end within 30 days from the last date for lodging application under the Hong Kong Public Offering which is expected to be on or around 29 March 2013. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 37,500,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Following any over-allotment of Shares in connection with the Global Offering, the stabilising manager, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period to cover such over-allotment.

The possible stabilising action which may be taken by the stabilising manager, its affiliates or any person acting for it in connection with the Global Offering may involve (among other things) (i) purchases of Shares, (ii) establishing, hedging and liquidating positions in Shares, (iii) exercising the Over-allotment Option in whole or in part, (iv) stock borrowing and/or (v) offering or attempting to do any of (i), (ii), (iii) or (iv) above.

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

- the stabilising manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the stabilising manager, its affiliates or any person acting for it will maintain such a position;
- liquidation of any such long position by the stabilising manager, its affiliates or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the date expected to be the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;

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- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 6 March 2013, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on 6 March 2013.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares being offered pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment), and such listing and permission not having been revoked prior to the commencement of dealings in Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Placing Agreement on or around the Price Determination Date; and
- (iii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator after consultation with the Joint Bookrunners, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements;

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Company and the Joint Bookrunners (on behalf of the Underwriters) by 5 March 2013, the Global Offering will lapse.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a

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notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.petro-king.cn) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed “How to apply for Hong Kong Offer Shares” on page 376 of this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue share certificates for the Offer Shares on 5 March 2013. Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on 6 March 2013 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” on page 356 of this prospectus has not been exercised.

HOW TO APPLY FOR HONG KONG OFFER SHARES

There are three channels to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either using a **WHITE** or **YELLOW** Application Form, by giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf or by submitting an electronic application to the **White Form eIPO** Service Provider under the **White Form eIPO** service through the designated website **www.eipo.com.hk**. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a **WHITE** or **YELLOW** Application Form, by giving electronic application instructions to HKSCC or to the designated **White Form eIPO** Service Provider.

You can apply for the Hong Kong Offer Shares available for subscription by the public on White or Yellow Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not an existing beneficial owner of Shares in the Company or any of its subsidiaries;
- are not the chief executive or a director of the Company or any of its subsidiaries;
- are not an associate of an existing beneficial owner of Shares in, or the chief executive or a director of, the Company or any of its subsidiaries (“associate” as defined in the Listing Rules);
- are not a connected person (as defined in the Listing Rules) of the Company or any of its subsidiaries or a person who will become a connected person of the Company or any of its subsidiaries immediately upon completion of the Global Offering;
- are not a person who have been allocated or have applied for or have indicated an interest in the International Placing Shares under the International Placing or otherwise participate in the International Placing;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you wish to apply for the Hong Kong Offer Shares online through the White Form eIPO service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

If you or any person(s) for whose benefit you are applying are/is within the United States or a United States person(s) (as defined in Regulation S), no application for Hong Kong Offer Shares shall be made.

You may only apply by means of the White Form eIPO service if you are an individual applicant. Corporations or joint applicants may not apply by means of White Form eIPO.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Sole Global Coordinator (or its agents or nominees) may accept it at its discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

The Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or our or their agents have full discretion (after consultation with the Joint Bookrunners and the Company) to reject or accept any application, in full or in part, without assigning any reason.

1. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to Use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to collect the WHITE and YELLOW Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on 22 February 2013 until 12:00 noon on 27 February 2013 from:

- (a) Any of the following addresses of the Hong Kong Underwriters:

Name	Address
CCB International Capital Limited	34/F Two Pacific Place 88 Queensway Admiralty Hong Kong
CIMB Securities Limited	Units 7706-08 Level 77 International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
China Galaxy International Securities (Hong Kong) Co., Limited	Room 3501-3507, 35/F Cosco Tower 183 Queen's Road Central Hong Kong

- (b) or at any of the following branches of:

- (i) China Construction Bank (Asia) Corporation Limited

	Branch	Address
Hong Kong Island	Causeway Bay Plaza Branch	G/F, Causeway Bay Plaza 1, Causeway Bay, Hong Kong
	North Point Branch	382 King's Road, North Point, Hong Kong
Kowloon	Tsimshatsui Humphreys Avenue Branch	3 Humphreys Avenue, Tsimshatsui, Kowloon
	Kwun Tong Hoi Yuen Road Branch	56 Hoi Yuen Road, Kwun Tong, Kowloon
New Territories	Tsuen Wan Branch	282 Sha Tsui Road, Tsuen Wan, New Territories

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) Standard Chartered Bank (Hong Kong) Limited

	Branch	Address
Hong Kong Island	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
New Territories	Tseung Kwan O Branch	Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O
	New Town Plaza Branch	Shop 215, 222 & 223, Phase 1, New Town Plaza, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on 22 February 2013 until 12:00 noon on 27 February 2013 from:

- (a) The Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (b) Your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the **WHITE** and **YELLOW** Application Forms

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) or at your own risk at the address stated in the Application Form.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - i. the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) **If the application is made by an individual CCASS Investor Participant:**
 - i. the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Identity Card number; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- ii. the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (c) **If the application is made by a joint individual CCASS Investor Participant:**
- i. the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
 - ii. the participant I.D. must be inserted in the appropriate box in the Application Form.
- (d) **If the application is made by a corporate CCASS Investor Participant:**
- i. the Application Form must contain the CCASS Investor Participant's name and Hong Kong Business Registration number; and
 - ii. the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. and/or company chop bearing its company name or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification code for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner.

How to make payment for the application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name (or, in the case of joint applicants, the name of the first-named applicant). This name must either be pre-printed on the cheque or be endorsed on the reverse of the cheque by an authorised signatory of the bank. The account name must correspond with the name of the applicant on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- be made payable to “Horsford Nominees Limited — Termbray Petro-King Public Offer”;
- be crossed “Account Payee Only”; and
- not be post-dated.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker’s cashier order, the cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker’s cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the reverse of the banker’s cashier order must be the same as the name of the first-named applicant;
- be made payable to “Horsford Nominees Limited — Termbray Petro-King Public Offer”;
- be crossed “Account Payee Only”; and
- not be post-dated.

Your application may be rejected if your banker’s cashier order does not meet all these requirements. The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on 27 February 2013. The Company will not give you a receipt for your payment. The Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any Share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.

2. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.cass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

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HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC to Apply for Hong Kong Offer Shares by HKSCC Nominees On Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus:
- (b) HKSCC Nominees does the following things on behalf of each such person:
 - i. agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of the HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - ii. undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - iii. undertakes and confirms that that person has not indicated an interest for, applied for or taken up or indicated an interest for, any shares under the International Placing nor otherwise participated in the International Placing;
 - iv. (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for

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that person's benefit and such application is the only application which has been and will be made for that person's benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk);

- v. (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and such application is the only application which has been and will be made for that person's benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk) and that that person is duly authorised to give those instructions as that other person's agent;
- vi. understands that the above declaration will be relied upon by the Company, the Sole Global Coordinator and/or the Joint Bookrunners in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- vii. authorises the Company to place the name of HKSCC Nominees on the register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) (where applicable) and/or refund monies (where applicable) in accordance with the arrangements separately agreed between the Company and HKSCC;
- viii. confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- ix. confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus;
- x. agrees that the Company, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplemental thereto;
- xi. agrees to disclose that person's personal data to the Company, our Hong Kong Share Registrar, receiving banker(s), the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers, the Underwriters and/or their respective agents and any information which they may require about that person;

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- xii. agrees (without prejudice to any other rights which that person may have) that once the application to HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- xiii. agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- xiv. agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by the Company;
- xv. agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- xvi. agrees with the Company, for itself and for the benefit of each of the Shareholders (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Act, the Companies Ordinance and the Articles;
- xvii. agrees with the Company (for the Company itself and for the benefit of each Shareholder) the Shares are freely transferable by the holders thereof; and
- xviii. agrees that the person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

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Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your behalf, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for those purposes of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

Personal Data

The section of the Application Forms entitled “Personal Data” applies to any personal data held by the Company and our Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company, the Directors, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for the application and provided no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internal System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE**, or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on 27 February 2011, or such later date as described in the section headed “Effect of bad weather on the opening of the application lists” below.

3. APPLYING BY USING WHITE FORM eIPO

General

You may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO**, the Shares will be issued in your own name.

How to complete the White Form eIPO

- (a) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to the Company.

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- (b) In addition to the terms and conditions set out in this prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (c) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated White Form eIPO Service Provider to transfer the details of your application to the Company and our Hong Kong Share Registrar.
- (d) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.
- (e) You should give electronic application instructions through White Form eIPO at the times set out in the section headed “Members of the Public — Time for applying for Hong Kong Offer Shares” below.

How to Make Payment for the Application

You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on 27 February 2013, or such later time as described under the section headed “Effect of bad weather on the opening of the application lists” below, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

Multiple applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at **www.eipo.com.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

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Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “Termbray Petro-King Oilfield Services Limited” White Form eIPO application submitted via www.eipo.com.hk to support the funding of “Source of Dongjiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Warning

The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. The Company, our Directors, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to the Company or that you will be allotted any Hong Kong Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. See the section headed “How many applications you may make” below.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO service provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO service provider on the designated website at www.eipo.com.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Hong Kong Offer Shares if and only if:

You are a nominee, in which case you may give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one **WHITE** and **YELLOW** Application Form or White Form eIPO in your own name if each application is made on behalf of different beneficial owners in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or by submitting an application to the White Form eIPO Service Provider through the designated website for the White Form eIPO or by giving **electronic application instructions** to HKSCC, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the White Form eIPO service (www.eipo.com.hk);
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application form or by giving electronic application instructions to HKSCC or to the designated White Form eIPO Service Provider through the White Form eIPO service (www.eipo.com.hk) and that you are duly authorised to sign the Application Form as that other person’s agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by submitting an application to the White Form eIPO Service Provider through the designated website or by giving **electronic application instructions** to HKSCC; or
- apply both (whether individually or jointly) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or onto one **WHITE** or **YELLOW** Application Form and to give **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the White Form eIPO service (www.eipo.com.hk); or

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- apply (whether individually or jointly) on one (or more) **WHITE** or **YELLOW** Application Form or by submitting an application to the White Form eIPO Service Provider through the designated website or by giving **electronic application instructions** to HKSCC for more than 12,500,000 Shares, being 50% of the Offer Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the section entitled “Structure of the Global Offering — The Hong Kong Public Offering” on page 366 of this prospectus; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares under the International Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

An unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

5. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer price is HK\$3.39 per Hong Kong Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% in full. This means that for one board lot of 1,000 Hong Kong Offer Shares you will pay HK\$3,424.17. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares up to 12,500,000.

You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% in full upon application for Hong Kong Offer Shares by a cheque or a banker’s cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

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If your application is successful, brokerage of 1% is paid to participants of the Stock Exchange, the SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% are paid to the Stock Exchange (in the case of the SFC transaction levy of 0.003%, collected on behalf of the SFC).

6. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, the Company will refund your application monies, including brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for the benefit of the Company.

If your application is accepted only in part, the Company will refund the appropriate portion of your application monies, including the related brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$3.39 per Hong Kong Offer Share, appropriate refund payments, including the brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the paragraph headed “Despatch/Collection of Share Certificates and Refund of Application Monies”.

In the contingency situation involving a substantial over-subscription, at the discretion of the Company and the Sole Global Coordinator, cheques for applications for certain small denominations of Hong Kong Offer Shares on Application Forms (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on 5 March 2013 in accordance with the various arrangements as described in this section.

7. MEMBERS OF THE PUBLIC - TIME FOR APPLYING FOR HONG KONG OFFER SHARES

WHITE and YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on 27 February 2013, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

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Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of China Construction Bank (Asia) Corporation Limited or Standard Chartered Bank (Hong Kong) Limited listed under the section headed “Where to collect the **WHITE** and **YELLOW** Application Forms” above at the following times:

Friday, 22 February 2013 — 9:00 a.m. to 5:00 p.m.
Saturday, 23 February 2013 — 9:00 a.m. to 1:00 p.m.
Monday, 25 February 2013 — 9:00 a.m. to 5:00 p.m.
Tuesday, 26 February 2013 — 9:00 a.m. to 5:00 p.m.
Wednesday, 27 February 2013 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on 27 February 2013.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until the closing of the application lists.

Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 22 February 2013 — 9:00 a.m. to 8:30 p.m.^(Note)
Saturday, 23 February 2013 — 8:00 a.m. to 1:00 p.m.^(Note)
Monday, 25 February 2013 — 8:00 a.m. to 8:30 p.m.^(Note)
Tuesday, 26 February 2013 — 8:00 a.m. to 8:30 p.m.^(Note)
Wednesday, 27 February 2013 — 8:00 a.m.^(Note) **to 12:00 noon**

Note:

These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on 22 February 2013 until 12:00 noon on 27 February 2013. (24 hours daily, except the last application day).

WHITE Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on 22 February 2013 until 11:30 a.m. on 27 February 2013 or such later time as described under the section headed “Effect of bad weather on the opening of the applications lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on 27 February 2013, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the section headed “Effect of bad weather on the opening of the application lists” below.

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

8. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists of the Hong Kong Public Offering will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 27 February 2013. Instead they will be open from 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Offer Shares do not open and close on 27 February 2013, or if there is a tropical cyclone warning signal number 8 or above or “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” on page i of this prospectus, such dates may be affected and an announcement will be made in such event.

9. PUBLICATION OF RESULTS

A notification announcement under Rule 2.17A of the Listing Rules which also includes the Offer Price, an indication of the level of interest in the International Placing, the level of applications of the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares will be published by us on 5 March 2013 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company (www.petro-king.cn) and the website of the Stock Exchange (www.hkex.com.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering can be found in our announcement to be posted on our Company’s website at www.petro-king.cn and the website of the Stock Exchange at www.hkex.com.hk by no later than 9:00 a.m. on 5 March 2013;
- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at www.iporeresults.com.hk on a 24-hour basis

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from 8:00 a.m. on 5 March 2013 to 12:00 midnight on 11 March 2013. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;

- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from 5 March 2013 to 8 March 2013;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from 5 March 2013 to 7 March 2013 at all the receiving bank branches and sub-branches at the addresses set out in the section headed “How to apply for Hong Kong Offer Shares — Where to collect the **WHITE** and **YELLOW** Application Forms”.

10. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf or to the White Form eIPO Service Provider via the White Form eIPO service), and which you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you.

- **If your application is revoked:**

By completing and submitting an Application Form or giving an **electronic application instruction** to HKSCC via CCASS or to the designated White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before 5 March 2013. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or give your electronic application instruction to HKSCC or to the designated White Form eIPO Service Provider and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before 5 March 2013 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday, or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicant(s) shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification of the results of allotment in the manner as described in the section headed “Publication of results” and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- **Full discretion of the Company or its agents to reject or accept your application:**

The Company, the Sole Global Coordinator (as the agent of the Company) or their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application.

The Company, the Sole Global Coordinator (in their capacity as the Company’s agent) or their respective agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply for a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within **three** weeks from the closing date of the application lists in respect of the Hong Kong Public Offering, or
- within a longer period of up to six weeks if the Listing Committee or the Stock Exchange notifies the Company of that longer period within three weeks of the closing date of the application lists in respect of the Hong Kong Public Offering.

- **You will not receive any allotment if:**

- you make multiple applications or suspected multiple applications;
- you or the person(s) for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the International Placing Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your payment is not made correctly; you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- the Company or the Sole Global Coordinator (on behalf of the Company) believe(s) that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in the Application Form is located;
- your application is for more than 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering; or
- any of the Underwriting Agreements does not become unconditional in accordance with its terms or is terminated in accordance with its terms.

11. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price per Hong Kong Offer Share (excluding brokerage 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Global Offering" on page 374 of this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form.

- (a) for applications on **WHITE** Application Forms or by giving electronic instructions to the designated White Form eIPO Service Provider under White Form eIPO (www.eipo.com.hk):

HOW TO APPLY FOR HONG KONG OFFER SHARES

- i. Share certificate(s) for all Hong Kong Offer Shares applied for, if the application is wholly successful; or
 - ii. Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms; Share certificates for the Hong Kong Offer Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms or by giving electronic instructions to the designated White Form eIPO Service Provider under White Form eIPO, refund cheques will be crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) (or (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful, or (ii) all the application monies, if the application is wholly unsuccessful; or (iii) the difference between the Offer Price and the maximum Offer Price per Hong Kong Offer Share paid on application in the event that the Offer Price is less than the Offer Price per Hong Kong Offer Share initially paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, (where applicable). Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number or passport number for encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the Offer Price per share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms and White Form eIPO; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms and White Form eIPO are expected to be posted on or before 5 March 2013. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on 6 March 2013 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” on page 356 of this prospectus has not been exercised.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(c) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and have indicated your intention in your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person from our Hong Kong Share Registrar and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong Share Registrar at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on 5 March 2013 or such other date as notified by the Company in the newspapers as the date of collection/despatch of e-Refund payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on 5 March 2013 by ordinary post and at your own risk.

(d) If you apply using a YELLOW Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS InvestorParticipant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on 5 March 2013, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominee.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (Other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on 5 March 2013. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 5 March 2013 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(e) **If you apply by giving electronic application instructions to HKSCC**

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant Stock Account on 5 March 2013, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, it will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration

HOW TO APPLY FOR HONG KONG OFFER SHARES

number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in the section headed “Publication of results” on 5 March 2013. You should check the announcement published by the Company and report any discrepancies to HKSCC or HKSCC Nominees before 5:00 p.m. on 5 March 2013 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Offer price per Share initially paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on 5 March 2013. No interest will be paid thereon.

(f) **If you apply through White Form eIPO**

If you apply for 1,000,000 Hong Kong Offer Shares or more through the White Form eIPO service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 5 March 2013, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

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If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** on 5 March 2013 by ordinary post and at your own risk.

If you apply through the White Form eIPO service and paid the application monies from a single bank account, refund monies (if any) will be despatched to the application payment account in the form of e-Refund payment instructions: If you apply through White Form eIPO service and paid the application monies from multiple bank accounts, refund monies (if any) will be despatched to the address as specified on your White Form eIPO application in the form of refund cheque(s), by ordinary post at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out above in the section headed “Applying by Using White Form eIPO — Additional information”.

12. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on 6 March 2013.

The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares is 2178.

13. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

HOW TO APPLY FOR HONG KONG OFFER SHARES

14. EFFECT OF MAKING AN APPLICATION

You should note that by completing and submitting an Application Form, among other things, you:

- instruct and authorise the Company and/or the Sole Global Coordinator and/or the Joint Bookrunners and/or the Hong Kong Underwriters (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Articles;
- confirm that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making the application, and not on any other information or representation concerning our Company and you agree that none of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Joint Lead Managers or the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- agree (without prejudice to any other rights which you may have) that once the application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
- if the application is made for your own benefit, warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service (www.eipo.com.hk);
- if the application is by an agent on your behalf, warrant that you have validly and irrevocably conferred on the agent all necessary power and authority to make the application;
- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service (www.eipo.com.hk), and that you are duly authorised to sign the Application Form or to give electronic application instruction as that other person's agent;

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- agree that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering made available by the Company;
- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;
- warrant the truth and accuracy of the information contained in your application;
- agree to disclose to the Company, our Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Joint Lead Managers and their respective advisers and agents any personal data and information about you or the person(s) for whose benefit you have made the application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- represent and warrant that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing this application and you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S) described under the U.S. Securities Act;
- authorise our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on our register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or our agents to send any share certificate(s) (where applicable) and/or any refund cheque(s) (where applicable) to you or (in case of joint applicants) the first-named applicant on the Application Form by ordinary post at your own risk to the address stated on your Application Form (unless you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated on the Application Form that you will collect the share certificate(s) (where applicable) and/or refund cheques (where applicable) in person in accordance with the terms set out in this prospectus);
- understand that these declarations and representations will be relied upon by the Company, the Sole Sponsor, the Sole Global Coordinator and/or the Joint Bookrunners in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to your application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator, Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers or the Underwriters nor any of their respective directors, employees, partners, agents, officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions set out in this prospectus;
- agree with us, for ourselves and the benefit of each of our Shareholders, and we agree with each of our Shareholders, to observe and comply with the Companies Act and our Memorandum and Articles;
- agree with us, for ourselves and the benefit of each of our Shareholders, that the Shares are freely transferable by the holder(s) thereof;
- authorise us to enter into a contract on your behalf with each of our Directors and officers under which such Directors and Officers undertake to observe and comply with their obligations to Shareholders stated in our Memorandum and Articles;
- confirm that you are aware of the restrictions on offering of the Hong Kong Offer Shares described in this prospectus;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and Application Forms and agree to be bound by them;
- agree that the processing of your application including the despatch of refund cheque(s) (if any), in person may be done by any of the Company's receiving bankers and is not restricted to the bank at which our Application Form is lodged; and
- agree that the Company, the Directors, the Sole Sponsor, the Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and any of their respective directors, officers, employees, partners, agents or advisers, and any other parties involved in the Global Offering are liable only for, and that you have only relied upon, the information and representations contained in the Prospectus and any supplement to the Prospectus (and only then to the extent such liability is held to exist by a court with competent jurisdiction).

If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to above, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following:

- (a) agree that any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;

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- (b) agree that each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion (1) not to accept any or part of such allotted Hong Kong Offer Shares in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the name of the first-named applicant) at your own risk and costs; (3) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, in the name of the first-named applicant) and in such a case, to post the share certificates for such allotted Hong Kong Offer Shares at your own risk to the address stated on the Application Form by ordinary post or to make available the same for your collection;
- (c) agree that each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares and issued in the name of HKSCC Nominees;
- (d) agree that neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
- (e) agree that neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

22 February 2013

The Directors
Termbray Petro-king Oilfield Services Limited

CCB International Capital Limited

Dear Sirs,

We report on the financial information of Termbray Petro-king Oilfield Services Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at 31 December 2009, 2010 and 2011 and 30 September 2012, the balance sheets of the Company as at 31 December 2009, 2010 and 2011 and 30 September 2012, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 22 February 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the British Virgin Islands on 7 September 2007 as an exempted company with limited liability under the Business Companies Act of the British Virgin Islands (2004).

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 39 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

The audited financial statements of the companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 39 of Section II below.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2009, 2010 and 2011 and 30 September 2012 and of the Group’s results and cash flows for the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 30 September 2011 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2009, 2010 and 2011 and 30 September 2012 and for each of the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012 (the "Financial Information").

CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December			As at
		2009	2010	2011	30 September
		HK\$	HK\$	HK\$	2012
					HK\$
ASSETS					
Non-current assets					
Property, plant and equipment .	6	7,573,094	10,444,281	20,723,244	39,756,302
Intangible assets	7	487,813,156	480,815,129	525,928,146	575,039,262
Investment in an associate	8	—	610,006	1,102,297	—
Investment in a jointly controlled entity	9	—	—	1,639,730	—
Deferred tax assets	20	483,719	499,027	—	3,405,902
		<u>495,869,969</u>	<u>492,368,443</u>	<u>549,393,417</u>	<u>618,201,466</u>
Current assets					
Inventories	11	31,320,820	46,092,086	91,927,038	258,166,106
Trade and other receivables and prepayments	12	149,201,244	540,484,036	471,816,230	580,192,745
Pledged bank deposits	13	15,508,480	45,419,670	48,756,417	19,037,928
Cash and cash equivalents	14	98,054,427	106,006,482	72,633,116	51,081,595
		<u>294,084,971</u>	<u>738,002,274</u>	<u>685,132,801</u>	<u>908,478,374</u>
Total assets		<u><u>789,954,940</u></u>	<u><u>1,230,370,717</u></u>	<u><u>1,234,526,218</u></u>	<u><u>1,526,679,840</u></u>

APPENDIX I
ACCOUNTANT'S REPORT

	Note	As at 31 December			As at
		2009	2010	2011	30 September
		HK\$	HK\$	HK\$	2012
				HK\$	
EQUITY					
Capital and reserves attributable to owners of the Company					
Share capital	15	275,044,825	662,644,041	662,644,041	671,891,801
Other reserves	16	13,328,824	39,003,685	47,689,553	46,500,609
Retained earnings		102,609,283	187,243,695	273,100,684	257,539,041
		390,982,932	888,891,421	983,434,278	975,931,451
Non-controlling interests		(504,309)	—	19,561,171	34,433,868
Total equity		390,478,623	888,891,421	1,002,995,449	1,010,365,319
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	20	10,257,986	10,244,983	12,873,620	13,322,849
		10,257,986	10,244,983	12,873,620	13,322,849
Current liabilities					
Trade and other payables	17	68,006,748	228,529,521	100,927,369	311,085,935
Derivative financial instrument	36(c)	—	—	—	1,335,185
Current income tax liabilities ..		10,946,280	26,030,642	14,401,258	16,703,552
Shareholders' loans	18	286,021,046	—	—	—
Bank borrowings	19	24,244,257	76,674,150	103,328,522	173,867,000
		389,218,331	331,234,313	218,657,149	502,991,672
Total liabilities		399,476,317	341,479,296	231,530,769	516,314,521
Total equity and liabilities		789,954,940	1,230,370,717	1,234,526,218	1,526,679,840
Net current (liabilities)/assets ...		(95,133,360)	406,767,961	466,475,652	405,486,702
Total assets less current liabilities		400,736,609	899,136,404	1,015,869,069	1,023,688,168

BALANCE SHEETS

	Note	As at 31 December			As at
		2009	2010	2011	30 September
		HK\$	HK\$	HK\$	2012
					HK\$
ASSETS					
Non-current asset					
Investments in subsidiaries	39	275,053,233	275,053,233	275,053,233	284,300,993
Current assets					
Other receivables and prepayments.....	12	286,128,498	388,150,521	386,809,981	526,996,186
Total current assets		286,128,498	388,150,521	386,809,981	526,996,186
Total assets		561,181,731	663,203,754	661,863,214	811,297,179
EQUITY					
Capital and reserves					
attributable to owners					
of the Company					
Share capital	15	275,044,825	662,644,041	662,644,041	671,891,801
Other reserves	16	—	21,057,323	21,345,565	21,345,565
Accumulated losses	37	(29,520)	(23,061,252)	(27,688,959)	(15,525,838)
Total equity.....		275,015,305	660,640,112	656,300,647	677,711,528
LIABILITIES					
Current liabilities					
Other payables	17	145,380	2,563,642	5,562,567	133,585,651
Shareholders' loans.....	18	286,021,046	—	—	—
		286,166,426	2,563,642	5,562,567	133,585,651
Total liabilities.....		286,166,426	2,563,642	5,562,567	133,585,651
Total equity and liabilities		561,181,731	663,203,754	661,863,214	811,297,179
Net current (liabilities)/assets ...		(37,928)	385,586,879	381,247,414	393,410,535
Total assets less current					
liabilities		275,015,305	660,640,112	656,300,647	677,711,528

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December			Nine months ended 30 September	
		2009	2010	2011	2011	2012
		HK\$	HK\$	HK\$	HK\$	HK\$
					<i>(unaudited)</i>	
Revenue	5	286,677,682	558,261,469	559,490,832	437,543,602	571,077,139
Other income.....	21	5,078,248	13,652,423	8,816,593	7,419,646	4,693,547
Operating costs						
Material costs.....	11	(99,195,511)	(301,040,822)	(234,838,409)	(207,074,405)	(238,758,855)
Depreciation of property, plant and equipment	6	(1,859,272)	(2,583,822)	(3,885,365)	(2,715,448)	(5,201,507)
Amortisation of intangible assets .	7	(3,095,471)	(3,151,718)	(10,602,109)	(6,003,506)	(7,627,322)
Impairment of intangible assets	7	—	(3,803,436)	—	—	—
Operating lease rental		(2,485,491)	(2,405,701)	(3,956,670)	(2,420,729)	(5,853,857)
Employee benefit expenses.....	22	(46,307,990)	(76,772,093)	(74,870,330)	(50,844,934)	(70,302,889)
Distribution expenses		(9,565,317)	(4,788,979)	(9,739,588)	(7,436,499)	(18,652,062)
Technical service fee		(12,740,307)	(36,548,256)	(63,964,866)	(41,892,180)	(60,438,906)
Research and development expenses.....	22	(1,502,936)	(3,914,105)	(3,741,460)	(2,654,338)	(4,339,046)
Other expenses	23	(20,011,080)	(28,541,476)	(45,699,538)	(23,804,215)	(64,088,713)
Other losses, net	24	(784,507)	(725,759)	(934,697)	(50,984)	(8,133,469)
		94,208,048	107,637,725	116,074,393	100,066,010	92,374,060
Finance income	27	60,003	27,768	276,627	41,372	33,117
Finance costs.....	27	(1,344,899)	(2,057,041)	(3,574,063)	(2,528,165)	(5,856,362)
Finance costs, net.....		(1,284,896)	(2,029,273)	(3,297,436)	(2,486,793)	(5,823,245)
Share of profit/(loss) of an associate	8	—	598,597	492,291	(610,006)	(1,102,297)
Share of (loss)/profit of a jointly controlled entity.....	9	—	—	(1,312,861)	1,165,193	(43,226)
Gain on disposal of a jointly controlled entity.....	36(c)	—	—	—	—	47,742,893
Profit before income tax.....		92,923,152	106,207,049	111,956,387	98,134,404	133,148,185
Income tax expense.....	29	(15,911,000)	(21,572,637)	(19,863,851)	(13,760,378)	(25,997,354)
Profit for the year/period		77,012,152	84,634,412	92,092,536	84,374,026	107,150,831
Other comprehensive (loss)/income						
Currency translation differences ...		(108,066)	4,617,538	8,040,679	5,911,035	(1,267,503)
Total comprehensive income for the year/period		<u>76,904,086</u>	<u>89,251,950</u>	<u>100,133,215</u>	<u>90,285,061</u>	<u>105,883,328</u>

APPENDIX I
ACCOUNTANT'S REPORT

	Note	Year ended 31 December			Nine months ended 30 September	
		2009	2010	2011	2011	2012
		HK\$	HK\$	HK\$	HK\$	HK\$
						(unaudited)
Profit for the year/period attributable to:						
Owners of the Company		77,611,446	84,634,412	86,847,607	81,737,731	104,438,357
Non-controlling interests		(599,294)	—	5,244,929	2,636,295	2,712,474
		<u>77,012,152</u>	<u>84,634,412</u>	<u>92,092,536</u>	<u>84,374,026</u>	<u>107,150,831</u>
Total comprehensive income for the year/period attributable to:						
Owners of the Company		77,503,380	89,251,950	94,254,615	87,546,130	103,249,413
Non-controlling interests		(599,294)	—	5,878,600	2,738,931	2,633,915
		<u>76,904,086</u>	<u>89,251,950</u>	<u>100,133,215</u>	<u>90,285,061</u>	<u>105,883,328</u>
Earnings per share for the profit attributable to the owners of the Company						
- Basic	31	12,571	12,197	8,685	8,174	10,404
- Diluted	31	<u>12,571</u>	<u>12,188</u>	<u>8,387</u>	<u>7,891</u>	<u>10,075</u>
Dividends	32	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>120,000,000</u>

Note: The earnings per share presented above has not been taken into account the proposed capitalisation issue pursuant to the shareholders' resolution dated 18 February 2013 (note 40(c)) because the proposed capitalisation issue has not become affective as at the date of this report.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves (note 16)	Retained earnings	Total		
	HK\$	HK\$	HK\$	HK\$		
For the year ended 31 December 2009						
Balance at 1 January 2009	<u>275,044,825</u>	<u>2,093,668</u>	<u>36,341,059</u>	<u>313,479,552</u>	<u>94,985</u>	<u>313,574,537</u>
Comprehensive income						
Profit for the year	—	—	77,611,446	77,611,446	(599,294)	77,012,152
Other comprehensive loss						
Currency translation differences	—	(108,066)	—	(108,066)	—	(108,066)
Total comprehensive income for the year...	<u>—</u>	<u>(108,066)</u>	<u>77,611,446</u>	<u>77,503,380</u>	<u>(599,294)</u>	<u>76,904,086</u>
Total contributions by and distributions to owners of the Company recognised directly in equity						
Transfer to statutory reserve	—	11,343,222	(11,343,222)	—	—	—
Total contributions by and distribution to owners of the Company	<u>—</u>	<u>11,343,222</u>	<u>(11,343,222)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 31 December 2009	<u><u>275,044,825</u></u>	<u><u>13,328,824</u></u>	<u><u>102,609,283</u></u>	<u><u>390,982,932</u></u>	<u><u>(504,309)</u></u>	<u><u>390,478,623</u></u>

	Attributable to owners of the Company					Total equity HK\$
	Share capital	Other reserves (note 16)	Retained earnings	Total	Non-controlling interests	
	HK\$	HK\$	HK\$	HK\$	HK\$	
For the year ended 31 December 2010						
Balance at 1 January 2010	<u>275,044,825</u>	<u>13,328,824</u>	<u>102,609,283</u>	<u>390,982,932</u>	<u>(504,309)</u>	<u>390,478,623</u>
Comprehensive income						
Profit for the year	—	—	84,634,412	84,634,412	—	84,634,412
Other comprehensive income						
Currency translation differences	—	<u>4,617,538</u>	—	<u>4,617,538</u>	—	<u>4,617,538</u>
Total comprehensive income for the year...	<u>—</u>	<u>4,617,538</u>	<u>84,634,412</u>	<u>89,251,950</u>	<u>—</u>	<u>89,251,950</u>
Total contributions by and distributions to owners of the Company recognised directly in equity						
Issuance of share capital (note 15)	387,599,216	—	—	387,599,216	—	387,599,216
Recognition of share-based payment (note 22).....	—	21,057,323	—	21,057,323	—	21,057,323
Deregistration of a subsidiary (note 28).....	—	—	—	—	504,309	504,309
Total contributions by and distributions to owners of the Company	<u>387,599,216</u>	<u>21,057,323</u>	<u>—</u>	<u>408,656,539</u>	<u>504,309</u>	<u>409,160,848</u>
Balance at 31 December 2010	<u><u>662,644,041</u></u>	<u><u>39,003,685</u></u>	<u><u>187,243,695</u></u>	<u><u>888,891,421</u></u>	<u><u>—</u></u>	<u><u>888,891,421</u></u>

	Attributable to owners of the Company					Total equity HK\$
	Share capital	Other reserves (note 16)	Retained earnings	Total	Non-controlling interests	
	HK\$	HK\$	HK\$	HK\$	HK\$	
For the year ended 31 December 2011						
Balance at 1 January 2011	662,644,041	39,003,685	187,243,695	888,891,421	—	888,891,421
Comprehensive income						
Profit for the year	—	—	86,847,607	86,847,607	5,244,929	92,092,536
Other comprehensive income						
Currency translation differences	—	7,407,008	—	7,407,008	633,671	8,040,679
Total comprehensive income for the year...	—	7,407,008	86,847,607	94,254,615	5,878,600	100,133,215
Total contributions by and distributions to owners of the Company recognised directly in equity						
Recognition of share-based payment (note 22).....	—	288,242	—	288,242	—	288,242
Transfer to statutory reserve	—	990,618	(990,618)	—	—	—
Total contributions by and distributions to owners of the Company	—	1,278,860	(990,618)	288,242	—	288,242
Non-controlling interests arising on business combination (note 36(b))	—	—	—	—	13,682,571	13,682,571
Total transactions with owners	—	1,278,860	(990,618)	288,242	13,682,571	13,970,813
Balance at 31 December 2011	662,644,041	47,689,553	273,100,684	983,434,278	19,561,171	1,002,995,449

	Attributable to owners of the Company					Total equity HK\$
	Share capital	Other reserves (note 16)	Retained earnings	Total	Non-controlling interests	
	HK\$	HK\$	HK\$	HK\$	HK\$	
For the nine months ended						
30 September 2012						
Balance at 1 January 2012.....	662,644,041	47,689,553	273,100,684	983,434,278	19,561,171	1,002,995,449
Comprehensive income						
Profit for the period	—	—	104,438,357	104,438,357	2,712,474	107,150,831
Other comprehensive loss						
Currency translation differences	—	(1,188,944)	—	(1,188,944)	(78,559)	(1,267,503)
Total comprehensive income for the period	—	(1,188,944)	104,438,357	103,249,413	2,633,915	105,883,328
Total contributions by and distributions to owners of the Company recognised directly in equity						
Issue of share capital (note 15).....	9,247,760	—	—	9,247,760	—	9,247,760
Dividend (note 32)	—	—	(120,000,000)	(120,000,000)	—	(120,000,000)
Total contributions by and distributions to owners of the Company	9,247,760	—	(120,000,000)	(110,752,240)	—	(110,752,240)
Capital injection from the non-controlling interest of a subsidiary	—	—	—	—	3,218,540	3,218,540
Non-controlling interests arising on business combination (note 36(c)).....	—	—	—	—	9,020,242	9,020,242
Total transactions with owners	9,247,760	—	(120,000,000)	(110,752,240)	12,238,782	(98,513,458)
Balance at 30 September 2012.....	671,891,801	46,500,609	257,539,041	975,931,451	34,433,868	1,010,365,319

	Attributable to owners of the Company					Total equity
	Share capital	Other reserves (note 16)	Retained earnings	Total	Non-controlling interests	
	HK\$	HK\$	HK\$	HK\$	HK\$	
For the nine months ended 30 September 2011 (unaudited)						
Balance at 1 January 2011	662,644,041	39,003,685	187,243,695	888,891,421	—	888,891,421
Comprehensive income						
Profit for the period	—	—	81,737,731	81,737,731	2,636,295	84,374,026
Other comprehensive income						
Currency translation differences	—	5,808,399	—	5,808,399	102,636	5,911,035
Total comprehensive income for the period	—	5,808,399	81,737,731	87,546,130	2,738,931	90,285,061
Total contributions by and distributions to owners of the Company recognised directly in equity						
Recognition of share-based payment (note 22).....	—	288,242	—	288,242	—	288,242
Total contributions by and distributions to owners of the Company	—	288,242	—	288,242	—	288,242
Non-controlling interests arising on business combination (note 36(b))	—	—	—	—	13,682,571	13,682,571
Total transactions with owners	—	288,242	—	288,242	13,682,571	13,970,813
Balance at 30 September 2011 (unaudited)	662,644,041	45,100,326	268,981,426	976,725,793	16,421,502	993,147,295

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Nine months ended 30 September	
		2009	2010	2011	2011	2012
		HK\$	HK\$	HK\$	HK\$	HK\$
						(unaudited)
Cash flows from operating activities						
Cash generated from/						
(used in) operations.....	33(a)	124,484,042	(96,874,263)	47,308,547	80,585,984	(97,295,262)
Interest paid.....	33(c)	(1,347,891)	(2,133,382)	(3,511,313)	(2,528,165)	(5,856,362)
Income tax paid.....		(20,555,501)	(6,942,175)	(36,798,593)	(12,570,704)	(28,592,864)
Net cash generated from/						
(used in) operating						
activities		102,580,650	(105,949,820)	6,998,641	65,487,115	(131,744,488)
Cash flows from investing activities						
Acquisition of a subsidiary,						
net of cash acquired.....	36	(6,120,679)	(678,000)	(11,418,461)	(11,418,461)	2,885,164
Purchases of property,						
plant and equipment.....	6	(1,180,130)	(5,350,270)	(13,473,383)	(10,255,758)	(15,263,402)
Purchases of intangible						
assets	7	(823,590)	—	—	—	(64,586)
Proceeds from disposal of						
property, plant and						
equipment	33(b)	93,673	66,669	188,378	121,173	1,982
Acquisition of an associate.	8	—	(11,409)	—	—	—
Acquisition of a jointly						
controlled entity.....	9	—	—	(2,952,591)	(2,952,591)	—
(Increase)/decrease in						
pledged bank deposits		(15,491,305)	(29,168,601)	(2,437,019)	(8,516,766)	29,637,290
Interest received.....		60,003	27,768	276,627	41,372	33,117
Advance to an associate	38(d)	—	(3,612,779)	(1,865,251)	—	(2,841,087)
Repayment of advance to						
an associate.....	38(d)	—	—	—	—	676,834
Advance to a jointly						
controlled entity.....	38(d)	—	—	(7,767,400)	(7,767,400)	—
(Loan to)/Repayment of						
loan to a third party	12	—	—	(24,292,103)	(24,292,103)	24,257,077
Net cash (used in)/						
generated from investing						
activities		(23,462,028)	(38,726,622)	(63,741,203)	(65,040,534)	39,322,389

APPENDIX I
ACCOUNTANT'S REPORT

	Note	Year ended 31 December			Nine months ended 30 September	
		2009	2010	2011	2011	2012
		HK\$	HK\$	HK\$	HK\$	HK\$
						<i>(unaudited)</i>
Cash flows from financing activities						
Proceeds from bank borrowings	33(c)	76,140,357	204,693,649	180,405,126	113,903,721	291,454,901
Repayments of bank borrowings	33(c)	(61,620,496)	(153,517,339)	(155,657,531)	(108,958,372)	(220,030,699)
Advances received from related parties	38(d)	—	446,875	3,917,748	—	2,608,731
Advances received from shareholders	38(d)	—	276,402	—	—	—
Repayments of advances from related parties	38(d)	(38,023,196)	—	(4,522,512)	(618,334)	(2,575,758)
Proceeds from issuance of ordinary shares	15	—	101,301,768	—	—	—
Capital injection from the non-controlling interest of a subsidiary		—	—	—	—	3,218,540
Share issuance costs		—	—	—	—	(4,110,955)
Net cash (used in)/ generated from financing activities		(23,503,335)	153,201,355	24,142,831	4,327,015	70,564,760
Net increase/(decrease) in cash and cash equivalents		55,615,287	8,524,913	(32,599,731)	4,773,596	(21,857,339)
Cash and cash equivalents at beginning of year/period		42,407,769	98,054,427	106,006,482	106,006,482	72,633,116
Exchange gains/(losses) on cash and cash equivalents		31,371	(572,858)	(773,635)	(731,038)	305,818
Cash and cash equivalents at end of year/period		98,054,427	106,006,482	72,633,116	110,049,040	51,081,595

II NOTES TO THE FINANCIAL INFORMATION**1 General information**

Termbray Petro-king Oilfield Services Limited (the “Company”) was incorporated in British Virgin Islands on 7 September 2007 as an exempted company with limited liability. The address of the Company’s registered office is at Commerce House, Wickham Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of oilfield technology and oilfield services covering various stages in the life of an oil field including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.

The financial information is presented in Hong Kong dollars (HK\$), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial information are set out below. These policies have been consistently applied during the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial information has been prepared under the historical cost convention as modified by derivative financial instruments that are measured at fair value through profit or loss.

The preparation of these financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 4 of this Section.

2.1.1 *Changes in accounting policies and disclosures*

New accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

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

	Effective for annual periods beginning on or after
IAS 19 (Revised 2011)..... Employee benefits	1 January 2013
IAS 27 (Revised 2011)..... Separate financial statements	1 January 2013
IAS 28 (Revised 2011)..... Associates and joint ventures	1 January 2013
IFRS 9..... Financial instruments	1 January 2015
IFRS 10..... Consolidated financial statements	1 January 2013
IFRS 11..... Joint arrangement	1 January 2013
IFRS 12..... Disclosures of interests in other entities	1 January 2013
IFRS 13..... Fair value measurements	1 January 2013
IFRIC - Int 20..... Stripping costs in the production phase of a surface mine (November 2011)	1 January 2013
Amendments to IAS 32..... Financial instruments: Presentation - Offsetting financial assets and financial liabilities	1 January 2014
Amendments to IFRS 1..... First time adoption on government grants	1 January 2013
Amendments to IFRS 7..... Financial instruments: Disclosures - Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IFRS 10 and 12, and IAS 27 (Revised 2011)..... Investment Entities	1 January 2014
Amendments to IFRS 10, 11 and 12..... Transition guidance	1 January 2013
Improvements to IFRSs 2011..... Several IFRS standards	1 January 2013

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations, but not yet in a position to state whether they would have a significant impact to the Group's consolidated financial information.

The most relevant ones to the Group in its current operations are explained in more detail 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. In addition, its effective date was delayed from 1 January 2013 to 1 January 2015 by an amendment issued in 2011. At the same time, IFRS 7 was amended to disclosure requirements upon transition to IFRS 9. IFRS 9 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. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 upon its effective date for the accounting period beginning on 1 January 2015.

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 information 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 yet to assess IFRS 10's full impact and intends to adopt IFRS 10 for the accounting period beginning on 1 January 2013.

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. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

2.2 *Seasonal nature of the Business*

For most of the Group's businesses, and particularly the oilfield business, the first half of the financial period is marked by lower business volumes than in the second half of the year as most of the customers, particularly state-owned enterprises, set annual budgets and finalise work scope early in the year and request work to be done later in the year, particularly in the third and fourth quarter. The seasonality was also due to the fact that the weather conditions of some regions where the Group operates were too cold for oilfield operations in the winter which also restricted the Group's operations in the first half of the year.

Sales levels and results in the first half cannot therefore be extrapolated to the full financial year.

The seasonal nature of business is reflected in a net use of cash over the first half of the year, due to the low level of cash receipts during this period, most of which are generated in the second half of the year.

Income and expenses invoiced on an annual basis are accounted on a pro-rata basis using an estimate for the full year.

2.3 *Subsidiaries*

2.3.1 *Consolidation*

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.

(a) ***Business combinations***

The Group applies the acquisition method 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 recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit and loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss.

(b) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit and loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as 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 and loss.

2.3.2 *Separate financial information*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial information exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

2.4 *Associate*

Associate is the entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit and loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit and loss where appropriate.

The Group's share of post-acquisition profit and loss is recognised in the consolidated profit and loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the consolidated statements of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial information only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statements of comprehensive income.

2.5 *Jointly controlled entity*

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

Investments made by means of joint venture structures where the Group or the Company controls the composition of the board of directors or equivalent governing body and/or is in a position to exercise control over the financial and operating policies of the jointly controlled entity are accounted for as subsidiaries.

Investment in jointly controlled entity is accounted for in the consolidated financial information under the equity method, as described in note 2.4.

2.6 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM") is responsible for allocating resources and assessing performance of the operating segments.

2.7 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial information is presented in HK\$, which is the Company's functional currency and the Company's and the Group's presentation currency.

(b) *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 remeasured. 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 consolidated profit and loss.

Foreign exchange gains and losses that relate to bank borrowings are presented in the consolidated statements of comprehensive income within 'finance costs, net'. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'other losses, net'.

(c) *Group companies*

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statements of comprehensive income 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 dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

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. Exchange differences arising are recognised in equity.

2.8 *Property, plant and equipment*

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 are charged to the consolidated profit and loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual value over its estimated useful lives, as follows:

Leasehold improvements	Shorter of lease term or useful life of 5 years
Plant and machineries	3-5 years
Motor vehicles	5-10 years
Computer equipment	3-5 years
Furniture and fixtures	5 years

The assets' residual values and useful lives are revised and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with carrying amounts and are recognised within 'other losses, net' in the consolidated statements of comprehensive income.

2.9 *Intangible assets*

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the reportable segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Contractual customer relationships*

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the contractual customer relationships of approximately 0.5-1.5 years.

(c) *Contractual agreements on non-competition*

Contractual agreements on non-competition acquired in a business combination are recognised at fair value at the acquisition date. The contractual agreements on non-competition have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the contractual agreements on non-competition of approximately 4 years.

(d) *Incomplete sales contracts*

Incomplete sales contracts acquired in a business combination are recognised at fair value at the acquisition date. The incomplete sales contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the incomplete sales contracts of approximately 6 months.

(e) *Computer software*

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 5 years.

2.10 *Impairment of investment in associate, jointly controlled entity 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 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of investments in associate or jointly controlled entity is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the associate or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial information exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or jointly controlled entity and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate', 'share of profit/(loss) of a jointly controlled entity' in the consolidated statements of comprehensive income.

Objective evidence of that an investment in associate or joint venture includes also assessing whether there has been any significant adverse change in the technological, market, economic or legal environment in which the associates operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associate or joint controlled entity is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable.

2.11 *Financial assets*

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose 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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as 'non-current assets'. The Group's loans and receivables comprise 'trade and other receivables' (note 2.15), and 'cash and cash equivalents' (note 2.16) and 'pledged bank deposits' (note 2.17) in the consolidated balance sheets. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.12 *Impairment of financial assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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 financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 statements of comprehensive income.

2.13 *Derivative financial instruments*

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated statements of comprehensive income with "other losses, net".

2.14 *Inventories*

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 applicable variable selling expenses.

2.15 *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.

2.16 *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with bank, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts, if any. In consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

2.17 *Pledged bank deposits*

Pledged bank deposits represent the amounts of cash pledged as collateral to the banks for issuing performance bonds or providing additional financing.

2.18 *Share capital*

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.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

2.19 *Trade and other payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables 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 and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 *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 consolidated profit and loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 reporting period.

2.21 *Borrowing costs*

All borrowing costs are recognised in the consolidated profit and loss in the period in which they are incurred.

2.22 *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

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 and its Group companies 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.

(b) *Deferred income tax*

Inside basis differences

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 information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred 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.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entity, except for deferred income tax liability 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.

(c) *Offsetting*

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 tax 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.

2.23 *Employee benefits*

(a) *Pension and employee social security and benefits obligations*

(i) *Hong Kong*

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for the employees in Hong Kong, the assets of which are generally held in separate trustee-administered funds. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong.

The Group pays fixed contributions into a trustee-administered fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to the plan on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(ii) *Mainland China*

The Group companies in the Mainland China participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employees in the Mainland China. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) *Singapore*

The Group's company in Singapore participates in Central Provident Fund (“CPF”), which is a defined contribution pension scheme. Contributions to CPF schemes are recognised as an expense in the period in which the related service is performed.

(b) *Bonus plans*

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.24 *Share-based payment*

Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the Group 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 granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value).

2.25 *Revenue recognition*

Revenue is measured at 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 and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the Group 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 measured until all contingencies relating to the activity have been resolved.

(a) *Provision of oilfield project services*

The Group provides services on oilfield project in a wide range of areas at various stage in the life of an oilfield principally in drilling, well completion and production enhancement to its customers. The services mainly consist of providing oilfield development plan, procurement advice services and installation of tools and equipment and on-site project management.

Revenue from provisions of oilfield projects services is recognised in the accounting period in which the services are accepted by the customers and collectability of the related receivables is reasonably assured.

(b) *Provision of consultancy services*

The Group provides consultancy services consisting of integrated project management services and supervisory services.

Integrated project management services comprise of engineering and designing overall development plan for an oilfield project, assisting and providing advice on sourcing, by way of invitation or open tender, oilfield project management services in different technical areas including drilling, well completion, downhole operation, oilfield equipment installation and production enhancement and providing on-site operational management, supervision, support and advice.

Supervisory services include management, supervision and technical support in specific technical areas in various stages of the oilfield project. Supervisory services mainly serve to ensure the operation in the specific technical areas of the project works in accordance with the execution plan approved by the customers. While some of the contracts for supervisory services require the Group to provide services to customers for a definite term, others require the Group to provide services for a specific operation within a project.

Revenue from provision for integrated project management services is recognised in the accounting period in which the services are accepted by the customers and collectability of the related receivables is reasonably assured.

Revenue from provision for supervisory services is recognised in accounting period in which the services are rendered and assessed on the basis of actual services provided.

(c) *Manufacturing and sales of tools and equipment*

Revenue from manufacturing and sales of tools and equipment is recognised on the transfer of risks and rewards of ownership of tools and equipment, which generally coincides with the time when the customer receives and accepts the goods.

(d) *Agency fee income*

Agency fee income is recognised in the accounting period upon the provision of services.

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.27 *Operating leases*

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

2.28 *Dividend distribution*

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 **Financial risk management**

3.1 *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under the direction of the directors and the major shareholders. Management has identified and evaluated financial risks in close cooperation with the major shareholders. Management reviews and approves principles for overall risk management, as well as policies and procedures covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. These policies and procedures enable management to make strategic and inform decision with regard to the operations of the Group.

(a) *Market risk*

(i) *Foreign currency risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("US\$") and the Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currency that is not the entity's functional currency.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group mitigates the risk by maintaining US\$ and RMB bank accounts to pay for the transactions denominated in these currencies. The amounts of assets and liabilities denominated in each currency can be seen in the relevant notes.

At 31 December 2009, 2010 and 2011 and 30 September 2012, if HK\$ had weakened/strengthened by 1% against the US\$ with all other variables held constant, net post-tax profit for the years/period would have been approximately HK\$1,434,000 higher/lower, HK\$1,098,000 lower/higher, HK\$943,000 lower/higher and HK\$324,000 higher/lower, respectively, mainly as a result of foreign exchange differences on translation of US\$ denominated trade receivables, cash and cash equivalents, and borrowings.

At 31 December 2009, 2010 and 2011 and 30 September 2012, if HK\$ had weakened/strengthened by 5% against the RMB with all other variables held constant, net post-tax profit for the year/period would have been approximately HK\$462,000 higher/lower, HK\$364,000 higher/lower, HK\$9,000 lower/higher and HK\$30,000 lower/higher, respectively, mainly as a result of foreign exchange differences on translation of RMB denominated trade receivables, cash and cash equivalents, and borrowings.

(ii) *Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from bank borrowings, pledged bank deposits and cash and cash equivalents. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group currently does not hedge its exposure to cash flow and fair value interest rate risk. The Group analyses its interest rate exposure on a regular basis and will consider the interest rate exposure when enter into any financing, renewal of existing positions and alternative financing transactions.

The Group's practice is to manage its interest cost through monitoring and reviewing interest rate changes in the market and its impact to the Group's financial performance. For the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012, the Group's borrowings at variable rates were denominated in HK\$, US\$ and RMB.

At 31 December 2009, 2010 and 2011 and 30 September 2012, if interest rate on borrowings and pledged bank deposits held at variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax results for the years/period would have been approximately HK\$35,000, HK\$110,000, HK\$407,000 and HK\$1,191,000 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) *Credit risk*

Credit risk arises from cash and cash equivalents and pledged bank deposits, as well as credit exposures to the customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent rated parties with a good reputation are accepted. For credit exposures to the customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Credit risk is managed at company level, except for credit risk relating to trade receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

As at 31 December 2009, 2010, 2011 and 30 September 2012, all cash and cash equivalents, and pledged bank deposits, were deposited with major financial institutions in the Mainland China and Hong Kong, which are of good credit quality. The table below shows the bank deposit balances as at 31 December 2009, 2010 and 2011 and 30 September 2012.

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
PRC state-owned listed				
banks.....	12,551,603	9,013,752	12,224,487	24,373,997
Other listed banks.....	100,846,651	141,827,622	107,628,544	43,032,452
Others.....	<u>164,653</u>	<u>584,778</u>	<u>1,536,502</u>	<u>2,713,074</u>
Total.....	<u>113,562,907</u>	<u>151,426,152</u>	<u>121,389,533</u>	<u>70,119,523</u>

The Group has policies in place to ensure that sales of its services and products are made to customers with sufficient level of creditworthiness and the Group generally grants its customers a credit term of up to nine months. The Group has concentrations of credit risk which arise from trade receivables mainly from customer. The Group's outstanding amounts of trade receivables from a single customer as at 31 December 2009, 2010 and 2011 and 30 September 2012 accounted for 97%, 96%, 92% and 85% of total trade receivables, respectively. This single customer is a PRC state-owned enterprise and its subsidiaries or its joint ventures of good credit quality within the oilfield project services and consultancy services business segment. However, management does not believe the credit risk in relation to this customer is significant, considering the fact that this customer is carrying out large business with solid financial positions.

(c) **Liquidity risk**

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. Notwithstanding that the Group has net operating cash outflow of HK\$105,949,820 and HK\$131,744,488 for the year ended 31 December 2010 and the nine months ended 30 September 2012 respectively, and net current liabilities of HK\$95,133,360 as at 31 December 2009, management believes that there is no significant liquidity risk as the Group has sufficient undrawn facilities to fund its operations and debt servicing requirements and to satisfy its future working capital and other financing requirements from its operating cash flows and available bank financing.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Fair values of balances due on demand or less than 1 year appropriate their carrying balances as the impact of discounting is not significant.

	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<i>Group</i>				
At 31 December 2009				
Trade and other payables .	6,403,840	—	—	—
Shareholders' loans	286,021,046	—	—	—
Term loans subject to a repayment on demand clause	5,942,295	109,139	129,170	—
Other bank borrowings.....	18,627,182	—	—	—
At 31 December 2010				
Trade and other payables .	208,790,948	—	—	—
Term loans subject to a repayment on demand clause	4,709,139	75,983	53,188	—
Other bank borrowings.....	73,994,412	—	—	—
At 31 December 2011				
Trade and other payables .	65,093,649	—	—	—
Term loans subject to a repayment on demand clause	3,475,983	42,827	10,361	—
Other bank borrowings.....	102,453,671	—	—	—
At 30 September 2012				
Trade and other payables .	283,766,596	—	—	—
Term loans subject to a repayment on demand clause	2,541,445	16,578	—	—
Other bank borrowings.....	172,879,768	—	—	—
Derivative financial instruments	1,335,185	—	—	—

	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<i>Company</i>				
At 31 December 2009				
Other payables	145,380	—	—	—
Shareholders' loans	286,021,046	—	—	—
At 31 December 2010				
Other payables	839,500	—	—	—
At 31 December 2011				
Other payables	600,000	—	—	—
At 30 September 2012				
Other payables	126,187,641	—	—	—

The table following summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates. Taking into account the Group's net assets, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Maturity Analysis - term loans subject to a repayment on demand clause based on scheduled repayments				
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
31 December 2009	1,342,295	1,309,139	3,429,171	—
31 December 2010	1,309,139	1,275,983	2,153,188	—
31 December 2011	1,275,983	1,242,827	910,361	—
30 September 2012	1,241,445	1,216,578	—	—

3.2 Capital 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 to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may price their services adequately in accordance with their pricing policy, secure access to financing at reasonable costs, obtain borrowings from financial institutions or related parties, and issue new shares or sell assets.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'bank borrowings' and 'shareholders' loans' as shown in the consolidated balance sheets) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheets plus net debt.

The Group has an aspired gearing target at not more than 50%, which is commercially defensible and takes into consideration the Group's ability to operate on a stand-alone basis and is set after appropriate advice has been taken from its major shareholders. Accordingly, the gearing ratios at 31 December 2009, 2010 and 2011 and 30 September 2012 were as follows:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Shareholders' loans (note 18)	286,021,046	—	—	—
Bank borrowings (note 19)	24,244,257	76,674,150	103,328,522	173,867,000
Less: cash and cash equivalents (note 14)	<u>98,054,427</u>	<u>106,006,482</u>	<u>72,633,116</u>	<u>51,081,595</u>
Net debt/(cash)	212,210,876	(29,332,332)	30,695,406	122,785,405
Total equity	<u>390,478,623</u>	<u>888,891,421</u>	<u>1,002,995,449</u>	<u>1,010,365,319</u>
Total capital.....	<u>602,689,499</u>	<u>859,559,089</u>	<u>1,033,690,855</u>	<u>1,133,150,724</u>
Gearing ratio.....	35%	N/A	3%	11%

The decrease in the gearing ratio during 2010 resulted primarily from the capitalisation of shareholders' loans into share capital (note 18).

3.3 *Fair value estimation*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's liability that is measured at fair value as at 30 September 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Liability				
Financial liability at fair value through profit or loss				
Derivative financial instrument	<u>—</u>	<u>—</u>	<u>1,335,185</u>	<u>1,335,185</u>

The Group entered into a sale and purchase agreement on 24 January 2011 pursuant to which they agreed to acquire total of 55% equity interest in Sheraton in stages (note 9). The contractual agreement to acquire additional interests in Sheraton is forward contracts and accounted for as derivative financial instrument. The forward contracts have been exercised throughout 2011 and 2012 when the Group has acquired additional equity interests in Sheraton. The remaining balance as at 30 September 2012 represents the fair value of the forward contract which will be settled when the Group acquires the remaining 4% interest in Sheraton to reach the 55% ownership.

The fair value of derivative financial instrument is determined by using valuation techniques based on the fair value of the issued shares and equity interests in Sheraton. The Group makes assumptions that are based on market conditions existing at each balance sheet date. The valuation of the issued shares and further acquired interests were determined using the income approach based on free cash flow valuation method.

The following table presents the changes in the derivative financial instrument for the nine months ended 30 September 2012.

	<i>HK\$</i>
Opening balance at 1 January 2012.....	—
Fair value changes recognised in profit or loss (note 24)	5,811,663
Settlement (note 36(c))	<u>(4,476,478)</u>
Closing balance at 30 September 2012.....	<u>1,335,185</u>

The remaining balance is the fair value of the outstanding forward contract related to the third tranche of the acquisition.

4 Critical accounting estimates and judgements

Estimates and judgements 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.

4.1 *Critical accounting estimates and assumptions*

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) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.9. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

During the year ended 31 December 2010, an impairment of HK\$3,803,436 was charged on goodwill, which arose entirely from the acquisition of Dezhou Jiacheng Oil Tools Co., Ltd, a wholly owned subsidiary of the Group (note 7).

There would not have been any impairment charges in 2011 against goodwill in any of the reportable segments if the discount rate for the Group had been 3 percentage points higher than management's estimates or the annual growth rate for the Group had been 3 percentage points lower than management's estimates.

(b) *Income taxes*

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the 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 income tax and deferred tax provisions in the period in which such determination is made.

(c) *Fair value of other financial instruments*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for its derivative financial instrument that is not traded in active markets.

The fair value of derivative financial instrument would be an estimated HK\$1,169,000 lower or HK\$6,046,000 higher were discount rate used in the discount cash flow analysis to differ by 10% from management's estimates.

4.2 *Critical judgements in applying the Group's accounting policies***(a) *Provision for impairment of trade receivables***

Provision for impairment of trade receivables is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, and in making this judgement, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each customer and the current market conditions, and that there is no evidence of impairment present.

(b) *Provision for warranty*

The tools and equipment sold by the Group are covered by warranty for one year from the date of delivery. The Group does not make any provision for warranty according to their historical records and practice of the industry.

(c) *Inventory realisability*

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.

(d) *Lease registration of certain properties*

Certain lease properties of the Group were not completed the lease registration or obtained the title document. However, based on the Group's past experience, available information and consultation with the Group's PRC legal advisers, the directors of the Company are of the view that since the production facility of one of the subsidiaries is being occupied by them for the assembly of parts and components used only for production (no heavy machineries and non-removable fixtures in the facility) and since all other leased properties in the PRC without lease registration are not production related and can be relocated, if they are needed without having to incur significant relocation costs, the Group should be able to identify alternative office spaces. Accordingly, no impairment provision for such assets is considered necessary according to the Group's accounting policies. Should there be any change in circumstances, it would adversely affect the result of operations.

5 Segment information

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

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services.

They are also 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 reporting segments: oilfield project services, consultancy services and manufacturing and sales of tools and equipment. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

(a) *Revenue*

Revenue recognised during the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012 are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>	
Oilfield project services					
- Drilling	19,338,132	74,342,544	139,527,430	106,328,625	116,059,407
- Well completion ...	68,490,140	419,317,672	284,758,614	276,421,452	74,135,513
- Production enhancement	19,106,510	5,741,843	46,279,433	3,739,005	293,627,149
Total oilfield project services	106,934,782	499,402,059	470,565,477	386,489,082	483,822,069
Consultancy services					
- Integrated project management services	69,019,633	37,746,912	41,347,693	25,565,405	34,683,193
- Supervisory services	11,626,012	15,218,913	12,806,678	9,635,716	12,263,414
Total consultancy services	80,645,645	52,965,825	54,154,371	35,201,121	46,946,607
Manufacturing and sales of tools and equipment.....	99,097,255	5,893,585	34,770,984	15,853,399	40,308,463
Total revenue	286,677,682	558,261,469	559,490,832	437,543,602	571,077,139

The measurement of profit and 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 a measure of revenue and revenue less all directly attributable costs.

The largest customer represented approximately 82%, 97%, 90%, 94% and 77% of the Group's revenue for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012, respectively. This single customer is a PRC state-owned enterprise and its subsidiaries or its joint ventures within the oilfield project services and consultancy services business segment.

(b) *Segment information*

The segment information for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012 are as follows:

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 December 2009				
Total segment revenue	106,934,782	80,645,645	99,272,731	286,853,158
Inter-segment revenue	—	—	(175,476)	(175,476)
Revenue from external customer	106,934,782	80,645,645	99,097,255	286,677,682
Segment results	46,306,858	48,506,904	50,632,506	145,446,268
Net unallocated expenses .				(52,523,116)
Profit before income tax ..				<u>92,923,152</u>
Other information:				
Depreciation	(443,406)	—	(195,926)	(639,332)
Segment assets	561,749,942	105,751,305	11,135,456	678,636,703
Unallocated assets				<u>111,318,237</u>
Total assets				<u>789,954,940</u>
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets) ...	<u>473,502</u>	<u>—</u>	<u>8,119,005</u>	<u>8,592,507</u>

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 December 2010				
Total segment revenue	499,402,059	52,965,825	7,279,367	559,647,251
Inter-segment revenue	<u>—</u>	<u>—</u>	<u>(1,385,782)</u>	<u>(1,385,782)</u>
Revenue from external customers	<u>499,402,059</u>	<u>52,965,825</u>	<u>5,893,585</u>	<u>558,261,469</u>
Segment results.....	168,533,475	25,027,215	(1,973,985)	191,586,705
Net unallocated expenses .				<u>(85,379,656)</u>
Profit before income tax ..				<u><u>106,207,049</u></u>
Other information:				
Depreciation	(1,129,602)	—	(474,567)	(1,604,169)
Deregistration of a subsidiary.....	—	—	(627,795)	(627,795)
Segment assets.....	967,097,266	121,989,609	7,069,465	1,096,156,340
Unallocated assets.....				<u>134,214,377</u>
Total assets				<u><u>1,230,370,717</u></u>
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets) ...	<u>4,266,822</u>	<u>—</u>	<u>—</u>	<u>4,266,822</u>

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 December 2011				
Total segment revenue	470,565,477	54,154,371	37,970,071	562,689,919
Inter-segment revenue	<u>—</u>	<u>—</u>	<u>(3,199,087)</u>	<u>(3,199,087)</u>
Revenue from external customers	<u>470,565,477</u>	<u>54,154,371</u>	<u>34,770,984</u>	<u>559,490,832</u>
Segment results.....	176,464,261	23,856,043	10,635,816	210,956,120
Net unallocated expenses .				<u>(98,999,733)</u>
Profit before income tax ..				<u><u>111,956,387</u></u>
Other information:				
Depreciation	(2,692,133)	—	(372,551)	(3,064,684)
Share of loss of a jointly controlled entity	—	—	(1,312,861)	(1,312,861)
Segment assets.....	879,796,035	112,933,666	105,716,183	1,098,445,884
Unallocated assets.....				<u>136,080,334</u>
Total assets				<u><u>1,234,526,218</u></u>
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets) ...	<u>7,927,632</u>	<u>—</u>	<u>58,866,135</u>	<u>66,793,767</u>

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Nine months ended 30 September 2012				
Total segment revenue	483,822,069	46,946,607	41,799,295	572,567,971
Inter-segment revenue	<u>—</u>	<u>—</u>	<u>(1,490,832)</u>	<u>(1,490,832)</u>
Revenue from external customers	<u>483,822,069</u>	<u>46,946,607</u>	<u>40,308,463</u>	<u>571,077,139</u>
Segment results.....	201,409,011	22,843,569	48,719,430	272,972,010
Net unallocated expenses .				<u>(139,823,825)</u>
Profit before income tax ..				<u><u>133,148,185</u></u>
Other information:				
Depreciation	(3,301,107)	—	(586,823)	(3,887,930)
Share of loss of a jointly controlled entity	—	—	(43,226)	(43,226)
Segment assets.....	1,087,342,263	132,278,427	187,444,150	1,407,064,840
Unallocated assets.....				<u>119,615,000</u>
Total assets				<u><u>1,526,679,840</u></u>
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets) ...	<u>9,258,898</u>	<u>—</u>	<u>61,391,776</u>	<u>70,650,674</u>

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Nine months ended 30 September 2011 (unaudited)				
Total segment revenue	386,489,082	35,201,121	15,866,219	437,556,422
Inter-segment revenue	—	—	(12,820)	(12,820)
Revenue from external customers	<u>386,489,082</u>	<u>35,201,121</u>	<u>15,853,399</u>	<u>437,543,602</u>
Segment results.....	146,461,014	18,256,652	5,419,205	170,136,871
Net unallocated expenses				<u>(72,002,467)</u>
Profit before income tax ..				<u><u>98,134,404</u></u>
Other information:				
Depreciation	(1,232,293)	—	(257,919)	(1,490,212)
Segment assets.....	717,830,819	282,783,360	107,720,259	1,108,334,438
Unallocated assets.....				<u>171,584,985</u>
Total assets				<u><u>1,279,919,423</u></u>
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets) ...	<u>4,815,766</u>	<u>—</u>	<u>10,436,750</u>	<u>15,252,516</u>

The segment results included the material costs, technical service fee, depreciation, amortisation, direct labour costs, share of profit/(loss) of a jointly controlled entity, gain on disposal of a jointly controlled entity and fair value change on financial derivative instrument allocated to each operating segment.

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

Segment assets included property, plant and equipment, intangible assets, investment in a jointly controlled entity, inventories, trade and other receivables and prepayments, and pledged bank deposits.

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

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Segment assets for reportable segments	678,636,703	1,096,156,340	1,098,445,884	1,407,064,840
Unallocated assets				
- Unallocated property, plant and equipment ..	3,792,303	2,647,191	7,624,221	11,765,069
- Unallocated intangible assets	715,119	550,401	385,683	326,731
- Investment in an associate	—	610,006	1,102,297	—
- Unallocated trade and other receivables and prepayments	6,783,157	17,994,823	52,411,675	43,827,522
- Unallocated pledged bank deposits	3,100,000	6,629,410	6,629,131	18,882,880
- Unallocated cash and cash equivalents	96,927,658	105,782,546	67,927,327	44,812,798
	<u>111,318,237</u>	<u>134,214,377</u>	<u>136,080,334</u>	<u>119,615,000</u>
Total assets per consolidated balance sheets	<u>789,954,940</u>	<u>1,230,370,717</u>	<u>1,234,526,218</u>	<u>1,526,679,840</u>

Operating segment's results are reconciled to profit before income tax as follows:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>	
Segment results	145,446,268	191,586,705	210,956,120	170,136,871	272,972,010
Other income	5,078,248	13,652,423	8,816,593	7,419,646	4,693,547
Material costs	(1,710,362)	(4,716,026)	(5,826,028)	(5,699,576)	(7,311,656)
Depreciation of property, plant and equipment	(1,219,940)	(979,653)	(820,681)	(708,700)	(1,313,577)
Amortisation of intangible assets	(108,471)	(164,718)	(164,718)	(123,539)	(129,889)
Operating lease rental	(2,485,491)	(2,405,701)	(3,956,670)	(2,420,729)	(5,853,857)
Employee benefit expenses	(20,664,068)	(54,323,994)	(40,610,670)	(34,273,815)	(39,836,390)
Distribution expenses	(9,565,317)	(4,788,979)	(9,739,588)	(7,436,499)	(18,652,062)
Research and development expenses ..	(1,502,936)	(3,914,105)	(3,741,460)	(2,654,338)	(4,339,046)
Other expenses	(18,275,376)	(25,582,468)	(39,216,669)	(22,957,134)	(57,833,547)
Other losses, net	(784,507)	(725,759)	(934,697)	(50,984)	(2,321,806)
Finance income	60,003	27,768	276,627	41,372	33,117
Finance costs	(1,344,899)	(2,057,041)	(3,574,063)	(2,528,165)	(5,856,362)
Share of profit/(loss) of an associate	—	598,597	492,291	(610,006)	(1,102,297)
Profit before income tax ..	<u>92,923,152</u>	<u>106,207,049</u>	<u>111,956,387</u>	<u>98,134,404</u>	<u>133,148,185</u>

(c) *Geographical information*

The following table shows revenue generated from segments of oilfield project services and consultancy services by geographical area according to location of the customers' oilfields and revenue generated from segment of manufacturing and sales of tools and equipment by geographical area according to location of the customers:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>	
Mainland China	50,616,450	106,896,817	161,203,319	64,935,610	422,521,497
Iran	71,935,681	436,974,995	368,556,583	346,160,524	41,840,280
Syria	400,352	13,515,912	26,553,325	24,698,982	6,501,545
Russia	59,053,724	—	708,930	—	45,151,738
Australia.....	23,399,730	—	—	—	—
Algeria	75,735,913	—	—	—	—
Venezuela	—	—	—	—	20,689,765
Turkmenistan.....	—	—	—	—	22,552,819
Others	5,535,832	873,745	2,468,675	1,748,486	11,819,495
	<u>286,677,682</u>	<u>558,261,469</u>	<u>559,490,832</u>	<u>437,543,602</u>	<u>571,077,139</u>

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:

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
Mainland China	495,386,250	489,755,489	541,177,578	545,184,251
Iran.....	—	2,113,927	2,949,609	1,803,093
Syria.....	—	—	3,626,500	3,101,410
Singapore.....	—	—	1,639,730	64,706,810
	<u>495,386,250</u>	<u>491,869,416</u>	<u>549,393,417</u>	<u>614,795,564</u>

6 Property, plant and equipment - Group

	Leasehold improvements	Plant and machineries	Motor vehicles	Computer equipment	Furniture and fixtures	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2009						
Cost.....	1,603,295	1,852,963	2,014,721	2,183,686	646,738	8,301,403
Accumulated depreciation	<u>(292,059)</u>	<u>(181,588)</u>	<u>(679,051)</u>	<u>(742,432)</u>	<u>(277,117)</u>	<u>(2,172,247)</u>
Net book amount	<u>1,311,236</u>	<u>1,671,375</u>	<u>1,335,670</u>	<u>1,441,254</u>	<u>369,621</u>	<u>6,129,156</u>
Year ended 31 December 2009						
Opening net book amount	1,311,236	1,671,375	1,335,670	1,441,254	369,621	6,129,156
Additions	—	473,502	355,557	319,181	31,890	1,180,130
Acquisition of a subsidiary (note 36(a)).	—	1,362,978	766,293	—	93,785	2,223,056
Depreciation	(402,130)	(514,745)	(410,495)	(261,410)	(270,492)	(1,859,272)
Disposals	—	(51,744)	(80,488)	(10,479)	—	(142,711)
Exchange differences	<u>(2,570)</u>	<u>48,057</u>	<u>(201)</u>	<u>(1,715)</u>	<u>(836)</u>	<u>42,735</u>
Closing net book amount .	<u>906,536</u>	<u>2,989,423</u>	<u>1,966,336</u>	<u>1,486,831</u>	<u>223,968</u>	<u>7,573,094</u>
At 31 December 2009						
Cost.....	1,601,887	3,765,960	3,134,215	2,452,789	774,506	11,729,357
Accumulated depreciation	<u>(695,351)</u>	<u>(776,537)</u>	<u>(1,167,879)</u>	<u>(965,958)</u>	<u>(550,538)</u>	<u>(4,156,263)</u>
Net book amount	<u>906,536</u>	<u>2,989,423</u>	<u>1,966,336</u>	<u>1,486,831</u>	<u>223,968</u>	<u>7,573,094</u>
Year ended 31 December 2010						
Opening net book amount	906,536	2,989,423	1,966,336	1,486,831	223,968	7,573,094
Additions	—	4,266,822	632,692	449,378	1,378	5,350,270
Depreciation	(326,046)	(1,222,977)	(480,993)	(426,461)	(127,345)	(2,583,822)
Disposals	—	(112,651)	—	(6,751)	(335)	(119,737)
Deregistration of a subsidiary (note 28).....	—	—	—	(19,113)	(1,321)	(20,434)
Exchange differences	<u>21,584</u>	<u>125,719</u>	<u>55,680</u>	<u>37,620</u>	<u>4,307</u>	<u>244,910</u>
Closing net book amount .	<u>602,074</u>	<u>6,046,336</u>	<u>2,173,715</u>	<u>1,521,504</u>	<u>100,652</u>	<u>10,444,281</u>

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	Leasehold improvements	Plant and machineries	Motor vehicles	Computer equipment	Furniture and fixtures	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 31 December 2010						
Cost.....	1,652,584	8,053,276	3,868,637	2,872,250	769,620	17,216,367
Accumulated depreciation.....	(1,050,510)	(2,006,940)	(1,694,922)	(1,350,746)	(668,968)	(6,772,086)
Net book amount	<u>602,074</u>	<u>6,046,336</u>	<u>2,173,715</u>	<u>1,521,504</u>	<u>100,652</u>	<u>10,444,281</u>
Year ended 31 December 2011						
Opening net book amount	602,074	6,046,336	2,173,715	1,521,504	100,652	10,444,281
Acquisition of a subsidiary (note 36(b)).	—	362,266	—	86,772	125,763	574,801
Additions	427,152	7,927,632	4,519,958	579,420	19,221	13,473,383
Depreciation	(325,999)	(2,246,986)	(844,881)	(406,965)	(60,534)	(3,885,365)
Disposals	—	(35,277)	(227,339)	(14,939)	(11,893)	(289,448)
Exchange differences	22,400	178,638	75,211	120,691	8,652	405,592
Closing net book amount .	<u>725,627</u>	<u>12,232,609</u>	<u>5,696,664</u>	<u>1,886,483</u>	<u>181,861</u>	<u>20,723,244</u>
At 31 December 2011						
Cost.....	2,163,386	16,600,079	7,784,832	3,612,406	916,351	31,077,054
Accumulated depreciation.....	(1,437,759)	(4,367,470)	(2,088,168)	(1,725,923)	(734,490)	(10,353,810)
Net book amount	<u>725,627</u>	<u>12,232,609</u>	<u>5,696,664</u>	<u>1,886,483</u>	<u>181,861</u>	<u>20,723,244</u>
Nine months ended 30 September 2012						
Opening net book amount	725,627	12,232,609	5,696,664	1,886,483	181,861	20,723,244
Acquisition of a subsidiary (note 36(c)).	—	7,912,161	358,986	366,172	416,186	9,053,505
Additions	304,246	10,986,395	2,468,908	1,159,617	344,236	15,263,402
Depreciation	(559,180)	(3,070,408)	(953,830)	(481,165)	(136,924)	(5,201,507)
Disposals	—	—	—	(18,756)	—	(18,756)
Exchange differences	(4,403)	(69,518)	96,388	37,856	(123,909)	(63,586)
Closing net book amount .	<u>466,290</u>	<u>27,991,239</u>	<u>7,667,116</u>	<u>2,950,207</u>	<u>681,450</u>	<u>39,756,302</u>
At 30 September 2012						
Cost.....	2,449,398	37,028,999	10,877,769	5,631,984	1,654,271	57,642,421
Accumulated depreciation.....	(1,983,108)	(9,037,760)	(3,210,653)	(2,681,777)	(972,821)	(17,886,119)
Net book amount	<u>466,290</u>	<u>27,991,239</u>	<u>7,667,116</u>	<u>2,950,207</u>	<u>681,450</u>	<u>39,756,302</u>

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	Leasehold improvements	Plant and machineries	Motor vehicles	Computer equipment	Furniture and fixtures	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Nine months ended						
30 September 2011						
(unaudited)						
Opening net book amount	602,074	6,046,336	2,173,715	1,521,504	100,652	10,444,281
Acquisition of a subsidiary (note 36(b)).	—	362,266	—	86,772	125,763	574,801
Additions	—	5,992,375	3,874,727	378,347	10,309	10,255,758
Depreciation	(230,097)	(1,490,212)	(587,237)	(365,109)	(42,793)	(2,715,448)
Disposals	—	(26,816)	(89,198)	(14,850)	—	(130,864)
Exchange differences	21,282	214,313	122,284	121,510	8,370	487,759
Closing net book amount .	<u>393,259</u>	<u>11,098,262</u>	<u>5,494,291</u>	<u>1,728,174</u>	<u>202,301</u>	<u>18,916,287</u>
At 30 September 2011						
(unaudited)						
Cost	1,727,080	14,701,318	7,399,884	3,405,506	975,268	28,209,056
Accumulated depreciation	(1,333,821)	(3,603,056)	(1,905,593)	(1,677,332)	(772,967)	(9,292,769)
Net book amount	<u>393,259</u>	<u>11,098,262</u>	<u>5,494,291</u>	<u>1,728,174</u>	<u>202,301</u>	<u>18,916,287</u>

7 Intangible assets - Group

	Goodwill	Contractual customer relationships	Incomplete sales contracts	Contractual agreements on non- competition	Computer software	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2009						
Cost	477,321,925	24,867,304	—	11,947,474	—	514,136,703
Accumulated amortisation	—	(24,867,304)	—	(2,987,798)	—	(27,855,102)
Net book amount	<u>477,321,925</u>	<u>—</u>	<u>—</u>	<u>8,959,676</u>	<u>—</u>	<u>486,281,601</u>

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	Goodwill	Contractual customer relationships	Incomplete sales contracts	Contractual agreements on non- competition	Computer software	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 December 2009						
Opening net book amount	477,321,925	—	—	8,959,676	—	486,281,601
Acquisition of a subsidiary (note 36(a)).	3,803,436	—	—	—	—	3,803,436
Additions	—	—	—	—	823,590	823,590
Amortisation	—	—	—	(2,987,000)	(108,471)	(3,095,471)
Closing net book amount	481,125,361	—	—	5,972,676	715,119	487,813,156
At 31 December 2009						
Cost	481,125,361	24,867,304	—	11,947,474	823,590	518,763,729
Accumulated amortisation	—	(24,867,304)	—	(5,974,798)	(108,471)	(30,950,573)
Net book amount	481,125,361	—	—	5,972,676	715,119	487,813,156
Year ended 31 December 2010						
Opening net book amount	481,125,361	—	—	5,972,676	715,119	487,813,156
Deregistration of a subsidiary (note 28).....	(42,873)	—	—	—	—	(42,873)
Impairment (note (i)).....	(3,803,436)	—	—	—	—	(3,803,436)
Amortisation	—	—	—	(2,987,000)	(164,718)	(3,151,718)
Closing net book amount .	477,279,052	—	—	2,985,676	550,401	480,815,129
At 31 December 2010						
Cost.....	481,082,488	24,867,304	—	11,947,474	823,590	518,720,856
Accumulated amortisation and impairment.....	(3,803,436)	(24,867,304)	—	(8,961,798)	(273,189)	(37,905,727)
Net book amount	477,279,052	—	—	2,985,676	550,401	480,815,129
Year ended 31 December 2011						
Opening net book amount	477,279,052	—	—	2,985,676	550,401	480,815,129
Acquisition of a subsidiary (note 36(b)).	40,117,422	9,584,691	4,816,410	—	—	54,518,523
Amortisation	—	(2,635,706)	(4,816,009)	(2,985,676)	(164,718)	(10,602,109)
Exchange differences	1,039,542	157,462	(401)	—	—	1,196,603
Closing net book amount .	518,436,016	7,106,447	—	—	385,683	525,928,146

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	Goodwill	Contractual customer relationships	Incomplete sales contracts	Contractual agreements on non-competition	Computer software	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 31 December 2011						
Cost.....	521,199,910	34,451,995	4,816,410	11,947,474	823,590	573,239,379
Accumulated amortisation and impairment.....	<u>(2,763,894)</u>	<u>(27,345,548)</u>	<u>(4,816,410)</u>	<u>(11,947,474)</u>	<u>(437,907)</u>	<u>(47,311,233)</u>
Net book amount	<u>518,436,016</u>	<u>7,106,447</u>	<u>—</u>	<u>—</u>	<u>385,683</u>	<u>525,928,146</u>
Nine months ended						
30 September 2012						
Opening net book amount	518,436,016	7,106,447	—	—	385,683	525,928,146
Additions	—	—	—	—	64,586	64,586
Acquisition of a subsidiary (note 36(c)).	44,722,264	10,380,100	1,722,171	—	6,351	56,830,886
Amortisation	—	(6,628,218)	(869,215)	—	(129,889)	(7,627,322)
Exchange differences	<u>(146,882)</u>	<u>(18,281)</u>	<u>8,129</u>	<u>—</u>	<u>—</u>	<u>(157,034)</u>
Closing net book amount .	<u>563,011,398</u>	<u>10,840,048</u>	<u>861,085</u>	<u>—</u>	<u>326,731</u>	<u>575,039,262</u>
At 30 September 2012						
Cost.....	565,922,174	44,832,096	6,538,581	11,947,474	894,527	630,134,852
Accumulated amortisation and impairment.....	<u>(2,910,776)</u>	<u>(33,992,048)</u>	<u>(5,677,496)</u>	<u>(11,947,474)</u>	<u>(567,796)</u>	<u>(55,095,590)</u>
Net book amount	<u>563,011,398</u>	<u>10,840,048</u>	<u>861,085</u>	<u>—</u>	<u>326,731</u>	<u>575,039,262</u>
Nine months ended						
30 September 2011 (unaudited)						
Opening net book amount	477,279,052	—	—	2,985,676	550,401	480,815,129
Acquisition of a subsidiary (note 36(b)).	40,117,422	9,584,691	4,816,410	—	—	54,518,523
Amortisation	—	(1,597,316)	(2,415,901)	(1,866,750)	(123,539)	(6,003,506)
Exchange differences	<u>—</u>	<u>(39,564)</u>	<u>(51,748)</u>	<u>—</u>	<u>—</u>	<u>(91,312)</u>
Closing net book amount .	<u>517,396,474</u>	<u>7,947,811</u>	<u>2,348,761</u>	<u>1,118,926</u>	<u>426,862</u>	<u>529,238,834</u>
At 30 September 2011 (unaudited)						
Cost.....	521,199,910	34,451,995	4,816,410	11,947,474	823,590	573,239,379
Accumulated amortisation and impairment.....	<u>(3,803,436)</u>	<u>(26,504,184)</u>	<u>(2,467,649)</u>	<u>(10,828,548)</u>	<u>(396,728)</u>	<u>(44,000,545)</u>
Net book amount	<u>517,396,474</u>	<u>7,947,811</u>	<u>2,348,761</u>	<u>1,118,926</u>	<u>426,862</u>	<u>529,238,834</u>

Impairment test of goodwill

On 31 December 2007, the Group acquired 100% interest in Petro-king Oilfield Technology Limited and 51% interest of Petro-king International Company Limited from their then shareholders at cash considerations of RMB30,000,000 and RMB225,000,000, respectively. On the same date, the Company also acquired the remaining 49% interest in Petro-king International Company Limited through share swap of HK\$275,043,234. As a result, a total goodwill of HK\$477,279,052 arose from the above acquisitions. Other goodwill of HK\$42,873, HK\$3,803,436, HK\$40,117,422 and HK\$44,722,264 resulted from acquisitions of the subsidiaries in 2008, 2009, 2011 and 2012 by the Group, respectively.

Management reviews the business performance on segment basis. The goodwill is monitored by management at the reportable segment level. The following is a summary of goodwill allocation for each reportable segment.

Year ended		Acquisition of	Deregistration		Exchange	
31 December 2009	Opening	a subsidiary	of a	Impairment	difference	Closing
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Oilfield project						
services	381,823,242	—	—	—	—	381,823,242
Consultancy services...	95,455,810	—	—	—	—	95,455,810
Manufacturing and						
sales of tools and						
equipment.....	42,873	3,803,436	—	—	—	3,846,309
	<u>477,321,925</u>	<u>3,803,436</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>481,125,361</u>

Year ended		Acquisition of	Deregistration	Impairment	Exchange	
31 December 2010	Opening	a subsidiary	of a	(note (i))	difference	Closing
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Oilfield project						
services	381,823,242	—	—	—	—	381,823,242
Consultancy services...	95,455,810	—	—	—	—	95,455,810
Manufacturing and						
sales of tools and						
equipment.....	3,846,309	—	(42,873)	(3,803,436)	—	—
	<u>481,125,361</u>	<u>—</u>	<u>(42,873)</u>	<u>(3,803,436)</u>	<u>—</u>	<u>477,279,052</u>

Year ended	Deregistration					
	Opening	Acquisition of a subsidiary	of a subsidiary	Impairment	Exchange difference	Closing
31 December 2011						
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Oilfield project						
services	381,823,242	—	—	—	—	381,823,242
Consultancy services...	95,455,810	—	—	—	—	95,455,810
Manufacturing and sales of tools and equipment	—	40,117,422	—	—	1,039,542	41,156,964
	<u>477,279,052</u>	<u>40,117,422</u>	<u>—</u>	<u>—</u>	<u>1,039,542</u>	<u>518,436,016</u>
Nine months ended	Deregistration					
30 September 2012	Opening	Acquisition of a subsidiary	of a subsidiary	Impairment	Exchange difference	Closing
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Oilfield project						
services	381,823,242	—	—	—	—	381,823,242
Consultancy services...	95,455,810	—	—	—	—	95,455,810
Manufacturing and sales of tools and equipment	41,156,964	44,722,264	—	—	(146,882)	85,732,346
	<u>518,436,016</u>	<u>44,722,264</u>	<u>—</u>	<u>—</u>	<u>(146,882)</u>	<u>563,011,398</u>

The recoverable amount of a CGU is calculated using pre-tax cash flow projections based on financial budgets approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimated growth rates stated below.

Management consider their experience and expertise knowledge in the oilfield industry to be of an optimal standard, and provided also its relatively stable position compared with other industries, a cash flow period of ten years is reasonable.

The key assumptions used for the calculation in 2009 are as follows:

	Oilfield project services	Consultancy services
Average annual growth rate.....	10.9%	5.6%
Discount rate	14.8%	14.8%

The key assumptions used for the calculation in 2010 are as follows:

	<u>Oilfield project services</u>	<u>Consultancy services</u>
Average annual growth rate.....	9.2%	5.6%
Discount rate	19.2%	19.2%

The key assumptions used for the calculation in 2011 are as follows:

	<u>Oilfield project services</u>	<u>Consultancy services</u>	<u>Manufacturing and sales of tools and equipment</u>
Average annual growth rate.....	16.7%	10.6%	16.0%
Discount rate	18.6%	18.6%	17.8%

Management determined budgeted gross margin based on past performance and its expectations of the market development. The average annual growth rate used is consistent with the forecasts of the market. The discount rate used is pre-tax and reflects specific risks relating to the segment. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

Note (i): During the year ended 31 December 2010, an impairment of HK\$3,803,436 was charged on goodwill, which arose from the acquisition of Dezhou Jiacheng Oil Tools Co., Ltd, a wholly owned subsidiary of the Group. The impairment resulted from the carrying amount of the segment being written down to its recoverable amount. This was a result of a decision to shift the manufacturing operation to another Group company due to redefinition of the Group's allocation of manufacturing operation in order to benefit from advantageous market conditions.

8 Investment in an associate — Group

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January.....	—	—	610,006	610,006	1,102,297
Acquisition cost.....	—	11,409	—	—	—
Share of profit/(loss)	—	598,597	492,291	(610,006)	(1,102,297)
At 31 December/ 30 September	—	610,006	1,102,297	—	—

On 1 April 2010, the Group acquired 49% equity interest of Iranian Refinement Development Premier Co., Ltd., a company engaging in trading of tools and equipment, at a consideration of US\$1,470, equivalent to HK\$11,409.

On 9 November 2012, Iranian Refinement Development Premier Co., Ltd. was sold to an independent third party pursuant to the sale and purchase agreement for the sales of Top Select Holdings Limited, its holding company, which was also completed on 9 November 2012 (note 40(a)).

The particulars of the associate of the Group, which is unlisted, and the Group's share of its results and aggregated assets and liabilities, are set at as follows:

	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	Interest held
		HK\$	HK\$	HK\$	HK\$	
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Iranian Refinement Development Premier Co., Ltd.	Iran					
Year ended 31 December 2010		<u>1,541,413</u>	<u>1,956,395</u>	<u>1,720,178</u>	<u>598,597</u>	49%
Year ended 31 December 2011		<u>6,411,351</u>	<u>6,376,557</u>	<u>2,807,083</u>	<u>492,291</u>	49%
Nine months ended 30 September 2012		<u>8,653,836</u>	<u>9,241,586</u>	<u>1,465,773</u>	<u>(1,117,297)</u>	49%

9 Investment in a jointly controlled entity — Group

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January.....	—	—	—	—	1,639,730
Acquisition cost (including goodwill).....	—	—	2,952,591	2,952,591	—
Share of profit/(loss)	—	—	1,600,006	2,330,340	(43,226)
Amortisation of intangible assets identified from acquisition.....	—	—	(2,912,867)	(1,165,147)	—
Disposal (note 36(c)).....	—	—	—	—	(1,596,504)
At 31 December/ 30 September	—	—	1,639,730	4,117,784	—

Pursuant to the agreement in relation to the subscription and sale and purchase of shares of Sheraton Investment Worldwide Ltd (“Sheraton”) dated 24 January 2011, the Group agreed to purchase and subscribe for up to 55% interest in Sheraton from Natural Peak Overseas Limited (“Natural Peak”) in four tranches. Pursuant to the agreement, Hero Gain Investments Limited (“Hero Gain”), a wholly-owned subsidiary of the Company, acquired 40% interest in Sheraton on 11 February 2011 and will further acquire an additional 15% interest in Sheraton in 3 tranches. The considerations for each tranche is calculated with reference to the net profit of both Sheraton and the Group for the years ended 31 December 2010, 2011 and 2012, and will be settled in the Company’s shares. On 30 April 2011, the Group acquired further 5.5% equity interest in Sheraton at a consideration of HK\$1, as Sheraton incurred a loss for the year ended 31 December 2010.

Subsequent to the first tranche of the acquisition, Hero Gain has further acquired 5.5% equity interest in Sheraton on 21 June 2012 in consideration of the issuance of 102 shares of the Company to Natural Peak. Upon completion of the second tranche, Hero Gain holds 51% interest in Sheraton and Sheraton became the subsidiary of the Group (note 36(c)).

The jointly controlled entity belongs to manufacturing and sales of tools and equipment segment.

The particulars of the jointly controlled entity of the Group incorporated in British Virgin Islands, which is unlisted, and share of its results and aggregated assets and liabilities, are set out as follows:

	<u>As at</u> <u>31 December 2011</u>
	<i>HK\$</i>
Interest held	45.5%
Assets	
- Non-current assets	3,122,028
- Current assets	7,225,162
Liabilities	
- Non-current liabilities	(175,423)
- Current liabilities	<u>(8,075,821)</u>
Net assets	<u>2,095,946</u>
- Income	28,425,374
- Expenses	<u>(26,825,368)</u>
Profit after income tax	<u>1,600,006</u>

10 Financial instruments by category — Group and Company

The accounting policies for financial instruments have been applied to the line items below:

(a) Group

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Assets as per consolidated balance sheets				
<u>Loans and receivables</u>				
Trade and other receivables (note 12).	121,532,966	460,036,357	391,409,105	466,007,008
Pledged bank deposits (note 13)	15,508,480	45,419,670	48,756,417	19,037,928
Cash and cash equivalents (note 14).	<u>98,054,427</u>	<u>106,006,482</u>	<u>72,633,116</u>	<u>51,081,595</u>
Total	<u>235,095,873</u>	<u>611,462,509</u>	<u>512,798,638</u>	<u>536,126,531</u>
Liabilities as per consolidated balance sheets				
<u>Other financial liabilities at amortised costs</u>				
Trade and other payables (note 17)	6,403,840	208,790,948	65,093,649	283,766,596
Shareholders' loans (note 18)	286,021,046	—	—	—
Bank borrowings (note 19)	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>
Total	<u>316,669,143</u>	<u>285,465,098</u>	<u>168,422,171</u>	<u>457,633,596</u>
<u>Liability at fair value through the profit and loss</u>				
Derivative financial instrument (note 3.3).	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,335,185</u>

(b) *Company*

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Assets as per balance sheets				
<u>Loans and receivables</u>				
Advances to subsidiaries (note 12)	286,128,498	388,150,521	386,809,981	372,885,231
Dividend receivable	—	—	—	150,000,000
	<u>286,128,498</u>	<u>388,150,521</u>	<u>386,809,981</u>	<u>522,885,231</u>

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Liabilities as per balance sheets				
<u>Other financial liabilities at amortised costs</u>				
Other payables and accruals (note 17)	145,380	839,500	600,000	126,187,641
Shareholders' loans (note 18)	<u>286,021,046</u>	—	—	—
	<u>286,166,426</u>	<u>839,500</u>	<u>600,000</u>	<u>126,187,641</u>

11 Inventories — Group

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Raw materials	1,094,428	1,224,415	6,918,572	9,069,442
Assembling materials	28,418,857	42,087,648	73,425,281	226,302,025
Work in progress.....	739,400	796,396	3,226,606	15,378,659
Finished goods.....	<u>1,068,135</u>	<u>1,983,627</u>	<u>8,356,579</u>	<u>7,415,980</u>
	<u>31,320,820</u>	<u>46,092,086</u>	<u>91,927,038</u>	<u>258,166,106</u>

The cost of inventories recognised as expense and included in 'material costs' amounted to HK\$99,195,511, HK\$301,040,822, HK\$234,838,409, HK\$207,074,405 and HK\$238,758,855 for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012, respectively.

12 Trade and other receivables and prepayments — Group and Company

(a) Group

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Trade receivables	120,441,189	454,572,790	350,290,543	453,706,588
Other receivables				
- Third parties	714,703	1,525,098	2,917,239	3,398,946
- Related party (note 38(d)).....	—	—	86,199	53,226
Value-added tax recoverables	4,299,302	3,988,828	334,610	8,897,165
Advance to				
- Third party (note (i)) .	—	—	24,292,103	—
- Associate (note 38(d)).....	—	3,612,779	5,478,030	7,642,283
- Jointly controlled entity (noted 38(d) and note (ii)).....	—	—	7,767,400	—
Rental deposits	377,074	325,690	577,591	1,205,965
Cash advances to staff	1,325,343	2,197,647	10,423,476	20,851,840
Prepayments for materials				
- Third parties	22,043,633	74,261,204	65,804,875	78,924,973
- Jointly controlled entity (note 38(d)).....	—	—	3,844,164	—
Prepayments for rents	—	—	—	1,400,804
Deferred expenses.....	—	—	—	4,110,955
	<u>149,201,244</u>	<u>540,484,036</u>	<u>471,816,230</u>	<u>580,192,745</u>

Note:

- (i) Loan advance to a third party represents a loan to the vendor of the newly acquired subsidiary, Shenzhen Fluid Science & Technology Co., Ltd. for facilitating the cashflow of the vendor. The balance is interest-free, unsecured and approximates to its fair value, and has been settled in August 2012.
- (ii) Pursuant to the loan agreement dated 12 September 2011 (the "Loan Agreement") entered into between Petro-king International Company Limited (as lender) and Sheraton (as borrower), a loan amount of US\$1,000,000 (equivalent to HK\$7,767,400) (the "Loan") at an interest rate of 6% per annum was provided to the borrower, where Mr. Albert Wong secured 49% of the payment obligation. The Loan shall be repayable on 26 August 2013.

The fair values of trade and other receivables and prepayments approximate to their carrying values.

Before accepting any new customers, the Group entities apply an internal credit assessment policy to assess the potential customer's credit quality. Management closely monitors the credit quality of trade receivables and considers that the trade receivables to be of good credit quality since most counterparties are leaders in the oilfield industry with strong financial position and no history of defaults. The Group generally allows a credit period ranged from 30 to 180 days after invoice date to its customers.

Ageing analysis of gross trade receivables by services completion and delivery date at the respective balance sheet dates is as follows:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Up to 3 months.....	44,245,857	368,716,769	153,547,439	219,317,360
3 to 6 months	12,663,534	40,992,150	133,925,718	91,302,782
6 to 12 months.....	53,009,621	5,396,048	14,913,743	100,422,009
Over 12 months	<u>10,522,177</u>	<u>39,467,823</u>	<u>47,903,643</u>	<u>42,664,437</u>
	<u>120,441,189</u>	<u>454,572,790</u>	<u>350,290,543</u>	<u>453,706,588</u>

As at 31 December 2009, 2010 and 2011 and 30 September 2012, trade receivables of HK\$72,090,918, HK\$85,856,021, HK\$160,569,722 and HK\$204,951,201 were past due but not impaired. The ageing analysis of these trade receivables by due date is as follows:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Up to 3 months.....	8,559,270	40,992,150	99,252,422	107,266,103
3 to 6 months	1,910,379	4,529,237	4,723,486	40,105,862
6 to 12 months.....	55,280,198	30,732,054	39,619,639	18,568,801
Over 12 months	<u>6,341,071</u>	<u>9,602,580</u>	<u>16,974,175</u>	<u>39,010,435</u>
	<u>72,090,918</u>	<u>85,856,021</u>	<u>160,569,722</u>	<u>204,951,201</u>

Long aged receivables that were past due but not impaired relate to customers that have good trade records without default history. Based on past experience and the credit quality of the counterparties, there is no evidence of impairment in respect of these balances and the balances are considered fully recoverable.

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

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
USD.....	44,688,120	404,519,685	261,395,808	192,065,488
HKD.....	486,762	472,207	178,880	3,819,304
RMB.....	104,026,362	135,492,144	209,545,829	380,904,113
EURO.....	—	—	695,713	1,192,459
GBP.....	—	—	—	656,868
SGD.....	—	—	—	1,554,513
	<u>149,201,244</u>	<u>540,484,036</u>	<u>471,816,230</u>	<u>580,192,745</u>

Bank borrowings are secured by certain trade receivables with an aggregate carrying value of approximately HK\$42,656,000, HK\$73,344,000, HK\$6,849,000 and HK\$43,019,000 as at 31 December 2009, 2010 and 2011 and 30 September 2012 (note 19).

The trade and other receivables and prepayments do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair values of balances disclosed above.

(b) *Company*

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Advances to subsidiaries..	286,128,498	388,150,521	386,809,981	372,885,231
Dividend receivable	—	—	—	150,000,000
Deferred expenses.....	—	—	—	4,110,955
	<u>286,128,498</u>	<u>388,150,521</u>	<u>386,809,981</u>	<u>526,996,186</u>

The carrying amounts of the Company's other receivables and prepayments are denominated in the following currencies:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
USD.....	—	101,897,669	100,563,765	86,749,118
HKD.....	286,128,498	286,252,852	286,246,216	439,542,196
Others.....	—	—	—	704,872
	<u>286,128,498</u>	<u>388,150,521</u>	<u>386,809,981</u>	<u>526,996,186</u>

13 Pledged bank deposits — Group

Pledged bank deposits are pledged as securities for the Group's borrowings, bidding and performance bonds.

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Pledged bank deposits				
- Borrowings	3,124,932	6,240,895	11,306,731	17,845,235
- Bidding	12,383,548	4,785,104	173,956	1,192,693
- Performance bonds	—	34,393,671	37,275,730	—
	<u>15,508,480</u>	<u>45,419,670</u>	<u>48,756,417</u>	<u>19,037,928</u>

The carrying amounts of the Group's pledged bank deposits are denominated in the following currencies:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
USD.....	15,508,480	41,023,081	43,623,066	6,385,791
RMB.....	—	4,396,589	5,037,069	12,652,137
EURO.....	—	—	96,282	—
	<u>15,508,480</u>	<u>45,419,670</u>	<u>48,756,417</u>	<u>19,037,928</u>

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rates ranging from 0.04% to 0.9% , 0.04% to 0.04%, 0.03% to 0.4% and 0.04% to 0.4% for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012 per annum; these deposits have an average maturity of 3 - 5 months, 3 - 12 months, 3 - 12 months and 3 - 12 months for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2012.

14 Cash and cash equivalents — Group

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Cash at bank.....	97,892,105	105,426,538	71,700,487	49,911,135
Cash on hand.....	162,322	579,944	932,629	1,170,460
	<u>98,054,427</u>	<u>106,006,482</u>	<u>72,633,116</u>	<u>51,081,595</u>

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
USD.....	90,641,102	95,823,304	46,345,839	11,355,009
HKD.....	651,090	540,080	1,064,424	918,270
RMB.....	6,761,122	9,642,062	19,945,338	37,315,082
EURO.....	1,113	1,036	5,055,217	66,055
Others.....	—	—	222,298	1,427,179
	<u>98,054,427</u>	<u>106,006,482</u>	<u>72,633,116</u>	<u>51,081,595</u>

As at 31 December 2009, 2010 and 2011 and 30 September 2012, Group has cash at bank and cash on hand amounting to HK\$12,849,247, HK\$14,778,379, HK\$22,472,958 and HK\$38,161,220 which are denominated in RMB and US\$ and held in the Mainland China. These cash and bank balances are subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

15 Share capital — Group and Company

	<u>No. of shares</u>	<u>Total</u>
		<i>HK\$</i>
Issued and fully paid:		
At 1 January and 31 December 2009	<u>200</u>	<u>275,044,825</u>
Issuance of shares (note (i)).....	<u>9,800</u>	<u>387,599,216</u>
At 31 December 2010	<u>10,000</u>	<u>662,644,041</u>
At 31 December 2011	<u>10,000</u>	<u>662,644,041</u>
Issuance of shares (note (ii)).....	<u>102</u>	<u>9,247,760</u>
At 30 September 2012	<u>10,102</u>	<u>671,891,801</u>

As at 31 December 2009, 2010 and 2011, and 30 September 2012, the total authorised number of ordinary share of the Company is 42,000 voting shares and 8,000 non-voting shares with no par value.

Note:

- (i) On 20 October 2010, the Company allotted and issued to its existing shareholders 8,800 ordinary shares, for the total amount of HK\$286,297,448 through the capitalisation of the shareholders' loans amounting to HK\$286,021,046 and the current account with the same shareholders amounting to HK\$276,402.

On the same date, the Company issued 1,000 ordinary shares to T.C.L. Industries Holdings (H.K.) Limited, for the total amount of HK\$101,301,768.

- (ii) On 21 June 2012, the Company issued 102 shares in exchange for the 5.5% interest in Sheraton with Natural Peak with regards of the second tranche of the acquisition of Sheraton (note 36(c)).

16 Other reserves — Group and Company

(a) Group

	Translation reserve	Statutory reserve (note (i))	Share-based payment reserve	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Balance at 1 January				
2009	2,061,890	31,778	—	2,093,668
Other comprehensive loss				
Currency translation differences	<u>(108,066)</u>	<u>—</u>	<u>—</u>	<u>(108,066)</u>
Total other comprehensive loss for the year	<u>(108,066)</u>	<u>—</u>	<u>—</u>	<u>(108,066)</u>
Total contributions by and distributions to owners of the Company recognised directly in equity				
Transfer to statutory reserve	<u>—</u>	<u>11,343,222</u>	<u>—</u>	<u>11,343,222</u>
Total contributions by and distributions to owners of the Company	<u>—</u>	<u>11,343,222</u>	<u>—</u>	<u>11,343,222</u>
Balance at 31 December				
2009	<u>1,953,824</u>	<u>11,375,000</u>	<u>—</u>	<u>13,328,824</u>

	Translation reserve	Statutory reserve (note (i))	Share-based payment reserve	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Balance at 1 January				
2010	1,953,824	11,375,000	—	13,328,824
Other comprehensive income				
Currency translation differences.....	4,617,538	—	—	4,617,538
Total other comprehensive income for the year	<u>4,617,538</u>	<u>—</u>	<u>—</u>	<u>4,617,538</u>
Total contributions by and distributions to owners of the Company recognised directly in equity				
Recognition of share-based payment (note 22)	—	—	21,057,323	21,057,323
Total contributions by and distributions to owners of the Company	<u>—</u>	<u>—</u>	<u>21,057,323</u>	<u>21,057,323</u>
Balance at 31 December				
2010	<u>6,571,362</u>	<u>11,375,000</u>	<u>21,057,323</u>	<u>39,003,685</u>

	Translation reserve	Statutory reserve (note (i))	Share-based payment reserve	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Balance at 1 January				
2011	6,571,362	11,375,000	21,057,323	39,003,685
Other comprehensive income				
Currency translation differences	<u>7,407,008</u>	<u>—</u>	<u>—</u>	<u>7,407,008</u>
Total other comprehensive income for the year	<u>7,407,008</u>	<u>—</u>	<u>—</u>	<u>7,407,008</u>
Total contributions by and distributions to owners of the Company recognised directly in equity				
Recognition of share-based payment (note 22)	<u>—</u>	<u>—</u>	288,242	288,242
Transfer to statutory reserve.....	<u>—</u>	990,618	<u>—</u>	<u>990,618</u>
Total contributions by and distributions to owners of the Company	<u>—</u>	<u>990,618</u>	<u>288,242</u>	<u>1,278,860</u>
Balance at 31 December 2011	<u><u>13,978,370</u></u>	<u><u>12,365,618</u></u>	<u><u>21,345,565</u></u>	<u><u>47,689,553</u></u>

	Translation reserve	Statutory reserve (note (i))	Share-based payment reserve	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
For the nine months ended 30 September 2012				
Balance at 1 January 2012	13,978,370	12,365,618	21,345,565	47,689,553
Other comprehensive loss				
Currency translation differences	<u>(1,188,944)</u>	<u>—</u>	<u>—</u>	<u>(1,188,944)</u>
Total other comprehensive loss for the period	<u>(1,188,944)</u>	<u>—</u>	<u>—</u>	<u>(1,188,944)</u>
Balance at 30 September 2012	<u>12,789,426</u>	<u>12,365,618</u>	<u>21,345,565</u>	<u>46,500,609</u>

	Translation reserve	Statutory reserve (note (i))	Share-based payment reserve	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
For the nine months ended 30 September 2011 (unaudited)				
Balance at 1 January 2011	6,571,362	11,375,000	21,057,323	39,003,685
Other comprehensive income				
Currency translation differences	5,808,399	—	—	5,808,399
Total other comprehensive income for the period	5,808,399	—	—	5,808,399
Total contributions by and distributions to owners of the Company recognised directly in equity				
Recognition of share-based payment (note 22)	—	—	288,242	288,242
Total contributions by and distributions to owners of the Company	—	—	288,242	288,242
Balance at 30 September 2011 (unaudited)	<u>12,379,761</u>	<u>11,375,000</u>	<u>21,345,565</u>	<u>45,100,326</u>

Note (i): Statutory reserve

In accordance with the relevant laws and regulations in the People's Republic of China ("the PRC") and Articles of Association of the companies incorporated in the Mainland China now comprising the Group, it is required to allocate at least 10% of their after-tax profit according to PRC accounting standard and regulations to the statutory reserve until such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the respective board of directors of the subsidiaries. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into registered capital in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

(b) *Company*

	<u>Share-based payment reserve</u>
	<i>HK\$</i>
Balances at 1 January 2009, 31 December 2009 and 1 January 2010	—
Total contributions by and distributions to owners of the Company recognised directly in equity	
Recognition of share-based payment (note 22)	<u>21,057,323</u>
Total transactions with owners	<u>21,057,323</u>
Balance at 31 December 2010	<u>21,057,323</u>
Balance at 1 January 2011	21,057,323
Total contributions by and distributions to owners of the Company recognised directly in equity	
Recognition of share-based payment (note 22)	<u>288,242</u>
Total contributions by and distributions to owners of the Company	<u>288,242</u>
Balance at 31 December 2011	<u>21,345,565</u>
For the nine months ended 30 September 2012	
Balance at 1 January 2012 and 30 September 2012	<u>21,345,565</u>
For the nine months ended 30 September 2011 (unaudited)	
Balance at 1 January 2011	21,057,323
Recognition of share-based payment (note 22)	<u>288,242</u>
Balance at 30 September 2011 (unaudited).....	<u>21,345,565</u>

17 Trade and other payables — Group and Company

(a) Group

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
Trade payables	3,878,853	204,157,558	10,213,515	119,924,788
Consideration payable for acquisitions of subsidiaries (note 36) ...	678,300	—	49,809,160	27,411,362
Dividend payable	—	—	—	120,000,000
Other payables				
- Third parties	1,629,617	3,270,325	4,470,974	10,242,806
- Related party (note 38(d)).....	71,690	518,565	—	—
Receipt in advance.....	43,966,053	136,125	1,751,409	3,309,817
Accrued expenses				
- Payroll and welfare	13,167,123	12,064,790	18,046,709	13,777,788
- Others	145,380	844,500	600,000	6,187,640
Value-added tax payable...	1,877,752	4,111,984	8,664,455	1,157,607
Other tax and surcharge payables	2,591,980	3,425,674	7,371,147	9,074,127
	<u>68,006,748</u>	<u>228,529,521</u>	<u>100,927,369</u>	<u>311,085,935</u>

As at 31 December 2009, 2010 and 2011 and 30 September 2012, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
Up to 1 month	1,181,173	195,808,680	8,725,896	63,492,475
1 to 2 months	201,632	99,160	66,447	47,796,130
2 to 3 months	235,912	704,958	21,074	3,480,495
Over 3 months	2,260,136	7,544,760	1,400,098	5,155,688
	<u>3,878,853</u>	<u>204,157,558</u>	<u>10,213,515</u>	<u>119,924,788</u>

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
USD.....	645,552	183,171,123	12,521,761	83,661,418
HKD.....	—	15,107,009	12,842,628	135,961,204
RMB.....	67,361,196	30,251,389	75,562,980	84,325,508
SGD.....	—	—	—	6,251,886
Others.....	—	—	—	885,919
	<u>68,006,748</u>	<u>228,529,521</u>	<u>100,927,369</u>	<u>311,085,935</u>

(b) *Company*

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Accrued expenses.....	145,380	2,563,642	5,562,567	13,585,651
Dividend payable	—	—	—	120,000,000
	<u>145,380</u>	<u>2,563,642</u>	<u>5,562,567</u>	<u>133,585,651</u>

The carrying amounts of the Company's other payables are denominated in the following currencies:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
USD.....	—	1,724,142	4,962,567	7,520,950
HKD.....	145,380	839,500	600,000	124,750,193
Others.....	—	—	—	1,314,508
	<u>145,380</u>	<u>2,563,642</u>	<u>5,562,567</u>	<u>133,585,651</u>

18 Shareholders' loans — Group and Company

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Shareholders' loans	<u>286,021,046</u>	<u>—</u>	<u>—</u>	<u>—</u>

The carrying amounts of the shareholders' loans are denominated in HKD.

As at 31 December 2009, the balance was interest-free, unsecured, repayable on demand and approximates to their fair values.

On 20 October 2010, the shareholders' loans were capitalised into share capital (note 15).

19 Bank borrowings — Group

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Current				
Other bank borrowings	18,444,257	72,074,150	99,928,522	171,367,000
Portion of term loans due for repayment within one year	1,200,000	1,200,000	1,200,000	1,200,000
Portion of term loans due for repayment after one year which contain a repayment on demand clause	<u>4,600,000</u>	<u>3,400,000</u>	<u>2,200,000</u>	<u>1,300,000</u>
	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>

Bank borrowings bear average coupon rate of 3.4%, 4.2%, 5.2% and 4.4% annually as at 31 December 2009, 2010, and 2011 and 30 September 2012, respectively.

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Other bank borrowings due for wholly repayment with one year	18,444,257	72,074,150	99,928,522	171,367,000
Portion of term loans due for wholly repayment within one year.....	1,200,000	1,200,000	1,200,000	1,200,000
Portion of term loans due for wholly repayment after one year				
- After 1 year but within 2 years	1,200,000	1,200,000	1,200,000	1,200,000
- After 2 years but within 5 years	3,400,000	2,200,000	1,000,000	100,000
Total bank borrowings (note (i))	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>

The Group's bank borrowings were under fixed and floating interest rates as follows:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Fixed interest rates	4,550,000	17,602,500	—	—
Floating interest rates	<u>19,694,257</u>	<u>59,071,650</u>	<u>103,328,522</u>	<u>173,867,000</u>
	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>

Note (i): The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of a repayment on demand clause.

The Group's bank borrowings were secured as follows:

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
Secured.....	24,244,257	64,939,150	60,177,022	157,969,300
Unsecured.....	—	11,735,000	43,151,500	15,897,700
	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>

Secured bank borrowings are secured by certain trade receivables (note 12) and pledged bank deposits (note 13) and guaranteed by a director, major shareholders and certain group companies.

As at the date of this report, the Group has agreed with the respective lenders to release the said guarantees by the related parties on 10 January 2013 or upon Listing.

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
6 months or less	19,644,257	29,937,500	75,870,522	110,045,714
6 - 12 months	—	43,336,650	25,258,000	62,521,286
1 - 5 years	4,600,000	3,400,000	2,200,000	1,300,000
	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>

The carrying amounts of short-term borrowings approximate to their fair values.

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
HKD.....	5,800,000	4,600,000	3,400,000	2,500,000
USD.....	13,894,257	42,736,650	28,284,975	61,321,286
RMB.....	4,550,000	29,337,500	71,643,547	110,045,714
	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>173,867,000</u>

The Group has the following undrawn borrowing facilities:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Floating rate				
- Expiring within one year.....	<u>44,946,643</u>	<u>152,291,250</u>	<u>140,755,610</u>	<u>95,665,465</u>

20 Deferred income tax — Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Deferred tax assets:				
- Deferred tax assets to be recovered after more than 12 months	(483,719)	—	—	—
- Deferred tax assets to be recovered within 12 months.....	<u>—</u>	<u>(499,027)</u>	<u>—</u>	<u>(3,405,902)</u>
	<u>(483,719)</u>	<u>(499,027)</u>	<u>—</u>	<u>(3,405,902)</u>
Deferred tax liabilities:				
- Deferred tax liabilities to be recovered after more than 12 months	9,650,486	9,602,728	10,127,698	10,197,789
- Deferred tax liabilities to be recovered within 12 months....	<u>607,500</u>	<u>642,255</u>	<u>2,745,922</u>	<u>3,125,060</u>
	<u>10,257,986</u>	<u>10,244,983</u>	<u>12,873,620</u>	<u>13,322,849</u>
	<u>9,774,267</u>	<u>9,745,956</u>	<u>12,873,620</u>	<u>9,916,947</u>

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

	Year ended 31 December			Nine months ended
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	HK\$
At 1 January	6,903,950	9,774,267	9,745,956	12,873,620
Acquisition of a subsidiary (note 36).....	—	—	4,709,317	2,032,788
Exchange difference	—	—	88,870	(20,414)
Charged/(credited) to consolidated statement of comprehensive income (note 29).....	<u>2,870,317</u>	<u>(28,311)</u>	<u>(1,670,523)</u>	<u>(4,969,047)</u>
At 31 December/ 30 September	<u>9,774,267</u>	<u>9,745,956</u>	<u>12,873,620</u>	<u>9,916,947</u>

The movement in deferred income tax liabilities during the years ended 31 December 2009, 2010 and 2011 and nine months ended 30 September 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax liabilities			Deferred tax assets		Total
	Undistributed profits of a subsidiary established in the PRC (Note (i))	Intangible assets	Fair value gains on acquirees' assets upon business combination	Tax losses (Note (ii))	Unrealised profit on inventory	
	HK\$	HK\$	HK\$	HK\$	HK\$	
At 1 January 2009	4,860,694	2,043,256	—	—	—	6,903,950
Charged/(credited) to consolidated statement of comprehensive income.....	<u>4,147,536</u>	<u>(793,500)</u>	<u>—</u>	<u>(483,719)</u>	<u>—</u>	<u>2,870,317</u>
At 31 December 2009	9,008,230	1,249,756	—	(483,719)	—	9,774,267
Charged/(credited) to consolidated statement of comprehensive income.....	<u>594,497</u>	<u>(607,500)</u>	<u>—</u>	<u>(15,308)</u>	<u>—</u>	<u>(28,311)</u>
At 31 December 2010	9,602,727	642,256	—	(499,027)	—	9,745,956
Acquisition of a subsidiary (note 36(b)).....	—	3,600,275	1,109,042	—	—	4,709,317
Exchange difference	—	88,870	—	—	—	88,870
Charged/(credited) to consolidated statement of comprehensive income.....	<u>352,860</u>	<u>(2,522,410)</u>	<u>—</u>	<u>499,027</u>	<u>—</u>	<u>(1,670,523)</u>
At 31 December 2011	9,955,587	1,808,991	1,109,042	—	—	12,873,620
Acquisition of a subsidiary (note 36(c)).....	—	1,694,318	817,888	(479,418)	—	2,032,788
Exchange difference	—	(17,115)	3,845	(7,144)	—	(20,414)
Charged/(credited) to consolidated statement of comprehensive income.....	<u>—</u>	<u>(1,682,501)</u>	<u>(367,206)</u>	<u>—</u>	<u>(2,919,340)</u>	<u>(4,969,047)</u>
At 30 September 2012	<u>9,955,587</u>	<u>1,803,693</u>	<u>1,563,569</u>	<u>(486,562)</u>	<u>(2,919,340)</u>	<u>9,916,947</u>

Note:

- (i) According to the new Enterprise income tax ("EIT") Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

During the nine months ended 30 September 2012, deferred income tax liabilities of HK\$6,280,411 have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries in the PRC based on the profits in 2012. The unremitted earnings are to be used for long-term future development. Deferred income tax liability is not recognised 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.

The deferred tax liabilities on temporary differences associated with 10% of undistributed profits of a subsidiary established in the PRC derived on or after 1 January 2008 as at 31 December 2009, 2010 and 2011 and 30 September 2012 amounting to HK\$9,008,230, HK\$9,620,727, HK\$9,955,587 and HK\$9,955,587, respectively.

- (ii) No deferred tax assets had been recognised in respect of the unused tax losses of certain Group companies, as it was uncertain whether sufficient taxable profits would be available to allow utilisation of the carried forward tax losses, the amounts of the unused tax losses and the relevant unrecognised of deferred tax assets not recognised are as follows:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Unused tax losses	8,880,921	9,549,368	10,437,011	13,570,166
Deferred income tax assets not recognised ...	2,220,230	2,387,350	2,609,260	3,153,773

The expiry date for the unused tax losses is as follows:

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Within 1 year	—	—	15,212	416,449
Within 2 years	—	15,212	401,237	8,464,472
Within 3 years	15,212	401,237	8,464,472	668,447
Within 4 years	401,237	8,464,472	668,447	887,643
Within 5 years	8,464,472	668,447	887,643	1,189,350
	<u>8,880,921</u>	<u>9,549,368</u>	<u>10,437,011</u>	<u>11,626,361</u>

The unused tax losses with no expiry date as at 31 December 2009, 2010 and 2011, and 30 September 2012 are HK\$nil, HK\$nil, HK\$nil, and HK\$1,943,805.

21 Other income — Group

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$ (unaudited)	HK\$
Agency fee income (note (i))	3,588,375	13,497,532	7,974,531	6,874,731	4,309,525
Others	1,489,873	154,891	842,062	544,915	384,022
	<u>5,078,248</u>	<u>13,652,423</u>	<u>8,816,593</u>	<u>7,419,646</u>	<u>4,693,547</u>

Note (i): This amount represents commission received from other oilfield services providers for introducing product suppliers to them and commission received from suppliers for introduction of their products to the customers.

22 Employee benefit expenses (including directors' emoluments) — Group

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$ (unaudited)	HK\$
Wages, salaries and bonus	44,093,759	54,050,869	69,015,564	46,887,437	65,819,491
Pension costs	520,358	743,562	2,997,324	1,530,398	3,122,333
Other staff benefits	3,196,809	4,834,444	6,310,660	4,793,195	5,700,111
Share-based payments (note 26)	—	21,057,323	288,242	288,242	—
Less: employee benefit expenses attributable for research and development	(1,502,936)	(3,914,105)	(3,741,460)	(2,654,338)	(4,339,046)
	<u>46,307,990</u>	<u>76,772,093</u>	<u>74,870,330</u>	<u>50,844,934</u>	<u>70,302,889</u>

23 Other expenses — Group

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Auditor's remuneration	611,985	950,000	1,130,732	188,467	707,549
Communications	550,234	697,169	981,972	617,999	811,172
Professional service fees..	959,742	3,438,149	3,512,932	3,057,518	15,117,600
Entertainment	3,442,759	4,459,694	6,289,806	2,709,728	10,291,179
Marketing expenses	541,292	1,009,379	2,427,663	1,216,509	1,391,865
Motor vehicle expenses ...	906,590	1,003,625	1,949,089	1,175,062	3,214,914
Travelling	6,959,009	6,765,201	9,940,208	5,131,366	12,277,974
Insurance	410,534	710,659	934,289	409,427	757,157
Office utilities	1,319,325	2,665,191	4,007,599	1,964,884	6,359,913
Other tax-related expenses and custom duties (note (i))	1,927,738	5,854,833	10,685,193	4,547,135	8,840,674
Others	2,381,872	987,576	3,840,055	2,786,120	4,318,716
	<u>20,011,080</u>	<u>28,541,476</u>	<u>45,699,538</u>	<u>23,804,215</u>	<u>64,088,713</u>

Note (i): Other tax-related expenses comprise mainly stamp duty, business tax and tax paid to Social Security Organisation in Iran.

24 Other losses, net — Group

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Foreign exchange (losses)/ gains (note 30).....	(320,387)	417,352	(819,538)	(24,563)	(2,182,545)
Loss on disposals of property, plant and equipment	(49,038)	(53,068)	(101,070)	(9,691)	(16,774)
Loss on deregistration of a subsidiary (note 28)...	—	(627,795)	—	—	—
Fair value change on financial derivative instrument	—	—	—	—	(5,811,663)
Others	(415,082)	(462,248)	(14,089)	(16,730)	(122,487)
	<u>(784,507)</u>	<u>(725,759)</u>	<u>(934,697)</u>	<u>(50,984)</u>	<u>(8,133,469)</u>

25 Directors' emoluments — Group

(a) Directors' emoluments

The remuneration of every director for the year ended 31 December 2009 is set out below:

Name	Fee	Salary	Bonus	Other benefit	Employer's contribution to pension scheme	Total
					HK\$	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Sun JinXia	—	818,866	121,068	—	21,931	961,865
Zhao JinDong	—	818,866	143,788	—	22,444	985,098
Wang JinLong	—	851,016	226,937	—	—	1,077,953
Lee Lap	—	—	—	—	—	—
Lee Tommy	—	—	—	—	—	—

The remuneration of every director for the year ended 31 December 2010 is set out below:

<u>Name</u>	<u>Fee</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other benefit (Note (i))</u>	<u>Employer's contribution to pension scheme</u>	<u>Total</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sun JinXia	—	694,572	91,617	3,402,681	23,344	4,212,214
Zhao JinDong (Note (ii)).....	—	694,572	91,617	—	23,344	809,533
Wang JinLong	—	1,030,692	114,521	—	23,344	1,168,557
Lee Lap	—	—	—	—	—	—
Lee Tommy	—	—	—	—	—	—
Leung James (Note (iii)).....	—	—	—	—	—	—

Notes:

(i) Other benefit represents share-based payments

(ii) Resigned on 20 October 2010

(iii) Appointed on 20 October 2010

The remuneration of every director for the year ended 31 December 2011 is set out below:

<u>Name</u>	<u>Fee</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other benefit</u>	<u>Employer's contribution to pension scheme</u>	<u>Total</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Sun JinXia	—	817,898	—	—	25,594	843,492
Wang JinLong	—	1,443,349	—	—	25,594	1,468,943
Lee Lap	—	—	—	—	—	—
Lee Tommy	—	—	—	—	—	—
Leung James	—	—	—	—	—	—

The remuneration of every director for the nine months ended 30 September 2012 is set out below:

Name	Fee	Salary	Bonus	Other benefit	Employer's contribution to pension scheme	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Sun JinXia	—	627,152	—	—	27,590	654,742
Wang JinLong	—	959,174	—	—	28,219	987,393
Lee Lap	—	—	—	—	—	—
Lee Tommy	—	—	—	—	—	—
Leung James (note (i)).	—	—	—	—	—	—
Ma Hua (note (ii))	—	—	—	—	—	—

Notes:

(i) Resigned on 12 June 2012

(ii) Appointed on 12 June 2012

The remuneration of every director for the nine months ended 30 September 2011 is set out below:

Name	Fee	Salary	Bonus	Other benefit	Employer's contribution to pension scheme	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Sun JinXia	—	609,537	—	—	19,131	628,668
Wang JinLong	—	1,027,847	—	—	19,131	1,046,978
Lee Lap	—	—	—	—	—	—
Lee Tommy	—	—	—	—	—	—
Leung James	—	—	—	—	—	—

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012 include 1, 1, 1, 1 and 1 director, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 individuals during the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>	
Basic salaries, housing allowance, share-based payments, other allowances and benefit-in-kind.....	4,599,774	15,054,489	3,873,969	2,868,164	3,137,803
Bonuses.....	295,019	522,498	132,307	—	—
	<u>4,894,793</u>	<u>15,576,987</u>	<u>4,006,276</u>	<u>2,868,164</u>	<u>3,137,803</u>

The emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
				<i>(unaudited)</i>	
Emoluments band					
Nil to HK\$1,000,000....	—	—	1	4	4
HK\$1,000,001 - HK\$1,500,000.....	4	—	3	—	—
HK\$3,000,001 - HK\$3,500,000.....	—	2	—	—	—
HK\$4,500,001 - HK\$5,000,000.....	—	2	—	—	—
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

26 Share-based payments — Group

On 20 December 2010, the Company adopted a Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group and any entity in which any member of the Group holds any equity interest. Share options are granted to all directors and selected employees. The options have a contractual option term of five years. Except for 80 shares options granted to a senior management, all the past options are non-conditional which are exercisable from the grant date. For this senior management, half of the 80 share options are conditional on the employee completing two years' and three years' service (the vesting period), respectively. The Company does not have a legal or constructive obligation to repurchase or settle the options in cash.

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

	<u>Average exercise price per share</u>	<u>Number of share options</u>
	<i>HK\$</i>	
As at 1 January 2009 and 31 December 2009.....	—	—
Granted.....	65,960	<u>749</u>
As at 31 December 2010.....	65,960	749
Forfeited.....	58,370	<u>(180)</u>
As at 31 December 2011 and 30 September 2012.....	68,362	<u><u>569</u></u>

Out of the 749, 569 and 569 outstanding options, 669, 569 and 569 options were exercisable at 31 December 2010, 31 December 2011 and 30 September 2012, respectively. All of the share options outstanding will be expired in 2015.

Assumption used in the fair value of the share options

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of services received is measured based on the Binomial model. The contractual life of the option is used as input into this model.

The fair value of each option granted as at 20 December 2010 as determined by using the Binomial model ranges from HK\$24,411 to HK\$34,141, average exercise price of HK\$65,649, volatility of 47%, expected option life of 5 years, dividend yield of 1% and annual risk-free interest rate of 3.497%. Expected volatility is assumed to be based on historical volatility of the comparable companies. The total expense recognised in the consolidated statements of comprehensive income for share options granted to directors and employees was set out in note 22.

27 Finance income and costs — Group

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Interest expenses:					
- Bank borrowings wholly repayable within five years	(1,347,891)	(2,133,382)	(3,511,313)	(2,459,224)	(5,931,324)
- Net foreign exchange gains/(losses) on financing activities (note 30)	2,992	76,341	(62,750)	(68,941)	74,962
Finance costs	<u>(1,344,899)</u>	<u>(2,057,041)</u>	<u>(3,574,063)</u>	<u>(2,528,165)</u>	<u>(5,856,362)</u>
Finance income:					
- Interest income on short-term bank deposits	60,003	27,768	276,627	41,372	33,117
Finance income	<u>60,003</u>	<u>27,768</u>	<u>276,627</u>	<u>41,372</u>	<u>33,117</u>
Net finance costs	<u>(1,284,896)</u>	<u>(2,029,273)</u>	<u>(3,297,436)</u>	<u>(2,486,793)</u>	<u>(5,823,245)</u>

28 Loss on deregistration of a subsidiary — Group

During the year ended 31 December 2010, the Group has evaluated the business environment of its subsidiary, Beijing Petroking-Enruida Oilfield Technology Co., Limited, and concluded it was unfavourable. Thus, on 20 October 2010, the subsidiary was deregistered.

	<u>2010</u>
	<i>HK\$</i>
Recognised amounts of identified net assets at the date of disposal	
Property, plant and equipment (note 6).....	20,434
Trade and other receivables, and prepayments.....	174,290
Trade and other payables	<u>(114,111)</u>
 Total identified net assets	 80,613
Goodwill (note 7)	42,873
Non-controlling interests.....	<u>504,309</u>
 Loss from deregistration of a subsidiary (note 24)	 <u><u>627,795</u></u>

29 Income tax expense — Group

	<u>Year ended 31 December</u>			<u>Nine months ended 30 September</u>	
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
				<i>(unaudited)</i>	
Current tax					
- Hong Kong profits tax ..	7,172,483	19,892,802	17,301,994	19,898,617	7,238,499
- PRC enterprise income tax	9,832,646	4,383,939	4,699,539	315,888	23,734,501
- Singapore corporate tax.	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>477,204</u>
	17,005,129	24,276,741	22,001,533	20,214,505	31,450,204
Over provision in prior years/periods					
- Hong Kong profits tax ..	(3,964,446)	(2,675,793)	(467,159)	(467,159)	(483,803)
Deferred tax (note 20)	<u>2,870,317</u>	<u>(28,311)</u>	<u>(1,670,523)</u>	<u>(5,986,968)</u>	<u>(4,969,047)</u>
Income tax expense	<u><u>15,911,000</u></u>	<u><u>21,572,637</u></u>	<u><u>19,863,851</u></u>	<u><u>13,760,378</u></u>	<u><u>25,997,354</u></u>

(i) *Hong Kong profits tax*

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% during the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012.

The over provision for the Hong Kong profits tax in 2009 was due to the successful claim for offshore income in prior years. Approvals of offshore claim were obtained from the local tax authority in 2009.

(ii) *PRC EIT*

Petro-king Oilfield Technology Limited was used to enjoy the preferential EIT rate of 15% applicable to the domestic enterprises established in Shenzhen Special Economic Zone. According to the “Enterprise Income Tax Law of PRC” and “the Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies” (Guofa [2007] No.29), the applicable EIT rate for the subsidiary abovementioned is 20%, 22%, 24% and 25% for the years ended 31 December 2009, 2010 and 2011, and the nine months ended 30 September 2012, respectively.

Shenzhen Fluid Science & Technology Co., Limited was approved by relevant local tax bureau authorities as the High-technological Enterprise, and was entitled to a preferential EIT rate of 20% for the year ended 31 December 2009 and 15% for each of the years ended 31 December 2010 and 2011 and the nine months ended 30 September 2012, respectively.

Dezhou Jiacheng Oil Tools Co., Limited has applied for the registration of Small and Low-profit Enterprise through regulatory tax bureau in 2011, and it enjoyed the EIT preferential treatment for Small and Low-profit Enterprise in 2011.

(iii) *Singapore corporate tax*

Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% for the nine months ended 30 September 2012.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profits of the Group entities as follows:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Profit before income tax ..	<u>92,923,152</u>	<u>106,207,049</u>	<u>111,956,387</u>	<u>98,134,404</u>	<u>133,148,185</u>
Tax calculated at domestic tax rates applicable to profits in the respective entities...	15,316,427	23,079,565	18,629,378	14,932,521	24,326,115
- Over provision of taxation for prior years/periods	(3,964,446)	(2,675,793)	(467,159)	(467,159)	(483,803)
- Income not subject to tax	(4,088)	(1,664)	(183)	(127)	(4,463)
- Expenses not deductible for tax purposes	279,563	408,912	1,127,045	599,625	1,785,268
- Withholding tax on undistributed profits of a subsidiary established in the PRC	4,147,536	594,497	352,860	(1,484,179)	—
- Tax losses for which no deferred tax assets was recognised	136,008	167,120	221,910	179,697	627,785
- Utilisation of capital allowance	—	—	—	—	(253,548)
Income tax expense	<u>15,911,000</u>	<u>21,572,637</u>	<u>19,863,851</u>	<u>13,760,378</u>	<u>25,997,354</u>

The weighted average applicable tax rate was 16%, 22%, 17%, 15% and 18% for the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012. The change is caused by the change in the profitability of the Group's subsidiaries in the respective countries and areas.

30 Net foreign exchange (losses)/gains

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>	
Net foreign exchange (losses)/gains taken to:					
Other losses, net					
(note 24).....	(320,387)	417,352	(819,538)	(24,563)	(2,182,545)
Finance income/(costs)					
- net (note 27)	<u>2,992</u>	<u>76,341</u>	<u>(62,750)</u>	<u>(68,941)</u>	<u>74,962</u>
	<u>(317,395)</u>	<u>493,693</u>	<u>(882,288)</u>	<u>(93,504)</u>	<u>(2,107,583)</u>

31 Earnings per share for the profit attributable to owners of the Company**(a) Basic**

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

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
				<i>(unaudited)</i>	
Profit attributable to owners of the Company (HK\$)	<u>77,611,446</u>	<u>84,634,412</u>	<u>86,847,607</u>	<u>81,737,731</u>	<u>104,438,357</u>
Weighted average number of ordinary shares in issue (number of shares) (note (i))	<u>6,174</u>	<u>6,939</u>	<u>10,000</u>	<u>10,000</u>	<u>10,038</u>
Basic earnings per share ..	<u>12,571</u>	<u>12,197</u>	<u>8,685</u>	<u>8,174</u>	<u>10,404</u>

Note (i): The number of shares for 2009 and 2010 used in calculation is retrospectively adopted for the bonus element in the capitalisation of the shareholders' loan (note 15).

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined using discounted cash flow model) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
				<i>(unaudited)</i>	
Profit attributable to owners of the Company (HK\$)	<u>77,611,446</u>	<u>84,643,412</u>	<u>86,847,607</u>	<u>81,737,731</u>	<u>104,438,357</u>
Weighted average number of ordinary shares in issue (number of shares).....	6,174	6,939	10,000	10,000	10,038
Adjustment for:					
- Share options.....	<u>—</u>	<u>6</u>	<u>355</u>	<u>359</u>	<u>328</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>6,174</u>	<u>6,945</u>	<u>10,355</u>	<u>10,359</u>	<u>10,366</u>
Diluted earnings per share	<u><u>12,571</u></u>	<u><u>12,188</u></u>	<u><u>8,387</u></u>	<u><u>7,891</u></u>	<u><u>10,075</u></u>

The basic and diluted earnings per share as presented on the consolidated statements of comprehensive income have not taken into account the proposed capitalisation issue as described in note 40(c).

32 Dividends

A dividend of HK\$120,000,000 in respect of years ended 31 December 2009 and 2010 was proposed at the shareholders' meeting on 19 June 2012, which will be settled in March 2013.

The aggregate amount of the dividend proposed during the nine months ended 30 September 2012 has been disclosed in the consolidated statements of comprehensive income.

33 Notes to the consolidated statements of cash flows — Group

(a) Cash generated from/(used in) operations

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
Profit before income tax	92,923,152	106,207,049	111,956,387	98,134,404	133,148,185
Adjustments for:					
- Depreciation (note 6).....	1,859,272	2,583,822	3,885,365	2,715,448	5,201,507
- Amortisation (note 7)	3,095,471	3,151,718	10,602,109	6,003,506	7,627,322
- Impairment of intangible assets (note 7).....	—	3,803,436	—	—	—
- Share of results of an associate (note 8)	—	(598,597)	(492,291)	610,006	1,102,297
- Share of results of a jointly controlled entity (note 9).....	—	—	1,312,861	(1,165,193)	43,226
- Loss on disposal of property, plant and equipment (note b)	49,038	53,068	101,070	9,691	16,774
- Share-based payment (note 22)	—	21,057,323	288,242	288,242	—
- Net finance costs (note 27)	1,284,896	2,029,273	3,297,436	2,486,793	5,823,245
- Foreign exchange (gains)/losses.....	(51,329)	(315,358)	(599,194)	(897,279)	2,111,027
- Fair value change on financial derivative instrument (note 24).....	—	—	—	—	5,811,663
- Loss from deregistration of a subsidiary (note 28).....	—	627,795	—	—	—
- Gain on disposal of a jointly controlled entity (note 36(c)).....	—	—	—	—	(47,742,893)
	99,160,500	138,599,529	130,351,985	108,185,618	113,142,353

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>	
Changes in working capital:					
Inventories	(11,937,217)	(14,017,684)	(34,480,586)	(26,526,345)	(158,395,445)
Trade and other receivables and prepayments	16,091,344	(378,807,580)	110,893,865	120,550,277	(136,180,041)
Trade and other payables..	21,169,415	157,351,472	(159,456,717)	(121,623,566)	84,137,871
Cash generated from/ (used in) operations	<u>124,484,042</u>	<u>(96,874,263)</u>	<u>47,308,547</u>	<u>80,585,984</u>	<u>(97,295,262)</u>

(b) *Proceeds from disposal of property, plant and equipment*

In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>	
Net book amount (note 6)	142,711	119,737	289,448	130,864	18,756
Loss on disposal of plant and equipment (note 24)	<u>(49,038)</u>	<u>(53,068)</u>	<u>(101,070)</u>	<u>(9,691)</u>	<u>(16,774)</u>
Proceeds from disposal of property, plant and equipment	<u>93,673</u>	<u>66,669</u>	<u>188,378</u>	<u>121,173</u>	<u>1,982</u>

(c) *Financing activities*

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$ (unaudited)	HK\$
Borrowings at beginning of year/period ...	9,697,546	24,244,257	76,674,150	76,674,150	103,328,522
Proceeds from borrowings ...	76,140,357	204,693,649	180,405,126	113,903,721	291,454,901
Repayments of borrowings ...	(61,620,496)	(153,517,339)	(155,657,531)	(108,958,372)	(220,030,699)
Interest expense	1,347,891	2,133,382	3,511,313	2,528,165	5,856,362
Interest paid.....	(1,347,891)	(2,133,382)	(3,511,313)	(2,528,165)	(5,856,362)
Exchange differences....	26,850	1,253,583	1,906,777	2,033,696	(885,724)
Borrowings at end of year/period ...	<u>24,244,257</u>	<u>76,674,150</u>	<u>103,328,522</u>	<u>83,653,195</u>	<u>173,867,000</u>

(d) *Non-cash transactions*

During the year ended 31 December 2010, the principal non-cash transaction is the issuance of 8,800 shares as consideration for the capitalisation of shareholders' loans and the current accounts with the same shareholders (note 15).

During nine months ended 30 September 2012, the principal non-cash transaction is the issuance of 102 shares as the consideration of step acquisition of Sheraton for the second tranche completion (note 36(c)).

34 Contingencies

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Performance bonds.....	<u>—</u>	<u>34,393,671</u>	<u>37,275,730</u>	<u>—</u>

Performance bonds relate to the guarantees provided by the banks to the Group's customers in respect of the oilfield project services or consultancy services in certain overseas projects. In the event of non-performance, the customers may call upon the performance bonds and the Group would be liable to the banks in respect of the performance bonds provided.

35 Commitments — Group

(a) Capital commitments

Capital commitments outstanding at the balance sheet date are as follows:

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
Land use right				
- Authorised but not contracted for.....	—	—	—	24,700,000

(b) Operating lease commitments — group company as lessee

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012
No later than 1 year.....	1,745,250	2,376,441	3,998,988	12,415,713
Later than 1 year and no later than 5 years.....	1,448,207	1,316,769	1,022,231	13,881,348
Later than 5 years.....	1,129,778	—	—	—
	<u>4,323,235</u>	<u>3,693,210</u>	<u>5,021,219</u>	<u>26,297,061</u>

36 Business combinations**(a) Acquisition of Dezhou Jiacheng Oil Tools Co., Ltd.**

Pursuant to an agreement entered into between Petro-king Oilfield Technology Ltd., an indirectly wholly owned subsidiary of the Company, and third parties on 2 April 2009, Petro-king Oilfield Technology Ltd. acquired 100% equity interest of Dezhou Jiacheng Oil Tools Co., Ltd. (“Dezhou Jiacheng”), a company engaging in the manufacture of oil drilling tools, at a total consideration of RMB6,150,000 (equivalent to approximately HK\$6,952,000). The acquisition was completed in May 2009.

	<i>HK\$</i>
Purchase consideration:	
- Cash paid.....	6,274,000
- Consideration payable, to be settled in cash.....	<u>678,000</u>
Total purchase consideration.....	<u><u>6,952,000</u></u>

The following table summarised the fair value of assets acquired and liabilities assumed as at 1 May 2009 and the goodwill arising from the acquisition:

	<u>Fair value</u>	<u>Acquiree's carrying amount</u>
	<i>HK\$</i>	<i>HK\$</i>
Cash and cash equivalents.....	153,321	153,321
Property, plant and equipment (note 6).....	2,223,056	2,223,056
Inventories.....	1,232,611	1,232,611
Trade and other receivables.....	315,617	315,617
Trade and other payables.....	<u>(776,041)</u>	<u>(776,041)</u>
Fair value of net assets.....	<u>3,148,564</u>	<u>3,148,564</u>
Goodwill (note 7).....	<u>3,803,436</u>	
Total purchase consideration.....	<u><u>6,952,000</u></u>	

The goodwill is attributable to the business environment development in the manufacturing and sales of tools and equipment segment. The expected realisation of cost savings was the result of the specialised manufacturing capabilities and knowledge based on the oilfield tools and equipment of Dezhou Jiacheng. In addition, in view of its experience in the manufacturing of oilfield related tools and equipment, the goodwill was also composed of potential additional indications for identified products and relevant operational synergies.

	<i>HK\$</i>
Purchase consideration settled in cash.....	6,274,000
Cash and cash equivalents in subsidiary acquired.....	<u>(153,321)</u>
Cash outflow on acquisition.....	<u>6,120,679</u>

The revenue included in the consolidated statement of comprehensive income from 1 May 2009 to 31 December 2009 contributed by Dezhou Jiacheng was HK\$495,930. Dezhou Jiacheng also contributed loss of HK\$725,061 over the same period.

Had Dezhou Jiacheng been consolidated from 1 January 2009, the revenue and net profit for the year ended 31 December 2009 would be HK\$287,078,118 and HK\$71,365,068, respectively.

(b) *Acquisition of Shenzhen Fluid Science & Technology Co., Ltd.*

Pursuant to an agreement entered into between Petro-king Oilfield Technology Ltd., an indirectly wholly owned subsidiary of the Company, and third parties on 31 May 2011, Petro-king Oilfield Technology Ltd. acquired 60% equity interest of Shenzhen Fluid Science & Technology Co., Ltd., (“Shenzhen FST”) a company engaging in designing, manufacturing, installing and trading pressure test systems and high pressure hydraulic control systems, at a total consideration of RMB50,400,000 (equivalent to HK\$60,641,280). The acquisition was completed in June 2011.

As a result of the acquisition, the Group is expected to increase its presence in manufacturing and sales of tools and equipment markets. The goodwill of HK\$40,117,422 arising from the acquisition is attributable to economies of scale expected and operational synergies from combining the operations of the Group and Shenzhen FST. Due to the high-end technology required for its products, the Group was able to strengthen its technology capabilities and knowledge base for development of new oilfield related products. The Group could also benefit from the acquired entity workforce in the manufacturing and sales of tools and equipment segment. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarised the consideration paid for Shenzhen FST, the fair value of assets acquired, liabilities assumed, and the non-controlling interest as at 30 June 2011, and the goodwill arising from the acquisition:

	<i>HK\$</i>	
Purchase consideration:		
- Cash		12,122,803
- Consideration payable, to be settled by cash		<u>48,518,477</u>
Total purchase consideration		<u>60,641,280</u>
	Fair value	Acquiree's carrying amount
	<i>HK\$</i>	<i>HK\$</i>
Property, plant and equipment (note 6).....	574,801	574,801
Inventories	9,739,850	5,303,685
Trade and other receivables, and prepayments	23,864,909	23,864,909
Cash and cash equivalents.....	704,342	704,342
Trade and other payables	(7,000,177)	(7,000,177)
Current income tax liabilities.....	(3,369,080)	(3,369,080)
Incomplete sales contracts (note 7)	4,816,410	—
Contractual customer relationships (note 7).....	9,584,691	—
Deferred tax liabilities arising from identification of intangible assets (note 20)	<u>(4,709,317)</u>	<u>—</u>
Total identifiable net assets.....	<u>34,206,429</u>	<u>20,078,480</u>
Non-controlling interest	(13,682,571)	
Goodwill (note 7)	<u>40,117,422</u>	
Total purchase consideration	<u>60,641,280</u>	

The goodwill is attributable to acquired customer base from combining the operations of the Group.

	<i>HK\$</i>
Purchase consideration settled in cash.....	12,122,803
Cash and cash equivalents acquired.....	<u>(704,342)</u>
Net cash outflow on acquisition	<u>11,418,461</u>

Acquisition-related cost of HK\$200,000 has been charged to expenses in the consolidated statement of comprehensive income for the year ended 31 December 2011.

The contingent consideration arrangement requires the Group to pay in cash the former owners of FST up to a maximum undiscounted amount of HK\$25,151,160, under the condition that the profit target for both fiscal years 2010 and 2011 are met by FST.

In the directors' view, the fair value of the contingent consideration arrangement amounting to HK\$25,151,160 approximates to its carrying value which has been included in the total purchase consideration.

The fair value of the non-controlling interest in FST, an unlisted company, was estimated by using the fair value of net assets acquired, based on the proportional method, of 40% stake in FST.

The revenue included in the consolidated statement of comprehensive income from 1 July 2011 to 31 December 2011 contributed by FST was HK\$29,231,657. FST also contributed profit of HK\$7,104,338 over the same period.

Had FST been consolidated from 1 January 2011, the revenue and net profit for the year ended 31 December 2011 would be HK\$574,174,607 and HK\$96,512,314, respectively.

(c) *Acquisition of Sheraton Investment Worldwide Ltd.*

Pursuant to the agreement in relation to the subscription and sale and purchase of shares of Sheraton entered into among Sheraton, Natural Peak and Hero Gain dated 24 January 2011, the Company agreed to purchase and subscribe for up to 55% interest in Sheraton from Natural Peak. As at 30 April 2011, the Group has already acquired a total of 45.5% equity interest in Sheraton and Sheraton was accounted for as a jointly controlled entity (note 9).

Pursuant to the agreement (as amended by a supplemental agreement dated 21 June 2012 between the above mentioned same parties), Hero Gain further acquired 5.5% equity interest in Sheraton on 21 June 2012 in consideration of the issuance of 102 shares of the Company to Natural Peak. As a result, the Group reached ownership of 51% equity interest in Sheraton and gained the power to govern the financial and operating policies in Sheraton, thus Sheraton turned from being a jointly controlled entity into a subsidiary since 21 June 2012.

As a result of its further acquisition, the Group is expected to further expand its know-how in manufacturing and sales of oilfield project tools and equipment. The goodwill of HK\$44,722,264 arising from the acquisition is attributable to economies of scale expected and operational synergies from combining the operations of the Group and Sheraton. In view of its overseas operation, the Group is also expected to increase its presence in oilfield market. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarised the consideration paid for Sheraton, the fair value of assets acquired, liabilities assumed, the non-controlling interest as at 21 June 2012, and the goodwill arising from the acquisition:

	<i>HK\$</i>
Purchase consideration:	
- Share issued in exchange	9,247,760
- Fair value of previous interest in the acquiree.....	49,339,397
- Forward contract for acquisition of additional equity interest (note).....	<u>(4,476,478)</u>
 Total purchase consideration	 <u>54,110,679</u>

Note:

The forward contract was initially recognised for the Company's obligation to acquire the further 15% ownership in Sheraton in 3 tranches. The amount of HK\$4,476,478 represents the fair value of the forward contract related to the agreement to increase the ownership from 45.5% to 51% (from jointly controlled entity to subsidiary) at the date of acquisition and is thus included in the purchase consideration. The remaining balance of HK\$1,335,185 in the balance sheet as at 30 September 2012 represents the fair value of the forward contract related to the obligation to acquire the remaining 4% ownership in Sheraton which will be completed at a later stage. For details on the forward contracts and fair value measurement refer to note (note 3.3).

	Fair value	Acquiree's carrying amount
	<i>HK\$</i>	<i>HK\$</i>
Property, plant and equipment (note 6).....	9,053,505	8,111,562
Intangible assets (note 7)	6,351	6,351
Deferred tax assets (note 20)	479,418	479,418
Inventories	8,944,733	5,888,068
Trade and other receivables, and prepayments.....	7,217,910	7,217,910
Cash and cash equivalents.....	2,885,164	2,885,164
Trade and other payables	(19,768,489)	(19,768,489)
Deferred tax liabilities (note 20).....	(258,083)	(258,083)
Incomplete sales contracts (note 7)	1,722,171	—
Contractual customer relationships (note 7).....	10,380,100	—
Deferred tax liabilities from identification of intangible assets (note 20)	<u>(2,254,123)</u>	<u>—</u>
Total identifiable net assets.....	<u>18,408,657</u>	<u>4,561,901</u>
Non-controlling interest	(9,020,242)	
Goodwill (note 7)	<u>44,722,264</u>	
Total purchase consideration	<u><u>54,110,679</u></u>	

Gain on revaluation of previously held ownership interest in entities acquired in step acquisition:

	<i>HK\$</i>
Carrying amount of previously held ownership	(1,596,504)
Fair value of previously held ownership interest	<u>49,339,397</u>
Gain.....	<u><u>47,742,893</u></u>

The fair value of the 102 ordinary shares issued as part of the consideration paid for Sheraton amounting to HK\$9,247,760 was based on the valuation of the Group prepared by an independent valuer on 30 June 2012.

The fair value of the non-controlling interest in Sheraton, an unlisted company, was estimated by using the fair value of net assets acquired, based on the proportional method, of 49% stake in Sheraton.

The Group recognised a gain of HK\$47,742,893 as a result of measuring at fair value its 45.5% equity interest in Sheraton held before the business combination. The gain is included in the Group's consolidated statement of comprehensive income for the nine months ended 30 September 2012.

Had Sheraton been consolidated from 1 January 2012, the revenue and net profit of the Group for the nine months ended 30 September 2012 would have been HK\$591,116,353 and HK\$107,010,960, respectively.

37 Accumulated losses — Company

	Year ended 31 December			Nine months ended
	2009	2010	2011	30 September
	HK\$	HK\$	HK\$	2012 HK\$
At beginning of year/period	(9,133)	(29,520)	(23,061,252)	(27,688,959)
(Loss)/profit for the year/period	(20,387)	(23,031,732)	(4,627,707)	132,163,121
Dividend (note 32).....	—	—	—	(120,000,000)
At end of year/period.....	<u>(29,520)</u>	<u>(23,061,252)</u>	<u>(27,688,959)</u>	<u>(15,525,838)</u>

38 Related party transactions — Group and Company

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012, and balances arising from related party transactions as at 31 December 2009, 2010 and 2011 and 30 September 2012.

Name	Relationships
Mr. Wang JinLong	Key management
Termbray Natural Resources Company Limited.....	Equity holder of the Company
King Shine Group Limited	Equity holder of the Company
Termbray Electronics (B.V.I.) Limited....	Controlled by equity holders of the Company
Sheraton Investment Worldwide Ltd.....	Jointly controlled entity (turned into a subsidiary since 21 June 2012)
Iranian Refinement Development Premier Co., Ltd.....	Associate

(a) *Sales of goods*

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Sales of goods:					
- Jointly controlled entity	—	—	—	—	92,866
- Associate.....	—	503,655	—	—	—
	<u>—</u>	<u>503,655</u>	<u>—</u>	<u>—</u>	<u>—</u>

Goods are sold based on the price lists in force and terms that would be available to third parties.

(b) *Purchases of goods*

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Purchases of goods:					
- Jointly controlled entity	—	—	56,213,379	47,690,351	11,035,222
	<u>—</u>	<u>—</u>	<u>56,213,379</u>	<u>47,690,351</u>	<u>11,035,222</u>

Goods are purchased on normal commercial terms and conditions.

(c) *Key management compensation*

Key management personnel are deemed to be the members of the board of directors and senior management of the Company who have the responsibility for the planning and controlling the activities of the Group.

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Salaries and other short-term employee benefits ...	5,995,427	5,666,888	5,903,550	4,110,964	4,610,858
Share-based payments	—	12,868,858	—	—	—
Total	<u>5,995,427</u>	<u>18,535,746</u>	<u>5,903,550</u>	<u>4,110,964</u>	<u>4,610,858</u>

(d) *Amounts due from/(to) related parties**Group*

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Amounts due (to)/from related parties (note (i)):				
At 1 January	(38,094,886)	(71,690)	(518,565)	86,199
Advance from a related party during the year/period	—	(446,875)	(3,917,748)	(2,608,731)
Repayment to a related parties	<u>38,023,196</u>	<u>—</u>	<u>4,522,512</u>	<u>2,575,758</u>
At 31 December/ 30 September.....	<u>(71,690)</u>	<u>(518,565)</u>	<u>86,199</u>	<u>53,226</u>
Advance to an associate:				
At 1 January	—	—	3,612,779	5,478,030
Advance to an associate during the year/period ..	—	3,612,779	1,865,251	2,841,087
Repayment received	<u>—</u>	<u>—</u>	<u>—</u>	<u>(676,834)</u>
At 31 December/ 30 September.....	<u>—</u>	<u>3,612,779</u>	<u>5,478,030</u>	<u>7,642,283</u>
Shareholders' loans (note (ii))				
At 1 January	(286,021,046)	(286,021,046)	—	—
Advance from shareholders	—	(276,402)	—	—
Capitalisation of shareholders' loans	<u>—</u>	<u>286,297,448</u>	<u>—</u>	<u>—</u>
At 31 December/ 30 September.....	<u>(286,021,046)</u>	<u>—</u>	<u>—</u>	<u>—</u>

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Amount due to shareholders:				
At 1 January	—	—	—	—
Dividend payable (note 32)	—	—	—	(120,000,000)
At 31 December/ 30 September.....	—	—	—	(120,000,000)
Advance to a jointly controlled entity:				
At 1 January	—	—	—	7,767,400
Advance to a jointly controlled entity	—	—	7,767,400	—
Elimination upon step acquisition of Sheraton .	—	—	—	(7,767,400)
At 31 December/ 30 September.....	—	—	7,767,400	—
Prepayment to a jointly controlled entity for purchases of inventories:				
At 1 January	—	—	—	3,844,164
Prepayment for purchases of inventories	—	—	3,844,164	—
Utilisation of the prepayment.....	—	—	—	(3,844,164)
At 31 December/ 30 September.....	—	—	3,844,164	—

As at 31 December 2009, 2010 and 2011 and 30 September 2012, the balances are interest-free, unsecured, receivable/repayable on demand and approximate to their fair values, except for the advance to a jointly controlled entity (subsequently become a subsidiary upon the step acquisition), which has an interest of 6% per annum.

Note:

- (i) The balances primarily represent cash advance from and expenses paid on behalf by the Directors, Wang Jin Long and Lee Lap.
- (ii) The shareholders' loans were contributed by Termbray Natural Resources Company Limited and King Shine Group Limited.

Company

	As at 31 December			As at
				30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Amounts due from subsidiaries				
At 1 January	286,175,116	286,128,498	388,150,521	386,809,981
Dividend receivable	—	—	—	150,000,000
Repayment received	(46,618)	—	(1,340,540)	(9,813,795)
Advance to a subsidiary during the year/period ..	—	102,022,023	—	—
At 31 December/ 30 September.....	<u>286,128,498</u>	<u>388,150,521</u>	<u>386,809,981</u>	<u>526,996,186</u>
Shareholders' loans				
At 1 January	(286,021,046)	(286,021,046)	—	—
Advance from shareholders	—	(276,402)	—	—
Capitalisation of shareholders' loans	—	286,297,448	—	—
At 31 December/ 30 September.....	<u>(286,021,046)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Amount due to shareholders				
At 1 January	—	—	—	—
Dividend payable (note 32)	—	—	—	(120,000,000)
At 31 December/ 30 September.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(120,000,000)</u>

As at 31 December 2009, 2010 and 2011 and 30 September 2012, the balances are interest-free, unsecured, receivable/repayable on demand and approximate their fair values.

39 Investments in subsidiaries — Company

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$
Unlisted shares, at cost	<u>275,053,233</u>	<u>275,053,233</u>	<u>275,053,233</u>	<u>284,300,993</u>

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Interest held		Principal activities	Country of incorporation/date of incorporation	Particulars of issued share capital/registered capital	Statutory auditors (note)
	Directly	Indirectly				
Petro-king Holding Limited	100%	—	Investment holding	Hong Kong 13 September 2007	10,000 ordinary shares of 1 HKD each	(a)(i)
Petro-king International Company Limited	—	100%	Trading of tools and equipment and provision for consultancy service on well drilling	Hong Kong 14 July 2003	5,000,000 ordinary shares of 1 HKD each	(a)(i)
深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited)	—	100%	Trading of tools and equipment and provision for consultancy service on well drilling	The PRC 26 April 2002	Registered capital of RMB20,000,000	(a)(ii)
德州嘉誠石油裝備有限公司 (Dezhou Jiacheng Oil Tools Co., Limited)	—	100%	Trading of tools and equipment and provision for consultancy service on well drilling	The PRC 3 April 2007	Registered capital of RMB10,000,000	(a)(iii)
Wellsharp Group Limited	—	100%	Dormant	BVI 11 April 2008	100 ordinary shares at no par value for 1 USD each	(b)
Expert Oil Services Kish	—	98%	Dormant	Kish Islands 5 August 2008	150,000,000 ordinary shares of 1 rial each	(b)
深圳市弗賽特檢測設備有限公司 (Shenzhen Fluid Science & Technology Co., Limited)	—	60%	Trading of tools and equipment	The PRC 20 January 2006	Registered capital of RMB10,000,000	(a)(iv)
Hero Gain Investment Limited	—	100%	Investment holding	BVI 1 July 2010	1 ordinary share at no par value for 1 USD each	(b)

APPENDIX I
ACCOUNTANT'S REPORT

Name	Interest held		Principal activities	Country of incorporation/date of incorporation	Particulars of issued share capital/registered capital	Statutory auditors (note)
	Directly	Indirectly				
Turbodrill Technology Pte. Limited	—	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment	Singapore 1 September 2011	1 ordinary share of 1 USD each	(b)
Petro-king Oilfield Technology (South America) Holdings Limited	—	100%	Provision of oilfield technology and services	BVI 16 March 2012	1,000,000 ordinary shares of 1 USD each	(b)
Sheraton Investment Worldwide Ltd	—	51%	Investment holding	BVI 9 June 2010	1,000 ordinary shares at no par value for 1 SGD each	(c)
星油能源科技(深圳)有限公司 (Sun Oil Technology Co., Ltd)	—	51%	Trading of oilfield tools and equipment	The PRC 8 April 2011	Registered capital of USD1,000,000	(a)(vi)
H-Star Petrotech Company Limited	—	51%	Manufacturing and repair of other oilfield and gasfield machinery and equipment	Hong Kong 10 December 2010	10,000 ordinary shares of 1 HKD each	(b)
Star Petrotech Pte Ltd.	—	51%	Manufacturing and repair of other oilfield and gasfield machinery and equipment	Singapore 4 February 2009	400,000 ordinary shares at no par value for 1 SGD each	(a)(v)
惠州市弗賽特石油設備有限公司	—	60%	Sales and lease of equipment and provision of drilling and well completion services	The PRC 14 August 2012	Registered capital of RMB 10,000,000	(b)
Petro-king Oilfield Technology Holdings Limited De Venezuela, C.A.	—	100%	Provision of oilfield technology and services	Venezuela 17 September 2012	1,000,000 ordinary share of Bs 4.3 each	(b)
百勤石油技術(惠州)有限公司	100%	—	Provision of oilfield tools and equipment technology services and research and development	The PRC 21 September 2012	Registered capital of USD5,000,000	(b)

Notes:

(a) The statutory auditors of these companies were as following:

- (i) Deloitte Touche Tohmatsu for the year ended 31 December 2009; PricewaterhouseCoopers for the years ended 31 December 2010 and 2011.
- (ii) 德勤華永會計師事務所有限公司 (Deloitte Touche Tohmatsu CPA Limited) for the year ended 31 December 2009; 普華永道中天會計師事務所有限公司 (PricewaterhouseCoopers Zhong Tian CPAs Limited Company) for the years ended 31 December 2010 and 2011.

- (iii) 德州天衢有限責任會計師事務所 (Dezhou Tianqu Certified Public Accountants Co., Ltd.) for the years ended 31 December 2009, 2010 and 2011.
 - (iv) 深圳聯創立信會計師事務所 (Shenzhen Lianchuang Lixin Certified Public Accountants) for the years ended 31 December 2009, 2010 and 2011.
 - (v) KY Chik & Associates for the years ended 31 December 2009, 2010 and 2011.
 - (vi) 深圳正聲會計師事務所 for the years ended 31 December 2011.
- (b) No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective place of incorporation.
- (c) The consolidated financial statements of the Group as at and for the years ended 31 December 2010 and 2011 was audited by PricewaterhouseCoopers.

40 Events after the balance sheet date

- (a) In order to protect the Group from exposing the risks of unexpected changes in the relevant sanctions, laws and regulations in the future, the Group entered into a sales and purchase agreement to dispose all its equity interests in Top Select Holdings Limited, a wholly owned subsidiary of the Group, and Iranian Refinement Development Premier Co., Ltd., an associate of the Group, to an independent third party (“**Buyer**”) at a consideration of HK\$4,280,000. The negotiations with buyer commenced in October 2012 and the disposal was completed on 9 November 2012. A loss on disposal of approximately HK\$777,732 was recognised in the profit and loss upon the completion of disposal in November 2012.

Top Select Holdings Limited is part of the segments of oilfield project services and consultancy services, and Iranian Refinement Development Premier Co., Ltd. is part of the manufacturing and sales of tools and equipment segment. Both of these two companies are mainly operated in the Middle East.

- (b) Subsequent to the balance sheet date, the Group had identified the target piece of land in Huizhou on which the Group will construct a new facility, and had paid an amount of approximately HK\$11.3 million for the land use right of such piece of land. The acquisition of the land use right was completed in January 2013.
- (c) Pursuant to the written resolution passed by the shareholders on 18 February 2013,
- (i) the authorised shares of the Company was increased from 50,000 shares (comprising 42,000 voting shares and 8,000 non-voting shares with no par value) to 10,000,000,000 shares by creation of an additional 9,999,950,000 shares; and
 - (ii) conditional on the Global Offering taking place, the Directors were authorised to capitalise an amount of HK\$100 from the amount standing to the credit of any reserve accounts of the Company and that the said sum be applied in paying up in full 749,989,898 Shares, such Shares to be allotted and issued, credited as fully paid to holders of Shares appearing on the register of members of the Company at the close of business on the Prospectus date in proportion to their respective shareholdings.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 September 2012 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of its subsidiaries in respect of any period subsequent to 30 September 2012.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountant’s Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this Prospectus and the Accountant’s Report in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the owners of the Company as at 30 September 2012 as if the Global Offering had taken place on 30 September 2012 assuming the over-allotment is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 September 2012 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2012 as set out in the Accountant’s Report of the Group, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant’s Report.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2012 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per share (Note 3)
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$</i>
Based on an Offer Price of HK\$2.78 per share.....	<u>400,892</u>	<u>648,957</u>	<u>1,049,850</u>	<u>1.05</u>
Based on an Offer Price of HK\$3.39 per share.....	<u>400,892</u>	<u>799,299</u>	<u>1,200,191</u>	<u>1.20</u>

Notes:

(1) The audited consolidated net tangible assets attributable to the Owners of the Company as at 30 September 2012 is extracted from the Accountant’s Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 30 September 2012 of HK\$975,931,451 with an adjustment for the intangible assets as at 30 September 2012 of HK\$575,039,262.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer price of HK\$2.78 and HK\$3.39 per Share, respectively, after deduction of the underwriting fees and other estimated related fees and expenses and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option, any Share which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Share Option Scheme or any Share which be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares were in issue assuming that the Global Offering has been completed on 30 September 2012 but takes no account of any Share which may fall to be issued upon the exercise of the Over-allotment Option, any Share which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Share Option Scheme or any Share which be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2012.

B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimated earnings per share for the year ended 31 December 2012 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2012. This unaudited pro forma estimated earnings per share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the year ended 31 December 2012 or any future periods.

Estimated consolidated profit attributable to owners of
the Company for the year ended 31 December 2012⁽¹⁾ Not less than HK\$170.0 million

Unaudited pro forma estimated earnings per Share based on
estimated consolidated profit attributable to owners of
the Company for the year ended 31 December 2012⁽²⁾ Not less than HK\$0.17

Notes:

- (1) The estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2012 is extracted from the section headed “Financial Information — Profit Estimate” in this prospectus. The bases on which the above profit estimate has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2012 based on our audited consolidated results of the Group for the nine months ended 30 September 2012 and unaudited consolidated results based on management accounts of our Group for the three months ended 31 December 2012. The profit estimate has been prepared on the basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in Note 2 of Section II in Appendix I to this prospectus.
- (2) The calculation of unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2012, assuming that our Company had a total of 1,000,000,000 Shares were in issue assuming that the shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2012. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or Share Option Scheme, or any shares which may be allotted and issued or repurchased by our Company pursuant to a general mandate.

**C. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION**

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus.



羅兵咸永道

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF TERMBRAY PETRO-KING OILFIELD SERVICES LIMITED**

We report on the unaudited pro forma financial information of Termbray Petro-king Oilfield Services Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-2 under the heading of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and "Unaudited Pro Forma Estimated Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 22 February 2013 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at 30 September 2012 and the unaudited estimate profit attributable to owners

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

of the Company for the year ended 31 December 2012 with the accountant's report as set out in Appendix I to the Prospectus and the profit estimate as set out in the section headed "Financial Information" in the prospectus respectively, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the adjusted net tangible assets of the Group as at 30 September 2012 or any future date, or
- the earnings per share of the Group for the year ended 31 December 2012 or any future periods.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22 February 2013

The estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2012 is set out in the section headed “Financial information — Profit estimate for the year ended 31 December 2012” in this prospectus.

A. BASES

The Directors have prepared the estimate of the consolidated profit attributable to owners of the Company for the year ended 31 December 2012 (the “Profit Estimate”) on the basis of the audited consolidated results of the Group for the nine months ended 30 September 2012 and the unaudited consolidated results of the Group based on management accounts for the three months ended 31 December 2012. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in Note 2 of Section II in Appendix I to this prospectus.

B. LETTER FROM THE REPORTING ACCOUNTANT

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

22 February 2013

The Directors
Termbray Petro-king Oilfield Services Limited

CCB International Capital Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the estimate of the consolidated profit attributable to owners of Termbray Petro-king Oilfield Services Limited (the "Company") for the year ended 31 December 2012 (the "Profit Estimate") as set out in the subsection headed "Profit estimate" in the section headed "Financial information" in the prospectus of the Company dated 22 February 2013 (the "Prospectus").

We conducted our work in accordance with Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the nine months ended 30 September 2012 and the unaudited consolidated results of the Group based on management accounts for the three months ended 31 December 2012.

In our opinion, the Profit Estimate, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases made by the directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in Note 2 of section II of the Financial Information section in Appendix I of the Prospectus.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

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C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, we received from CCB International Capital Limited, the Sole Sponsor, in connection with the profit estimate of the Group for the year ended 31 December 2012.



22 February 2013

The Directors
Termbray Petro-king Oilfield Services Limited

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to owners of Termbray Petro-king Oilfield Services Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) for the year ended 31 December 2012 (the “**Profit Estimate**”) as set out in the prospectus issued by the Company dated 22 February 2013 (the “**Prospectus**”).

We understand that the Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the audited results of the Group for the nine months ended 30 September 2012 and the unaudited management accounts of the Group for the three months ended 31 December 2012.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Estimate has been made. We have also considered the letter dated 22 February 2013, addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Estimate has been based.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
CCB International Capital Limited
Lai Voon Wai
Managing Director, Corporate Finance

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of British Virgin Islands company law.

The Company was incorporated in the British Virgin Islands as a business company with limited liability on 7 September, 2007 under the BVI Business Companies Act, 2004, as amended (the “BVI Companies Act”). The Memorandum and the Articles, upon taking effect prior to the Listing Date, comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that subject to the BVI Companies Act and any other British Virgin Islands legislation, the Company has, irrespective of corporate benefit:
- a. full capacity to carry on or undertake any business or activity, do any act or enter into any transaction; and
 - b. for the purposes of paragraph (a), full rights, powers and privileges.
- (b) The Company is authorised by the Memorandum to issue a maximum of 10,000,000,000 shares with no par value.

2. ARTICLES OF ASSOCIATION

(a) Directors

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the BVI Companies Act and the Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by an amendment to the Memorandum determine. Subject to the BVI Companies Act, the Memorandum and the Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the BVI Companies Act and the Articles, where applicable, the rules of the Stock Exchange, and any direction that may be given by the Company in general meeting and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that where the Company has shares that carry a par value, no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

The Directors may sell, transfer, secure, exchange or otherwise dispose of the assets of the Company without authorisation by the members. The Directors may also exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the BVI Companies Act to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors which are comparable to the restrictions imposed by the Companies Ordinance.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the BVI Companies Act and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract, transactions, arrangement or proposal for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract, transaction, arrangement or proposal for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract, transaction, arrangement or proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

- (dd) any contract, transaction, arrangement or proposal in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company; or
- (ee) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the board in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Such remuneration shall be deemed to accrue from day to day.

The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees

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which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed by the board in the manner set out in the following paragraph shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

The members may, at any general meeting convened and held in accordance with the Articles, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

agreement) provided that notice of such general meeting must state that the purpose of the general meeting is, or the purposes of the general meeting include, the removal of a Director. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the board whereupon the board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the BVI Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

Note:

The rights of the Directors to exercise these powers may only be varied by amending the Articles.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Articles provide that the Company will maintain at its registered office a register of directors and officers which is not available for inspection by the public.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum (save for an amendment for purposes of altering the capital as described in (c) below which shall require an ordinary resolution only), to amend the Articles or to change the name of the Company. Under BVI law, an amendment to the Memorandum or Articles has effect from the date that the notice of amendment or restated memorandum or articles of association incorporating the amendment is registered by the BVI Registrar of Corporate Affairs.

(c) Alteration of capital

Subject to the Memorandum and these Articles, the Company may by ordinary resolution:

- (i) combine its shares, including issued shares, into a smaller number of shares; or
- (ii) sub-divide its shares, or any of them, into a greater number of shares,

provided that, where shares are divided or combined, the aggregate par value (if any) of the new shares must be equal to the aggregate par value (if any) of the original shares, and the Company shall not divide its shares if it would cause the maximum number of shares that the Company is authorised to issue to be exceeded.

The Company may by an amendment to the Memorandum divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions as may be determined by the Company provided always that where the Company

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

issues shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”.

(d) Variation of rights of existing shares or classes of shares

Subject to the BVI Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value or of the total number of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value or of the total number of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution - majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days’ notice and not less than ten (10) clear business days’ notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days’ notice and not less than ten (10) clear business days’ notice has been given.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND BVI COMPANY LAW

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting, a resolution put to the vote of a meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a clearing house (or its nominee(s)), being a corporation, is a member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of members provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company shall be held in each year other than the year of the Company's adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or not more than eighteen (18) months after the date of adoption of these Articles, unless a longer period would not infringe the rules of the Stock Exchange, if any) at such time and place as may be determined by the board.

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(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the BVI Companies Act and in accordance with the generally accepted accounting principles and practices in Hong Kong or as may be necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office of the Company or, at such other place or places as the board decides and shall always be open to inspection by the Directors. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditor's report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting held in accordance with the Articles provided that the Articles shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

Auditor shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the British Virgin Islands. If so, the financial statements and the report of the Auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case

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of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditor for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, if permitted by the rules of the Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value or of the total number of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of:

- (a) the declaration and sanctioning of dividends;
 - (b) consideration and adoption of the accounts and balance sheet and the reports of the Directors and Auditor and other documents required to be annexed to the balance sheet;
 - (c) the election of Directors whether by rotation or otherwise in the place of those retiring;
 - (d) appointment of Auditor (where special notice of the intention for such appointment is not required by the BVI Companies Act) and other officers;
 - (e) the fixing of the remuneration of the Auditor, and the voting of remuneration or extra remuneration to the Directors;
 - (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company representing not more than twenty per cent. (20%) in nominal value of its existing issued share capital; and
 - (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.
- (j) Transfer of shares**

Subject to the Articles, any member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Stock Exchange or in any other form approved by the board and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of

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execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. The board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers.

Unless the board otherwise agrees (which agreement may be on such terms and subject to such conditions as the board in its absolute discretion may from time to time determine, and which agreement the board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the register of members of the Company shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant office where the branch register of members is kept, and, in the case of any shares on the register of members, at the registered office of the Company or such other place at which the register is kept in accordance with the BVI Companies Act.

The board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four (4) joint holders or a transfer of any share issued for a promissory note or other binding obligation to contribute money or property or a contribution thereof to the Company on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share, the instrument of transfer is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do) or, if applicable, the instrument of transfer is duly and properly stamped.

The registration of transfers may be suspended and the register closed on giving notice by advertisement in the appointed newspaper or by other means as set out in the Articles, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

Subject to the BVI Companies Act, the Memorandum and the Articles, the Company shall have all the powers conferred upon it by the BVI Companies Act to purchase or otherwise acquire its own shares and such power shall be exercisable by the board in such manner, upon such terms and subject to such conditions as it thinks fit, including but not limited to, the purchase of shares at a price less than fair value.

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Shares that the Company purchases, redeems or otherwise acquires pursuant to the Articles may be cancelled or held as treasury shares provided that the number of shares purchased, redeemed or otherwise acquired when aggregated with shares already held as treasury shares may not exceed 50% of the shares of that class previously issued (excluding shares that have been cancelled).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Stock Exchange and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the BVI Companies Act, the Company in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The board may from time to time pay to the members such interim dividends as appear to the board to be justified by the profits of the Company. No dividends or distributions may be recommended, declared, made or paid unless the board is satisfied, on reasonable grounds, that immediately after the payment of the dividend or distribution, the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due and the resolution of the Board shall include a statement to that effect.

Except in so far as the rights attaching to, or the terms of issue of, any Share otherwise provide all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Whenever the board has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

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Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Forfeiture of shares

Where a share is not fully paid for on issue, the directors may, subject to the terms on which the share was issued, at any time serve upon the member a written notice of call specifying a date for payment to be made. Where a notice complying with the provisions of the Articles has been issued and the requirements of the notice have not been complied with, the directors by Resolution of Directors may, at any time before tender of payment forfeit and cancel the share to which the notice relates.

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When any Share has been forfeited, Notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidated by any omission or neglect to give such Notice.

The board may accept the surrender of any Share liable to be forfeited and, in such case, references in the Articles to forfeiture will include surrender.

A declaration by a Director or the Secretary that a Share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the Share, and such declaration shall (subject to the execution of an instrument of transfer by the Company if necessary) constitute a good title to the Share, and the person to whom the Share is disposed of shall be registered as the holder of the Share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the Share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the Share. When any Share shall have been forfeited, notice of the declaration shall be given to the member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.

Notwithstanding any such forfeiture as aforesaid, the board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as it thinks fit.

(p) Inspection of share register

Unless closed in accordance with the Articles, the Register and branch register of members, as the case may be, shall be open to inspection for at least two (2) hours during business hours by members without charge or by any other person, upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office of the Company or such other place at which the register of members is kept in accordance with the BVI Companies Act or, if appropriate, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board at the office where the branch register of members of the Company is kept. The register of members of the Company including any overseas or local or other branch register of members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of the Stock Exchange or by any electronic means in such manner as may be accepted by the Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the board may determine and either generally or in respect of any class of shares.

(q) Quorum for meetings and separate class meetings

No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. The absence of a quorum shall not preclude the appointment of a chairman. Save as otherwise provided by the Articles,

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two (2) members entitled to vote and present in person or by proxy or (in the case of a member being a corporation) by its duly authorised representative shall form a quorum for all purposes. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(r) Untraceable members

The Company may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. The Company shall have the power to sell, in such manner as the board thinks fit, any shares of a member who is untraceable, but no such sale shall be made unless (a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by these Articles have remained uncashed; (b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and (c) the Company, if so required by the rules governing the listing of shares on the Stock Exchange, has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Stock Exchange to be made of its intention to sell such shares in the manner required by the Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the “relevant period” means the period commencing twelve (12) years before the date of publication of the advertisement referred to in paragraph (c) above and ending at the expiry of the period referred to in that paragraph.

(s) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under BVI law, as summarised in paragraph 3(d) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding

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up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the BVI Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of properties to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

3. BRITISH VIRGIN ISLANDS COMPANY LAW

The Company is incorporated in the British Virgin Islands subject to the BVI Companies Act and, therefore, operates subject to British Virgin Islands law. Set out below is a summary of certain provisions of British Virgin Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of British Virgin Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share Capital

Under the BVI Companies Act there is no concept of authorised capital. Companies incorporated under the BVI Companies Act may be authorised to issue a specific number of shares or the company's memorandum of association may provide that the company is authorised to issue an unlimited number of shares. The BVI Companies Act also provides that, subject to the company's memorandum and articles of association, shares may be issued with or without a par value and in any currency. The BVI Companies Act also permits the company to issue fractional shares.

Shares issued by the company will be the personal property of the shareholders and confer on the holder of a share:

- (i) the right to one vote at a meeting of the members of the company or on any resolution of the members of the company;
- (ii) the right to an equal share in any dividend paid in accordance with the BVI Companies Act; and

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(iii) the right to an equal share in the distribution of the surplus assets of the company.

Subject to any limitations or provisions to the contrary in the company's memorandum or articles of association, unissued shares and treasury shares of the company are at the disposal of the directors who may, without limiting or affecting any rights previously conferred on the holders of any existing shares or class or series of shares, offer, allot or otherwise dispose of shares to such persons, at such times and upon such terms as the company may by resolution of directors determine.

Similarly, subject to the company's memorandum and articles of association, options to acquire shares in the company may be granted at any time, to any person and for such consideration as the directors may determine.

Subject to the company's memorandum and articles of association, a company may issue shares which are partly paid or nil-paid. Shares may also be issued for consideration in any form, including money, a promissory note, real property, personal property (including goodwill and know-how), services rendered or the provision of future services.

Subject to the company's memorandum and articles of association, a company may issue shares with or without voting rights or with different voting rights; common, preferred, limited or redeemable shares; options warrants or similar rights to acquire any securities of the company; and securities convertible into or exchangeable for other securities or property of a company.

Subject to its memorandum and articles of association, a company may issue more than one class of shares. A statement of the classes of shares that the company is authorised to issue and, if the company is authorised to issue two or more classes of shares, the rights, privileges, restrictions and conditions attaching to each class of shares must be included in the company's memorandum of association. Subject to its memorandum and articles, a company may issue a class of shares in one or more series.

(b) Financial assistance to purchase shares of a company or its holding company

Subject to the BVI Companies Act, any other enactment and the company's memorandum and articles of association, a company has, *irrespective of corporate benefit* full capacity to carry on or undertake any business or activity, do any act or enter into any transaction including, among other things, the giving of financial assistance to any person in connection with the acquisition of its own shares.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may purchase, redeem or otherwise acquire its own shares in accordance with either the procedures set out in Sections 60, 61 and 62 of the BVI Companies Act or such other provisions for the purchase, redemption or acquisition of its own shares as may be specified in its memorandum and articles. Sections 60, 61 and 62 do not apply to a company to the extent that they are negated, modified or inconsistent with provisions for the purchase, redemption or acquisition of its own shares specified in the company's memorandum and articles. The Articles expressly provide that such provisions shall not apply to the Company.

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Subject to its memorandum or articles of association, a company may purchase, redeem or otherwise acquire its own shares. The acquired shares may be cancelled or held as treasury shares. However, no such acquisition will be permitted unless the directors determine that immediately after the acquisition (i) the value of the company's assets will exceed its liabilities and (ii) the company will be able to pay its debts as they fall due. A determination by the directors is, however, not required:

- (a) where shares are purchased, redeemed; or otherwise acquired pursuant to a right of a member to have his shares redeemed or to have his shares exchanged for money or other property of the company;
- (b) by virtue of the provisions of the BVI Companies Act in relation to the rights of dissenters under a redemption of minority shareholders, merger, consolidation, a disposition of assets, a compulsory redemption or an arrangement; or
- (c) pursuant to an order of the BVI court.

A company may hold shares that have been purchased, redeemed or otherwise acquired as treasury shares if (a) the memorandum or articles of the company do not prohibit it from holding treasury shares; (b) the directors resolve that shares to be purchased, redeemed or otherwise acquired shall be held as treasury shares; and (c) the number of shares purchased, redeemed or otherwise acquired, when aggregated with shares of the same class already held by the company as treasury shares, does not exceed 50% of the shares of that class previously issued by the company, excluding shares that have been cancelled.

All the rights and obligations attaching to a treasury share are suspended and shall not be exercised by or against the company while it holds the share as a treasury share. Treasury shares may be transferred by the company and the provisions of the BVI Companies Act, the memorandum and articles that apply to the issue of shares apply to the transfer of treasury shares.

Under BVI law, a subsidiary may hold shares in its holding company.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under BVI law that a company's memorandum or articles contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association.

(d) Protection of Minorities

The BVI Companies Act contains various mechanism to protect minority shareholders, including:

- (i) **Restraining or Compliance Orders:** if a company or a director of a company engages in, proposes to engage in or has engaged in, conduct that contravenes the BVI Companies Act or the company's memorandum and articles of association, the court may, on the application

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of a member or a director of the company, make an order directing the company or its director to comply with, or restraining the company or director from engaging in conduct that contravenes, the BVI Companies Act or the company's memorandum and articles of association;

(ii) **Derivative Actions:** the court may, on the application of a member of a company, grant leave to that member to:

(aa) bring proceedings in the name and on behalf of that company; or

(bb) intervene in proceedings to which the company is a party for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company; and

(iii) **Unfair Prejudice Remedies:** a member of a company who considers that the affairs of the company have been, are being or are likely to be, conducted in a manner that is, or any acts of the company have been, or are, likely to be oppressive, unfairly discriminatory, or unfairly prejudicial to him, may apply to the court for an order and, if the court considers that it is just and equitable to do so, it may make such order as it thinks fit, including, without limitation, one or more of the following orders:

(aa) in the case of a shareholder, requiring the company or any other person to acquire the shareholder's shares;

(bb) requiring the company or any other person to pay compensation to the member;

(cc) regulating the future conduct of the company's affairs;

(dd) amending the memorandum or articles of association of the company;

(ee) appointing a receiver of the company;

(ff) appointing a liquidator of the company under section 159(1) of the Insolvency Act;

(gg) directing the rectification of the records of the company; and

(hh) setting aside any decision made or action taken by the company or its directors in breach of the BVI Companies Act or the company's memorandum and articles of association.

(iv) **Representative Actions:** a member is able to bring an action against the company for a breach of a duty owed by the company to member in his capacity as a member. Where a member brings such an action and other members have the same (or substantially the same) action against the company, the court may appoint the first member to represent all or some of the members having the same interest and may make an order:

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- (aa) as to the control and conduct of the proceedings;
- (bb) as to the costs of the proceedings; and
- (cc) directing the distribution of any amount ordered to be paid by a defendant in the proceedings among the members represented.

The BVI Companies Act provides that any member of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following:

- (i) a merger;
- (ii) a consolidation;
- (iii) any sale, transfer, lease, exchange or other disposition of more than 50% of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including:
 - (aa) a disposition pursuant to an order of the court having jurisdiction in the matter;
 - (bb) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the members in accordance with their respective interests within one (1) year after the date of disposition; or
 - (cc) a transfer pursuant to the power of the directors to transfer assets for the protection thereof;
- (iv) a redemption of 10% or less of the issued shares of the company required by the holders of 90% or more of the shares of the company pursuant to the terms of the BVI Companies Act; and
- (v) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the BVI or their individual rights as shareholders as established by the company's memorandum and articles of association.

(e) Dividends and distributions

A company may declare and make a distribution (which term includes a dividend), provided that the directors are satisfied that immediately after the payment of the dividend, (i) the value of the company's assets will exceed its liabilities and (ii) the company will be able to pay its debts as they fall due.

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A distribution may be a direct or indirect transfer of an asset (other than the company's own shares) or the incurring of a debt for the benefit of a member.

(f) Management

Subject to its memorandum and articles of association, the business and affairs of a company shall be managed by, or under the direction or supervision of, the directors of the company and the directors shall have all the powers necessary for managing, and for directing and supervising, the business and affairs of the company. The number of directors of a company may be fixed by, or in the manner provided in, the articles of association of a company.

The BVI Companies Act provides that, subject to any limitations or provisions to the contrary in its memorandum and articles of association, any sale, transfer, lease, exchange or other disposition, other than a mortgage, charge or other encumbrance of the enforcement thereof, of more than 50% of the assets of a company, if not made in the usual or regular course of business carried on by the company, must be approved by a resolution of members. The Articles expressly provide that notwithstanding the foregoing requirement of the BVI Companies Act, the directors may dispose assets of the Company without the disposition being authorised by the members at a general meeting.

The BVI Companies Act contains no other specific restrictions on the power of directors to dispose of assets of a company.

The BVI Companies Act contains a statutory code of directors' duties. Each director of a company, in performing his functions, must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Amendment of Constitutional Document

The members of a company may, by resolution, amend the memorandum or articles of association of the company. The memorandum of a company may include a provision:

- (i) that specified provisions of the memorandum or articles of association may not be amended;
- (ii) that a resolution passed by a specified majority of members, greater than 50%, is required to amend the memorandum or articles of association or specified provisions of the memorandum or articles of association; and
- (iii) that the memorandum or articles of association, or specified provisions of the memorandum or articles of association, may be amended only if certain specified conditions are met.

The memorandum of association of a company may authorise the directors, by resolution, to amend the memorandum or articles of association of the company.

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Where a resolution is passed to amend the memorandum or articles of association of a company, the company must file for registration:

- (i) a notice of amendment in the approved form; or
- (ii) a restated memorandum or articles incorporating the amendment made.

An amendment to the memorandum or articles of association has effect from the date that the notice of amendment, or restated memorandum or articles of association incorporating the amendment, is registered by the BVI Registrar of Corporate Affairs or from such other date as may be ordered by the court.

(h) Accounting requirements

A company must keep such accounts and records as are sufficient to show and explain the company's transactions and which will, at any time, enable the financial position of the company to be determined with reasonable accuracy. There is generally no obligation to have financial statement audited, unless the company is operating as a certain type of fund regulated by the Mutual Funds Act, 1996.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the BVI.

(j) Loans to and transactions with directors

There is no express provision in the BVI Companies Act prohibiting the making of loans by a company to any of its directors.

A director of a company shall, immediately after becoming aware of the fact that he is interested in a transaction entered into or to be entered into by the company, disclose the interest to the board of the company. If a director fails to make such a disclosure, he is liable, upon summary conviction, to a fine of US\$10,000.

A director of a company is not required to disclose an interest if:

- (i) the transaction or proposed transaction is between the director and the company; and
- (ii) the transaction or proposed transaction is or is to be entered into in the ordinary course of the company's business and on usual terms and conditions.

A disclosure to the board to the effect that a director is a member, director, officer or trustee of another named company or other person and is to be regarded as interested in any transaction which

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may, after the date of the entry or disclosure, be entered into with that company or person, is a sufficient disclosure of interest in relation to that transaction. It should be noted, however, that a disclosure is not made to the board unless it is made or brought to the attention of every director on the board.

(k) Taxation in the BVI

A company incorporated under the BVI Companies Act is exempt from all provisions of the Income Tax Act (as amended) of the BVI (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the company to persons who are not persons resident in the BVI).

Capital gains realised with respect to any shares, debt obligations or other securities of a company by persons who are not persons resident in the BVI are also exempt from all provisions of the Income Tax Act of the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligations or other securities of the company, save for interest payable to or for the benefit of an individual resident in the European Union.

(l) Stamp duty on transfer

No stamp duty is payable in the BVI on a transfer of shares in a BVI company.

(m) Inspection of corporate records

Members of the general public, on a payment of a nominal fee, can inspect the public records of a company available at the office of the BVI Registrar of Corporate Affairs which will include, *inter alia*, the company's certificate of incorporation, its memorandum and articles of association (with any amendments) and the records of licence fees paid to date.

A director may, on giving reasonable notice, inspect (and make copies of) the documents and records of a company without charge and at a reasonable time specified by the director.

A member of a company may, on giving written notice to a company, inspect the company's memorandum and articles of association, the register of members, the register of directors and the minutes of meetings and resolutions of members and of those classes of members of which he is a member.

Subject to any provision to the contrary in the company's memorandum and articles of association, the directors may, if they are satisfied that it would be contrary to the company's interests to allow a member to inspect any document, or part of a document, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records. The directors shall, as soon as reasonably practicable, notify

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a member of any exercise of such powers. Where a company fails or refuses to permit a member to inspect a document or permits a member to inspect a document subject to limitations, that member may apply to the BVI court for an order that he should be permitted to inspect the document or to inspect the document without limitation.

A company shall keep minutes of all meetings of directors, members, committees of directors and committees of members and copies of all resolutions consented to by directors, members, committees of directors and committees of members. The books, records and minutes required by the BVI Companies Act shall be kept at the office of the BVI registered agent of the company or at such other place as the directors determine.

A company is required to keep a register of members containing, *inter alia*, the names and addresses of the persons who hold registered shares in the company, the number of each class and series of registered shares held by each shareholder, the date on which the name of each member was entered in the register of members and the date on which any person ceased to be a member. The register of members may be in any form as the directors may approve but, if it is in magnetic, electronic or other data storage form, the company must be able to produce legible evidence of its contents and a copy of the share register commencing from the date of registration of the company shall be kept at the registered office of the company. The entry of the name of a person in the register of members as a holder of a share in a company is *prima facie* evidence that legal title in the shares vests in that person. Where a company keeps a copy of the register of members at its registered office, it shall within 15 days of any change in the register, notify the BVI registered agent of the company, in writing, of the change, and provide the BVI registered agent of the company with a written record of the physical address of the place or places at which the original register of members is kept.

A company is required to keep a register to be known as a register of directors containing, *inter alia*, the names and addresses of the persons who are directors and the date on which each person whose name is entered on the register was appointed and ceased to be a director. The register of directors may be in such form as the directors approve, but if it is in magnetic, electronic or other data storage form, the company must be able to produce legible evidence of its contents. A copy of the register of directors must be kept at the registered office and the register is *prima facie* evidence of any matters directed or authorised by the BVI Companies Act to be contained therein.

(n) Winding up

The court has authority under the Insolvency Act 2003 of the BVI to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

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A company may enter into voluntary liquidation under the BVI Companies Act if it has no liabilities or is able to pay its debts as they fall due and the value of its assets equals or exceeds its liabilities. Where it is proposed to appoint a voluntary liquidator, the directors of the company must:

- (i) make a declaration of solvency in the approved form stating that, in their opinion, the company is and will continue to be able to discharge, pay or provide for its debts as they fall due; and the value of the company's assets equals or exceeds its liabilities; and
- (ii) approve a liquidation plan specifying:
 - (aa) the reasons for the liquidation of the company;
 - (bb) their estimate of the time required to liquidate the company;
 - (cc) whether the liquidator is authorised to carry on the business of the company if he determines that to do so would be necessary or in the best interests of the creditors or members of the company;
 - (dd) the name and address of each individual to be appointed as liquidator and the remuneration proposed to be paid to each liquidator; and
 - (ee) whether the liquidator is required to send to all members a statement of account prepared or caused to be prepared by the liquidator in respect of his actions or transactions.

Subject to certain exceptions in the BVI Companies Act, a declaration of solvency is insufficient for the purposes of voluntary liquidation unless:

- (aa) it is made on a date no more than four weeks earlier than the date of the resolution to appoint a voluntary liquidator; and
- (bb) it has attached to it a statement of the company's assets and liabilities as at the latest practical date before the making of the declaration.

To be effective, a liquidation plan must be approved by the directors no more than six weeks prior to the date of the resolution to appoint a voluntary liquidator.

A director making a declaration of solvency without having reasonable grounds for the opinion that the company is and will continue to be able to discharge, pay or provide for its debts in full as they fall due, commits an offence and is liable on summary conviction to a fine of \$10,000.

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Subject to the provisions of the BVI Companies Act, a voluntary liquidator or two or more joint voluntary liquidators may be appointed in respect of a company:

- (i) by a resolution of the directors; or
- (ii) by a resolution of the members.

(i) Reconstructions

There are statutory provisions which facilitate arrangements which involve a plan of arrangement being approved by a resolution of directors of the company and application being made to the court for approval of the proposed arrangement. Upon approval by the court, the directors of the company are required to approve the plan of arrangement as approved by the court whether or not the court has directed any amendments to be made thereto and give notice to the persons whom the court requires notice to be given or submit the plan of arrangement to those person for such approval, if any, as the court order required.

(j) Compulsory acquisition

Subject to any limitations in the memorandum or articles of association of a company, members holding 90% of the votes of the outstanding shares entitled to vote on a merger or consolidation may give a written instruction to a company directing the company to redeem the shares held by the remaining members. Upon receipt of the written instruction, the company is required to redeem the shares and give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected.

(k) Indemnification

BVI law does not limit the extent to which a company's articles of association may provide for indemnification of directors, officers and any other person, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime.) provided that the indemnified person acted honestly and in good faith and in what he believed to be in the best interests of the company and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on BVI law, have sent to the Company a letter of advice summarising certain aspects of BVI company law. This letter, together with a copy of the BVI Companies Act, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VI. Any person wishing to have a detailed summary of BVI company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the BVI with limited liability on 7 September 2007 to act as the holding vehicle of Petro-king Hong Kong for the purpose of the Termbray Investment. Our Company was formerly known as “Termbray Oilfield Services (BVI) Ltd. (添利油田服務(英屬維爾京群島)有限公司)” and its name was changed to “Termbray Petro-king Oilfield Services (BVI) Limited (添利百勤油田服務(英屬維爾京群島)有限公司)” on 13 March 2008 and was changed to “Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司)” on 9 August 2012. The Company is the listing vehicle and the ultimate holding vehicle of the Group’s various arms of business. Our registered office is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110. We have been registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company and our principal place of business in Hong Kong is at Office No. 504, 5th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Wang Jinlong has been appointed as our authorised representative for the acceptance of service for process and any notice required to be served on our Company in Hong Kong. The address for service of process on our Company in Hong Kong is the residential address of Mr. Wang Jinlong at Flat A, 4th Floor, Tak On Mansions, 5 Pine Street, Tai Kok Tsui, Kowloon, Hong Kong.

As we were incorporated in the BVI, our corporate structure, our Memorandum and Articles of Association are subject to the relevant laws and regulations of the BVI. A summary of the relevant provisions of our Memorandum of and Articles of Association and certain aspects of the Companies Act are set out in the section headed “Summary of the constitution of the Company and BVI company law” in Appendix IV to this prospectus.

2. Changes in share capital of our Company

As the date of incorporation, the maximum authorised number of shares of the Company was 50,000 no par value shares of a single class and series.

On 10 September 2007, Termbray Natural Resources was allotted and issued 100 Shares for a consideration of US\$100 and became the sole shareholder of the Company.

On 31 December 2007, pursuant to the Termbray Investment, the Company allotted and issued 98 Shares and two Shares to King Shine and Termbray Natural Resources respectively, for a consideration of HK\$764.4 and US\$2 respectively.

On 20 October 2010, the Company issued 4,488 Shares and 4,312 Shares to Termbray Natural Resources and King Shine, respectively, for capitalisation of shareholders’ loans of HK\$146,011,698 and HK\$140,285,750 owing by the Company to Termbray Natural Resources and King Shine, respectively. On the same date immediately after the capitalisation of the shareholders’ loans, pursuant to the TCL Investment, the Company allotted and issued 1,000 Shares to TCL HK for a consideration of US dollar equivalent of RMB88.8 million.

On 24 March 2011, written resolutions of all the Shareholders of our Company were passed to amend the memorandum of association of the Company regarding, inter alia, the alteration of the issued shares of the Company from a single class of shares with no par value to Voting Shares with no par value and Non-Voting Shares with no par value. The maximum authorised number of issued shares of the Company was 50,000 no par value Shares comprising 42,000 Voting Shares with no par value and 8,000 Non-Voting Shares with no par value. The Voting Shares are ordinary shares with no par value with ordinary rights and obligations attached to them, including among other things, rights as to voting, dividends and other distributions. The Non-Voting Shares rank *pari passu* in all respects with the Voting Shares save and except that holders of the Non-Voting Shares do not have any voting rights and the right to any dividend must be paid by the Company out of its distributable profit.

On 21 June 2012, pursuant to a subscription and sale and purchase of shares agreement dated 24 January 2011 (as amended on 21 June 2012) entered into between Sheraton Investment, Natural Peak, the Company and Mr. Albert Wong (the “Sheraton Agreement”), the Company agreed to purchase and subscribe for up to 55% interest in the Sheraton Group, and as part of the consideration, the Company (i) allotted and issued 102 Voting Shares to Natural Peak and (ii) may allot and issue up to such number of Shares or Voting Shares (as the case may be depending on the time of completion of the relevant transaction with reference to the Amendment of Memorandum) to the extent that the total interest in the Company held by Natural Peak under the Sheraton Agreement shall not exceed 10% of the issued shares to the Company at all times.

On 29 June 2012, written resolutions of all the Directors of our Company were passed to approve, confirm and ratify (i) that the 100 Shares and 2 Shares issued to Termbray Natural Resources on 10 September 2007 and 31 December 2007 respectively should be an aggregate of 102 Voting Shares with no par value and the 98 Shares issued to King Shine on 31 December 2007 should be 98 Voting Shares with no par value and (ii) the Share issued to TCL HK, Termbray Natural Resources and King Shine under TCL Investment should be 1,000 Voting Shares with no par value, 4,488 Voting Shares with no par value and 4,312 Voting Shares with no par value.

Pursuant to the written resolutions of all the Shareholders passed on 7 February 2013, the memorandum of association of the Company was amended to increase the maximum number of directors of the Company to 10.

On 18 February, 2013, written resolutions of all the Shareholders were passed to amend the memorandum of association of the Company to change the maximum number of shares the Company is authorised to issue from 50,000 no par value Shares comprising 42,000 Voting Shares with no par value and 8,000 Non-Voting Shares with no par value to 10,000,000,000 no par value Shares of a single class. Upon such change taking effect prior to the Listing Date the shareholdings of Termbray Natural Resources, King Shine, Jade Win Investment Limited and Natural Peak will remain unchanged i.e. 4,590 Shares with no par value, 4,410 Shares with no par value, 1,000 Shares with no par value and 102 Shares with no par value respectively.

Assuming that the Global Offering and the Capitalisation Issue become unconditional and the issue of 999,989,898 Shares pursuant thereto is made but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Options and options which have been granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, the number of issued shares of the Company immediately following the Global Offering and the Capitalisation Issue will be 1,000,000,000, fully paid or credited as fully paid, respectively, with 9,000,000,000 Shares remaining unissued.

Other than pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Pre-IPO Share Option Scheme or Share Option Scheme below and in accordance with the terms of the Sheraton Agreement, the Company does not have any present intention to issue any part of the authorised but unissued shares of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid and as mentioned in the paragraphs headed “Resolutions of all the Shareholders passed on 18 February 2013” below, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Resolutions of all the Shareholders passed on 18 February 2013

On 18 February 2013, written resolutions of all the Shareholders of our Company, pursuant to which, among other matters:

- (a) our Company approved and adopted the Memorandum and the Articles of Association and authorised their filing with the Registrar of Corporate Affairs in the BVI and thereby give effect to the same upon filing;
- (b) conditional on the Global Offering taking place, the Directors were authorised to capitalise an amount of HK\$100 from the amount standing to the credit of any reserve accounts of the Company and that the said sum be applied in paying up in full 749,989,898 Shares, such Shares to be allotted and issued, credit as fully paid to the Shareholders appearing on the register of members of the Company at the close of business on the date of this prospectus (or such holders may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in the Company and so that such Shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued shares;
- (c) conditional on (i) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares which may be issued pursuant to the the Capitalisation Issue and pursuant to the exercise of the Over-allocation Option, and the exercise of the options which were granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any

condition(s)) by the Sole Global Coordinator acting for itself and on behalf of the Underwriters and not being terminated in accordance with the terms of such agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (i) the Global Offering and the Over-allotment Option were approved and that the Directors were authorised to effect the same and allot and issue the Offer Shares pursuant to the Global Offering and the Over-allotment Option on and subject to the terms and conditions stated in this prospectus;
- (ii) the rules of the Share Option Scheme (the principal of which are set out in the paragraph headed “IPO Share Option Scheme” in this Appendix V) was approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;
- (iii) the rules of the Pre-IPO Share Option Scheme (the principal of which are set out in the paragraph headed “Pre-IPO Share Option Scheme” in this Appendix V) was terminated and that no further options will be offered but in all respects the provisions of the Pre-IPO Share Option Scheme in relation to any outstanding options shall remain in full force and effect;
- (d) a general unconditional mandate was given to the Directors to exercise all the powers of our Company to allot, issue and deal with Shares and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible into Shares) and to allot and issue such number of Shares pursuant to a subscription and sale and purchase of shares agreement dated 24 January 2011 (as amended on 21 June 2012) entered into among the Company, Sheraton Investment, Natural Peak and Mr. Albert Wong, which might require the exercise of such power being generally and unconditionally approved, otherwise than by way of (i) Rights Issue (as hereinafter defined) or (ii) an issue of Shares upon the exercise of options that have been granted under the Pre-IPO Share Option Scheme or may be granted pursuant to the Share Option Scheme or under any option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of Shares or rights to acquire Shares or (iii) any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or (iv) a specific authority granted by the Shareholders in general meeting, shall not exceed 20% of the aggregate number of the shares of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may

be issued upon exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;
 - (2) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the BVI or the Articles of Association to be held; or
 - (3) the passing of an ordinary resolution of the Shareholders of our Company in general meeting revoking, varying or renewing such mandate given to the Directors;
- (e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares not exceeding 10% of the aggregate number of the shares of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account of any Shares which may be issued pursuant to exercise of the Over-allotment Option and any Shares which may be issued upon exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
- (1) the conclusion of the next annual general meeting of our Company;
 - (2) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the BVI or the Articles of Association to be held; or
 - (3) the passing of an ordinary resolution of the Shareholders of our Company in general meeting revoking, varying or renewing such mandate given to the Directors; and
- (f) the general unconditional mandate granted to the Directors as mentioned in paragraph (e) above was extended by the addition to the aggregate number of the Shares which may be allotted or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to such general mandate of an amount representing the aggregate number of the Shares of our Company repurchased by our Company pursuant to or in accordance with the authority granted as mentioned in paragraph (f) above provided that such extended amount shall not exceed 10% of the aggregate of the total number of the shares of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued upon exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme.

For the purpose of paragraph (d) above, “Rights Issue” means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for Shares, open for a period fixed by the Directors to holders of Shares whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such Shares (or, where appropriate, such other securities) (subject in all cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).

4. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the Accountant’s Report set out in Appendix I to this prospectus as well as the section headed “Statutory and general information — B. Further information about our Business — 2. Our subsidiaries” in Appendix V to this prospectus. Save as disclosed below, there has been no alteration in the share or registered capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus:

(a) ***Turbodrill SG***

On 1 September 2011, Petro-king Hong Kong was allotted and issued one ordinary share in Turbodrill SG at par for a consideration of US\$1 and the issued share capital of Turbodrill SG was US\$1 divided into 1 share of US\$1.

(b) ***Sun Oil***

On 8 April 2011, Sun Oil was established in Shenzhen with a registered capital of US\$1,000,000 and was wholly-owned by H-Star Petrotech. H-Star Petrotech made contributions of US\$150,075, US\$34,970, US\$399,975, US\$99,975 and US\$99,975 towards the registered capital of Sun Oil on 25 July 2011, 2 September 2011, 27 December 2011, 18 April 2012 and 22 August 2012, respectively. After such contributions, H-Star Petrotech paid up US\$784,970 of the registered capital.

(c) ***Shenzhen FST***

On 20 April 2012, the registered capital of Shenzhen FST was increased from RMB3,500,000 to RMB10,000,000, contributed by its shareholders according to their respective equity interest in Shenzhen FST.

(d) ***Petro-king South America***

Petro-king South America was incorporated in the BVI on 16 March 2012 and on the same date, Petro-king Hong Kong was allotted and issued 50,000 shares of US\$1 in Petro-king South America at par for a consideration of US\$50,000.

On 3 April 2012, Petro-king Hong Kong was further allotted and issued 950,000 shares of US\$1 in Petro-king South America at par for a consideration of US\$950,000.

(e) *Petro-king Venezuela*

Petro-king Venezuela was incorporated in Venezuela on 17 September 2012 and on the same date, Petro-king South America and Mr. Guo Wei (郭偉) were allotted and issued 999,999 shares and one share in Petro-king Venezuela at par for a consideration of Bs 4,299,995.7 (equivalent to HK\$5,304,923) and Bs 4.3 (equivalent to HK\$5.30), respectively. Mr. Guo Wei holds one share on behalf of Petro-king South America.

(f) *Huizhou FST*

On 14 August 2012, Huizhou FST was established in Huizhou, Guangdong province, PRC with a registered capital of RMB10,000,000, which was fully contributed by Shenzhen FST. Huizhou FST is wholly-owned by Shenzhen FST.

(g) *Petro-king Huizhou*

On 21 September 2012, Petro-king Huizhou was established in Huizhou, Guangdong province, PRC with a registered capital of US\$5,000,000 of which US\$1,599,980 has been and the rest will be contributed by Petro-king Hong Kong. Petro-king Huizhou is wholly-owned by Petro-king Hong Kong.

5. Repurchase by our Company of its own securities

This section includes information relating to the repurchase of the Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

On 18 February 2013, the Directors were granted a general unconditional mandate (the “**Repurchase Mandate**”) to repurchase Shares up to 10% of the total number of Shares in issue or to be issued immediately following the completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of

the next annual general meeting of the Company, (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association and applicable law to be held, or (iii) such mandate being revoked, varied or renewed by resolutions of the Shareholders in a general meeting.

(ii) *Source of Funds*

Any repurchase of the Shares listed on the Stock Exchange must be paid out of funds legally available for such purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws of the BVI and any other laws and regulations applicable to the Company. The Company is not permitted to repurchase Shares on the Stock Exchange for a consideration other than cash or for the settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by the Company must be fully-paid up.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interest of our Company and our Shareholders as a whole for the Directors to have general authority from our Shareholders to enable our Company to repurchase the Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) *Funding of repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules, and the applicable laws of BVI and any other laws and resolutions applicable to the Company.

On the basis of the Company's current financial position as disclosed in this prospectus and taking in to account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercise in full, it might have a material effect on the Company's working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent that would, in the circumstances, have a material adverse effect on the Company's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for the Company.

The exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the listing of the Shares on the Stock Exchange, would result in up to 100,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum and the Articles of Association, the Companies Act, any applicable laws of the BVI and any applicable laws and regulations to the Company.

If, as a result of any repurchase of the Shares pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert, depending on the level of increase in the interest of the relevant shareholder(s) could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified our Company that he/she has a present intention to sell the Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

No repurchase of Shares has been made since the incorporation of the Company.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or our subsidiaries within the two years preceding the date of this prospectus which are or may be material:

- (a) an equity transfer agreement dated 31 May 2011 entered into between Petro-king Shenzhen, Ms. Chen Hongli (陳紅利) and Mr. He Jianhui (何建輝) (as guarantor) (the “**Equity Transfer Agreement**”), pursuant to which Petro-king Shenzhen acquired 60% of the equity interests in Shenzhen FST from Ms. Chen Hongli (陳紅利) for a consideration of RMB50,400,000;
- (b) a share transfer form dated 15 July 2011 executed by Natural Peak (as transferor) and Hero Gain Investments Limited (as transferee) for the transfer of 55 shares in Sheraton Investment for a consideration of HK\$1.00;

- (c) a supplemental agreement dated 15 August 2011 and a supplemental agreement dated 1 July 2012 entered into between Petro-king Shenzhen, Ms. Chen Hongli (陳紅利) and Mr. He Jianhui (何建輝) (as guarantor), as supplemental to the Equity Transfer Agreement, in relation to the deferral of payment of consideration under the Equity Transfer Agreement;
- (d) a loan agreement dated 17 August 2011 entered into among Petro-king Hong Kong, Ms. Chen Hongli (陳紅利) and Mr. He Jianhui (何建輝), pursuant to which Petro-king Hong Kong granted a non-interest bearing loan in the amount of US\$3,127,443.32 to Ms. Chen Hongli, such amount is equivalent to the second instalment payment of the consideration under the Equity Transfer Agreement;
- (e) a guarantee dated 19 September 2011 entered into between Petro-king Hong Kong and Mr. Albert Wong, pursuant to which Mr. Albert Wong shall guarantee 49% of the payment obligations of Sheraton Investment under a loan agreement dated 12 September 2011 entered into between Petro-king Hong Kong (as lender) and Sheraton Investment (as borrower) in respect of a loan amount of US\$1,000,000 at an interest rate of 6% per annum as supplemented by a supplemental agreement dated 19 October 2012 entered into among Petro-king Hong Kong, Sheraton Investment and Mr. Albert Wong in relation to the extension of the payment date of the loan;
- (f) a patent rights transfer agreement dated 22 March 2012 entered into between Shenzhen FST and Mr. He Jianhui (何建輝), pursuant to which Mr. He Jianhui (何建輝) agreed to transfer Shenzhen FST, the rights to use patent bearing registration number ZL201120035812.1 for nil consideration;
- (g) a patent rights transfer agreement dated 22 March 2012 entered into between Shenzhen FST and Mr. He Jianhui (何建輝), pursuant to which Mr. He Jianhui (何建輝) agreed to transfer Shenzhen FST, the rights to use patent bearing registration number ZL201120035811.7 for nil consideration;
- (h) a supplemental agreement dated 21 June 2012 entered into among Sheraton Investment, Natural Peak, the Company and Mr. Albert Wong in relation to amendments made to certain provisions of the subscription and sale and purchase agreement dated 24 January 2011 entered into among the same parties, pursuant to which the Company agreed to purchase and subscribe for up to 55% interest in the Sheraton Group, comprising (i) subscription of 400 new shares in Sheraton Investment for a consideration of SGD488,888 and (ii) purchase of an aggregate of 150 shares in Sheraton Investment in three tranches in consideration of the Company issuing new Shares which shall not exceed 10% of the issued shares of the Company at all times;
- (i) an instrument of transfer dated 21 June 2012 executed by Natural Peak (as transferor) and Hero Gain Investments Limited (as transferee) for the transfer of 55 shares in Sheraton Investment in consideration of the allotment and issue of 102 Voting Shares to Natural Peak;

- (j) a second supplemental agreement dated 29 June 2012 entered into among the Company, TCL HK, King Shine and Termbray Natural Resources in relation to amendments made to certain provisions of the subscription agreement dated 3 September 2010 (as supplemented by a supplemental agreement dated 28 September 2010) entered into among the same parties, pursuant to which TCL HK subscribed for 1,000 Shares for a consideration of US dollar equivalent of RMB88.8 million;
- (k) a sale and purchase agreement dated 9 November 2012 entered into between Petro-king International and Yang Yingwei, pursuant to which Petro-king International agreed to sell and Yang Yingwei agreed to purchase 220,000 shares in Top Select, being the entire issued share capital of Top Select, for a consideration of HK\$4,280,000;
- (l) an instrument of transfer dated 9 November 2012 executed by Petro-king International (as transferor) and Yang Yingwei (as transferee) for the transfer of 220,000 shares of US\$1 each in Top Select for a consideration of HK\$4,280,000;
- (m) a set of bought and sold notes dated 9 November 2012 executed by Petro-king International (as transferor) and Yang Yingwei (as transferee) for the transfer of 220,000 shares of US\$1 each in Top Select for a consideration of HK\$4,280,000;
- (n) a cornerstone placing agreement dated 19 February 2013 entered into among Golden Prosperity Development Limited, the Company and the Joint Lead Managers, pursuant to which Golden Prosperity Development Limited agreed to subscribe for the Shares in the amount of Hong Kong dollars equivalent US dollars 2 million;
- (o) a cornerstone placing agreement dated 19 February 2013 entered into among Minmetals Capital (Hong Kong) Limited, the Company and the Joint Lead Managers, pursuant to which Minmetals Capital (Hong Kong) Limited agreed to subscribe for the Shares in the amount of Hong Kong dollars equivalent US dollars 10 million;
- (p) a cornerstone placing agreement dated 19 February 2013 entered into among Clarion Valley Capital Ltd, the Company and the Joint Lead Managers, pursuant to which Clarion Valley Capital Ltd agreed to subscribe for the Shares in the amount of Hong Kong dollars equivalent US dollars 4 million;
- (q) a cornerstone placing agreement dated 19 February 2013 entered into among Value Partners Hong Kong Limited, the Company and the Joint Lead Managers, pursuant to which Value Partners Hong Kong Limited agreed to subscribe for the Shares in the amount of Hong Kong dollars equivalent US dollars 10 million;
- (r) a cornerstone placing agreement dated 19 February 2013 entered into among CSOF Inno Investments Limited, Everbright Inno Investments Limited, the Company and the Joint Lead Managers, pursuant to which CSOF Inno Investments Limited and Everbright Inno Investments Limited agreed to subscribe for the Shares in the amount of Hong Kong dollars equivalent US dollars 6,067,669 and US dollars 2,932,331 respectively;

- (s) the Deed of Non-competition;
- (t) the Deed of Indemnity; and
- (u) the Hong Kong Underwriting Agreement.

2. Our Subsidiaries

As at the date of Latest Practicable Date, our Company had the following subsidiaries:

Name of subsidiary	Place and date of incorporation/establishment	Issued and fully paid up/ registered capital
Petro-king Hong Kong	Hong Kong 13 September 2007	HK\$10,000
Petro-king International	Hong Kong 14 July 2003	HK\$5,000,000
Petro-king Shenzhen	PRC 26 April 2002	RMB20,000,000
Hero Gain	BVI 1 July 2010	US\$1
Wellsharp Group	BVI 11 April 2008	US\$100
Turbodrill SG	Singapore 1 September 2011	US\$1
Expert Oil Services	Kish Island 5 August 2008	150 million Rials
Shenzhen FST	PRC 20 January 2006	RMB10,000,000
Dezhou Jiacheng	PRC 3 April 2007	RMB10,000,000
Sun Oil	PRC 8 April 2011	US\$784,970
Huizhou FST	PRC 14 August 2012	RMB10,000,000
Petro-king South America	BVI 16 March 2012	US\$1,000,000
Sheraton Investment	BVI 9 June 2010	N/A
Star Petrotech	Singapore 4 February 2009	SGD400,000
H-Star Petrotech	Hong Kong 10 December 2010	HK\$10,000
Petro-king Venezuela	Venezuela 17 September 2012	Bs 4,300,000
Petro-king Huizhou	PRC 21 September 2012	US\$5,000,000

3. Our intellectual property rights

Patents

As of the Latest Practicable Date, the following are patents that the Group had been granted in the PRC and which the Group considers to be or may be material to the business activities of the Group:

Registrant	Patent	Patent Type	Application Number	Valid Date until
Petro-king Shenzhen	Thermoplastic Polymer Centraliser	utility model patent	ZL 2006 2 0015664.6	7 November 2006 - 6 November 2016
Petro-king Shenzhen	Anti-wear unit	utility model patent	ZL 2009 2 0054423.6	13 April 2009 - 12 April 2019
Shenzhen FST	Surface control panel	Invention Patent	ZL 2005 1 0089173.6	5 August 2005 - 4 August 2025
Shenzhen FST	Pressure Testing Device	utility model patent	ZL 2006 2 0000931.2	13 January 2006 - 12 January 2016
Shenzhen FST	Hose Flexible Fatigue Test Machine	utility model patent	ZL 2009 2 0170159.2	18 August 2009 - 17 August 2019
Shenzhen FST	Hose Pulse Test Machine	utility model patent	ZL 2009 2 0204870.5	10 September 2009 - 9 September 2019
Shenzhen FST	down hole safety valve	utility model patent	ZL 2011 20035812.1	10 February 2011 - 9 February 2021
Shenzhen FST	improved down hole safety valve	utility model patent	ZL 2011 20035811.7	10 February 2011 - 9 February 2021

Trademark

(i) As at the Latest Practicable Date, our Group had registered the following trademarks:

Trademark	Registrant	Jurisdiction	Class	Date of Registration	Expiry Date
百勤	Petro-king Shenzhen	PRC	42	7 March 2010	6 March 2020
百勤	Petro-king Shenzhen	PRC	37	7 October 2009	6 October 2019
<u>Petro-king</u>	Petro-king Shenzhen	PRC	37	7 October 2009	6 October 2019
百勤	Petro-king Shenzhen	PRC	7	14 May 2009	13 May 2019
<u>Petro-king</u>	Petro-king Shenzhen	PRC	7	14 May 2009	13 May 2019

Trademark	Registrant	Jurisdiction	Class	Date of Registration	Expiry Date
<i>Petro-king</i>	Petro-king Shenzhen	HK	42	23 June 2006	22 June 2016
弗赛特	Shenzhen FST	PRC	7	28 November 2010	27 November 2020
弗赛特	Shenzhen FST	PRC	9	7 March 2011	6 March 2021
弗赛特	Shenzhen FST	PRC	12	21 November 2010	20 November 2020

(ii) As at the Latest Practicable Date, our Group had applied for the registration of the following trademark:

Trademark	Applicant	Jurisdiction	Class	Application number	Application date
<i>Petro-king</i> 百勤油服	Petro-king Hong Kong	HK	42	302471454	18 December 2012

Computer Software Copyright

As at the Latest Practicable Date, our Group had registered the following computer software copyright:

Registrant	Software	Registration Number	Certification Number	Registration Date
Shenzhen FST	Pressure Testing Software V1.0	2011SR038496	0302170	17 June 2011
Shenzhen FST	Gas Pulse Testing Software V1.0	2012SR123903	0491939	13 December 2012
Shenzhen FST	Explosion Testing Software V1.0	2012SR123907	0491943	13 December 2012
Shenzhen FST	Gas Sealing Testing Software V1.0	2012SR123505	0491541	13 December 2012
Shenzhen FST	Gas Tightness Testing Software V1.0	2012SR123553	0491589	13 December 2012
Shenzhen FST	Multi-split Pressure Testing Software V1.0	2012SR123503	0491539	13 December 2012
Shenzhen FST	Flexing Testing Software V1.0	2012SR123549	0491585	13 December 2012
Shenzhen FST	Servo Explosion Testing Software V1.0	2012SR123531	0491567	13 December 2012

Domain name

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain Name	Registrant	Date of Registration	Expiry Date
petro-king.cn	Petro-king Shenzhen	18 June 2003	18 June 2017
sz-fst.com	Shenzhen FST	15 July 2004	15 July 2013
fstcontrols.com	Shenzhen FST	12 June 2006	12 June 2013
sz-fst.net.....	Shenzhen FST	22 November 2010	22 November 2013

4. Our property interests

Owned Property

The owned property of the Group consists of the land use right of one industrial land with a site area of approximately 29,195.5 sq.m. in the PRC. The land parcel is numbered 0150051452 and the expiration date of this land use right is 17 January 2063. The single lump sum payment of the land use right is RMB9.19 million and was fully paid by Perto-king Huizhou. As at the Latest Practicable Date, there was no mortgage, encumbrance, rental or other kinds of third party rights on this land parcel. The details of the land are set out below:

Overview of owned property

No.	City/Province	Description/Location	Site Area (sq.m.)	GFA (sq.m.)	Usage
1	Huizhou city, Guangdong Province the PRC	Land use right of a parcel of a land located at Land No. M-005, Guantian Village, Chenjiang Street, Zhongkai Gaoxin District, Huizhou City, Guangdong Province, the PRC	29,195.5	N/A	Industrial land
Total:			29,195.5	N/A	

Leased Property

As at the Latest Practicable Date, the Group leased two factory units in Shenzhen, the PRC and various offices, warehouses and staff quarters which are located in Hong Kong, Zhengzhou, Xinjiang, Shenzhen, Dezhou, Chongqing, Jingchuan, Tongchuan, Ordos, Wuhan, Beijing and Huizhou, the PRC. Furthermore, the Group also leased a factory premise in Singapore and a warehouse in Venezuela. In total, the Group leased 26 properties.

Pursuant to the information provided, the leased properties of the Group consist of seven industrial premises with a total GFA of approximately 9,122.8 sq.m. in the PRC; eleven office premises with a total GFA of approximately 3,992.8 sq.m. in the PRC; four residential premises with a total GFA of approximately 463.1 sq.m. in the PRC; one residential premise with a GFA of approximately 39.2 sq.m. in Hong Kong; one office premise with a GFA of approximately 132.3 sq.m.

in Hong Kong; one industrial unit with a GFA of approximately 1,393.5 sq.m. in Singapore and one industrial unit with a GFA of approximately 625 sq.m. in Venezuela. Based on the aforesaid criterion, we have divided the leased properties into 26 property interests, the details of which are exhibited as below:

Overview of leased properties

No.	City/Province	Description/Location	Site Area (sq.m.)	GFA (sq.m.)	Building Usage	Current Usage
1	Tsim Sha Tsui Hong Kong	Office No. 504 on 5th Floor of Tower 1, Silvercord, No. 30 Canton Road, Tsim Sha Tsui, Kowloon	N/A	132.3	Office	Office
2	Tuen Mun Hong Kong	Unit D, 20/F, Block 1, Tuen Mun Town Plaza, No. 3 Tuen Lung Street, Tuen Mun, New Territories, Hong Kong	N/A	39.2	Residential	Staff Quarter
3	Shenzhen the PRC	Unit Nos. 1 to 12, Level 7, Tianli Central Plaza, East of Houhai Road, Nanshan District, Shenzhen City, the PRC	N/A	1,782.9	Office	Office
4	Shenzhen the PRC	Unit No. 3C-1601, Block C, Guanhaitai Garden, Nanshan District, Shenzhen City, the PRC	N/A	109.2	Residential	Staff Quarter
5	Shenzhen the PRC	Unit No. 3-301, Block A, Guanhaitai Garden, Nanshan District, Shenzhen City, the PRC	N/A	108.2	Residential	Staff Quarter
6	Shenzhen the PRC	Unit No. 1503, Block B, Tianyueyuan, Nanshan District, Shenzhen City, the PRC	N/A	148.5	Residential	Staff Quarter
7	Shenzhen the PRC	Unit No. 6C, Block 1, District B, Xihaiwan Garden, Chuangye Road South, Nanshan District, Shenzhen City, the PRC	N/A	97.3	Residential	Staff Quarter
8	Shenzhen the PRC	Unit No. 2010, Block West, Haian Building, Commercial Cultural Centre District, Nanshan District, Shenzhen City, the PRC	N/A	131.3	Office	Office

APPENDIX V
STATUTORY AND GENERAL INFORMATION

No.	City/Province	Description/Location	Site Area (sq.m.)	GFA (sq.m.)	Building Usage	Current Usage
9	Shenzhen the PRC	Unit No. 2005, Block West, Haian Building, Commercial Cultural Centre District, Nanshan District, Shenzhen City, the PRC	N/A	143.4	Office	Office
10	Shenzhen the PRC	Factory Unit No. A1, Level 5, Block 1, Jiuhua Technology Park, West of Guangshen Expressway, Xixiang Street, Baoan District, Shenzhen City, the PRC	N/A	425.0	Industrial	Office
11	Shenzhen the PRC	Factory Unit B, Level 1, Block 1, Jiuhua Technology Park, West of Guangshen Expressway, Xixiang Street, Baoan District, Shenzhen City, the PRC	N/A	1,700.0	Industrial	Industrial
12	Shenzhen the PRC	Block E, Shengguang Industrial District, Nandong Donghuan Road, Shajinghuangpu Community, Baoan District, Shenzhen City, the PRC	N/A	1,832.5	Industrial	Industrial
13	Xinjiang the PRC	Unit No. 203, Block 4, Taohuayuan, Anjuxiaoqu, Luntai County, Xinjiang Province, the PRC	N/A	124.0	Residential	Office
14	Dezhou Shandong the PRC	A factory unit located at Lixiangzhuang Industrial Park, Economic Development Zone, Dezhou City, Shandong Province, the PRC	N/A	500.0	Industrial	Office
15	Beijing the PRC	Office Unit Nos. 801-802, Luokeshidai Centre, Level 103, Huizhong Lane, Chaoyang District, Beijing City, the PRC	N/A	354.0	Residential	Office
16	Zhengzhou the PRC	Unit No. 1-302, Level 7, Junan Community, Zhengzhou City, the PRC	N/A	176.6	Residential	Office

APPENDIX V
STATUTORY AND GENERAL INFORMATION

No.	City/Province	Description/Location	Site Area (sq.m.)	GFA (sq.m.)	Building Usage	Current Usage
17	Huizhou the PRC	No. 901, Building 5, Qianjiayujingju, middle section road of Zhangwu and Fengwu in Baiyunshan, Shenjiang Subdistrict Office of Huicheng District, Huizhou City, Guangdong Province, the PRC	N/A	122.1	Residential	Office
18	Chongqing the PRC	Daguping, Tuanfeng 3rd Community, Yongfeng Town, Zhong County, Chongqing City, the PRC	N/A	2,080	Industrial	Industrial
19	Pingliang the PRC	Luohandong Grain Management Centre, Luohandong Street, Jingchuan County, Pingliang City, Gansu Province, the PRC	10,534.8	1,650.3	Industrial	Industrial
20	Tongchuan the PRC	No. 402, Building 2, Yiyang Street North 34#142, Family Apartment of Labor Service Company in Yijun County, Tongchuan City, Shaanxi Province, the PRC	N/A	103.6	Residential	Office
21	Zhengzhou the PRC	Warehouse located at 3rd Community, Sanshilipu Village, Xushui Town, Zhongyuan District, Zhengzhou City, Henan Province, the PRC	N/A	1,100	Industrial	Industrial
22	Ordos the PRC	Property located at Hujierite Village, Ordos City, the PRC	N/A	160	Residential	Industrial
23	Shenzhen the PRC	No. 4 of Warehouse C, West Logistics Centre, No. 88 Linhai Road, Nanshan District, Shenzhen City, the PRC	N/A	600	Industrial	Industrial
24	Tuas Singapore	No. 27 Tuas Avenue 4, Jurong Industrial Estate, Tuas, Singapore 639377	N/A	1,393.5	Industrial	Industrial

No.	City/Province	Description/Location	Site Area (sq.m.)	GFA (sq.m.)	Building Usage	Current Usage
25	Wuhan the PRC	Unit No. 1, Level 5, Danyuan No. 2 of Building No. 8, No. 109 Jiefang Avenue, Qiaokou District, Wuhan City, the PRC	N/A	127	Residential	Office
26	Anaco Venezuela	Warehouse located at Anzoátegui State, Anaco City, la Via Los Pilones, Venezuela	N/A	625	Industrial	Industrial
Total:			10,534.8	15,765.9		

Material Property Analysis

According to the investigation of Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, none of the properties has a carrying amount over 1% (for properties having property activities) or 15% of the total assets.

Moreover, the head office of the Company located at Nanshan District, Shenzhen City, the PRC, contributes a significant influence on the operation to the Group by provision of oilfield project and consultancy services. Since the Group's revenue is contributed mainly by the provision of oilfield project and consultancy services, and property no. 3 of the leased properties is the headquarters of the Group that provides essential working spaces for the business operation and administration work, we therefore identify it as a material property of the Company.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited is of the view that except for the office, the remaining properties, which mainly include staff dormitories and factory buildings, also attribute to the group's revenue but are not regarded as material due to the abundant supply of similar kinds of property in the market and could be replaced easily.

The table below shows a summary of the material property interests occupied by the Group:

- | | | |
|---|---|---|
| (a) General description of location of the property | : | The property is located at the junction between Houhai Da Dao and Haide 2nd Road, Nanshan District of Shenzhen City. |
| (b) Details of encumbrances, liens, pledges, mortgages against the property | : | Pursuant to a Lease Agreement and 2 Supplementary Agreements, the property is leased to Petro-King Oilfield Technology Limited, a wholly-owned subsidiary of the Company, from Everlink International Limited (協基國際有限公司), an independent third party, for a term of 5 years expiring on 17 October 2012 at a monthly rent of RMB130,600, inclusive of management fees but exclusive of water and electricity charges. |

- (c) Environmental Issue : No environmental study has been carried out.
- (d) Details of investigations, notices, pending litigation, breaches of law or title defects : As advised by the Company's PRC legal advisers, the lessor has obtained the ownership rights of the property and has rights to lease out the property, the Tenancy Agreement and Supplementary Agreements are legal, valid and enforceable under the PRC laws and the Lessee has registered the Tenancy Agreement and Supplementary Agreements to the local government department.
- (e) Future plans for construction, renovation, improvement or development of the property : Nil

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Particulars of Directors' service agreements and letters of appointment

Each of the executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to annual review at the discretion of the Board). An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Wang	HK\$180,000 as director and RMB2,000,000 as chief executive officer
Mr. Zhao	HK\$180,000 as director and RMB1,300,000 as vice president

Each of the non-executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these non-executive Directors is entitled to the respective basic salary set

out below (subject to annual review at the discretion of the Board). An non-executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries of the non-executive Directors are as follows:

Name	Amount
Mr. Lee Tommy	HK\$180,000
Ms. Ma Hua.....	HK\$180,000
Mr. Ko Po Ming	HK\$300,000

Each of the independent non-executive Directors has entered into a letter of appointment with the Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of the independent non-executive Directors are appointed with an initial term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The annual remuneration payable to the independent non-executive Directors under each of the letters of appointment are as follows:

Name	Amount
Mr. He Shenghou	HK\$180,000
Mr. Tong Hin Wor.....	HK\$180,000
Mr. Wong Lap Tat Arthur.....	HK\$300,000

Save as disclosed above, none of the Directors has or is proposed to have any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

2. Remuneration of Directors

The aggregate remuneration paid by the Company to the Directors in respect of each of the three financial years ended 31 December 2011, and the nine months ended 30 September 2012 were HK\$3,024,916, HK\$6,190,304, HK\$2,312,435 and HK\$1,642,135 respectively.

Pursuant to the current arrangements, it is estimated that an aggregate amount of approximately HK\$5,050,000 will be paid to the Directors as remuneration for the year ending 31 December 2013.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

3. Disclosure of interests

(a) *Interest and/or short positions of the directors and chief executive of our Company in the Shares, underlying shares or debenture of our Company and our associated corporations*

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking account of any Shares which may be issued pursuant to the Over-allotment Option or any Shares which may be issued upon exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO), which, once the Shares are listed, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers to be notified to us and the Stock Exchange, will be as follows:

(i) *Our Company*

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximately percentage of interest in our Company
Mr. Wang (<i>note 1</i>)	Interest in a controlled corporation	327,410,414	32.74%
Mr. Lee Tommy (<i>note 2</i>)	Beneficiary of trust	340,774,104	34.08%

Notes:

- Mr. Wang holds approximately 41.19% of the issued share capital in King Shine and King Shine will directly hold approximately 32.74% of the total number of issued shares of the Company after the completion of the Global Offering. Therefore, Mr. Wang is taken to be interested in the number of Shares held by King Shine pursuant to Part XV of the SFO.
- 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (BVI) which in turn holds 100% of the issued share capital of Termbray Natural Resources. Therefore, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited, First Trend Management (PTC) Limited, HSBC International Trustee Limited are taken to be interested in the number of Shares held by Termbray Natural Resources pursuant to Part XV of the SFO.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

So far as we are aware, each of the following persons, other than a Director or chief executive of our Company who will, immediately following completion of the Global Offering and Capitalisation Issue (without taking account of any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares of our Company which will fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are directly or indirectly, be interested in 10% or more of the total number of Shares of any class of the Shares in issue carrying rights to vote in all circumstances at general meetings of any other member of our Group.

(i) *Long position in the Shares*

Name	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Lee Lap (<i>note 1 and note 7</i>)	Settlor of a discretionary trust	340,774,104	34.08%
First Trend Management (PTC) Limited (<i>note 1</i>)	Trustee	340,774,104	34.08%
HSBC International Trustee Limited (<i>note 1</i>)	Trustee	340,774,104	34.08%
Lee & Leung (B.V.I.) Limited (<i>note 1</i>)	Interest in a controlled corporation	340,774,104	34.08%
Termbray Industries (<i>note 1</i>)	Interest in a controlled corporation	340,774,104	34.08%
Termbray Electronics (BVI) (<i>note 1</i>)	Interest in a controlled corporation	340,774,104	34.08%
Termbray Natural Resources (<i>note 2</i>)	Registered owner	340,774,104	34.08%
TCL Corporation (<i>note 3</i>)	Interest in a controlled corporation	74,242,724	7.42%
TCL HK (<i>note 3</i>)	Interest in a controlled corporation	74,242,724	7.42%
Excel Top Holdings Limited (<i>note 3</i>)	Interest in a controlled corporation	74,242,724	7.42%

Name	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Jade Max Holdings Limited (note 3)	Interest in a controlled corporation	74,242,724	7.42%
Jade Win Investment Limited (note 4)	Beneficial owner	74,242,724	7.42%
Ms. Zhou (note 5)	Interest of spouse	327,410,414	32.74%
King Shine (note 6)	Registered owner	327,410,414	32.74%

Notes:

- 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (BVI) which in turn holds 100% of the issued share capital of Termbray Natural Resources. Therefore, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited, First Trend Management (PTC) Limited, HSBC International Trustee Limited are taken to be interested in the number of Shares held by Termbray Natural Resources pursuant to Part XV of the SFO.
- Termbray Natural Resources will directly hold approximately 34.08% of the total number of issued shares of the Company after the completion of the Global Offering.
- TCL Corporation directly holds 100% of the issued share capital of TCL HK, which in turn holds 100% of the issued share capital of Excel Top Holdings Limited, which in turn holds 100% of the issued share capital of Jade Max Holdings Limited (BVI), which in turn holds 100% of the issued share capital of Jade Win Investment Limited. Therefore, TCL Corporation, TCL HK, Excel Top Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of Shares held by Jade Win Investment Limited pursuant to Part XV of the SFO.
- Jade Win Investment Limited will directly hold approximately 7.42% of the total number of issued shares of the Company after the completion of the Global Offering.
- Ms. Zhou holds approximately 17.21% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang and Mr. Wang holds approximately 41.19% of the issued share capital in King Shine. Therefore, Ms. Zhou is deemed to be interested in the Shares in which Mr. Wang is interested for the purpose of the SFO.
- King Shine will directly hold approximately 32.74% of the total number of issued shares of the Company after the completion of the Global Offering.

7. In January 1994, the Stock Exchange made a public censure against Mr. Lee Lap, chairman and chief executive of Termbray Industries, for acting in breach of his director's undertaking in that he caused, or failed to take steps (i) to avoid breaches of Rule 8.08 of the Listing Rules by failing to ensure an open market in Termbray Industries' shares and (ii) to avoid the creation of a false market in Termbray Industries' shares following its flotation by failing to release information which might have been expected materially to affect market activity in and the price of such shares in breach of paragraph 2 of the then listing agreement with the Stock Exchange. It was alleged in the public censure announcement that Mr. Lee Lap funded the acquisition of Termbray Industries' shares by his nephew and two companies owned and controlled by a son and a friend of Mr. Lee Lap in order that certain shares ostensibly in public hands were held by those parties and were subject to control by Mr. Lee Lap.

4. Agency fees or commissions received

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group.

5. Related party transactions

During the two years immediately preceding the date of this prospectus, we have engaged in related party transactions as described in note 38 to the Accountant's Report set out in the section headed "Accountant's Report" in Appendix I to this prospectus.

D. PRE-IPO SHARE OPTION SCHEME

We adopted the Pre-IPO Share Option Scheme on 20 December 2010 (the "**Adoption Date**") (as supplemented and amended by an addendum on 25 September 2012 (the "**Addendum**")), the principal terms of which are summarised below.

1. Purpose of the Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate full-time employees and directors of the Group (the "**Participants**") to contribute to the listing of the Ordinary Shares of our Company on the Main Board and/or strive for future developments and expansion of the Group. The Pre-IPO Share Option Scheme shall be an incentive to encourage the Participants to perform their best in achieving the goals of the Group and allow the Participants to enjoy the results of our Company attained through their efforts and contributions.

For the purpose of our Pre-IPO Share Option Scheme, "**Ordinary Shares**" means ordinary shares of our Company with no par value in existence immediately after the Amendment of Memorandum.

2. Eligible participants

Our Board may, in its discretion, select any full-time employee and director (including non-executive director and independent non-executive director) of the Group (the “**Employee**”), to participate in our Pre-IPO Share Option Scheme. The participants are divided into the following 4 groups:

- (i) Group A Participant - any Employee who joined the Group on or before 31 December 2007 (or other Employee who joined the Group on some other date but the Board considers it appropriate for him/her to fall within such group) and the Trustee (as defined herein below) of such Employee;
- (ii) Group B Participant - any Employee who joined the Group between 1 January 2008 to 31 December 2008 (or other Employee who joined the Group on some other date but the Board considers it appropriate for him/her to fall within such group) and the Trustee of such Employee;
- (iii) Group C Participant - any Employee who joined the Group between 1 January 2009 to 31 December 2009 (or other Employee who joined the Group on some other date but the Board considers it appropriate for him/her to fall within such group) and the Trustee of such Employee; and
- (iv) Group D Participant - any Employee who joined the Group on or after 1 January 2010 (or other Employee who joined the Group on some other date but the Board considers it appropriate for him/her to fall within such group) and the Trustee of such Employee.

For the purpose of our Pre-IPO Share Option Scheme, “**Trustee**” means the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee and which is legally capable to perform obligations and to comply with the terms of the Pre-IPO Share Option Scheme and the shareholders agreement dated 20 October 2010 entered into among the Company, TCL HK, King Shine and Termbray Natural Resources pursuant to the TCL Investment, where applicable (“**Trust**”).

3. Duration and Administration

The Pre-IPO Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date.

4. Offer and grant of option

The Board shall be entitled at any time after the Adoption Date but in any event on or prior to 31 December 2010 to make an offer of the grant of an option to any Participant and the Board may in its absolute discretion impose any conditions, restrictions or limitations in relation to the options, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the Pre-IPO Share Option Scheme.

The Board shall grant options (“**Options**”) to the Participants such that the aggregate number of Non-Voting Shares or Ordinary Shares, as the case may be, which may be allotted and issued upon exercise of the Options shall be in the following proportions:-

- (i) (in case of Non-Voting Shares) as to 5.45% of the total number of issued shares of the Company as at the Adoption Date or (in case of Ordinary Shares) as to approximately 3.613% of the aggregate of (a) the issued shares of the Company as at the date of adoption of the Addendum and (b) further issued shares of the Company to be issued to the holders of the aforesaid shares under (a) under the Capitalisation Issue at the time of Listing, to the Group A Participants;
- (ii) (in case of Non-Voting Shares) as to 0.5% of the total number of issued shares of the Company as at the Adoption Date or (in case of Ordinary Shares) as to approximately 0.495% of the aggregate of (a) the issued shares of the Company as at the date of adoption of the Addendum and (b) further issued shares of the Company to be issued to the holders of the aforesaid shares under (a) under the Capitalisation Issue at the time of Listing, to the Group B Participants;
- (iii) (in case of Non-Voting Shares) as to 0.25% of the total number of issued shares of the Company as at the Adoption Date or (in case of Ordinary Shares) as to approximately 0.247% of the aggregate of (a) the issued shares of the Company as at the date of adoption of the Addendum and (b) further issued shares of the Company to be issued to the holders of the aforesaid shares under (a) under the Capitalisation Issue at the time of Listing, to the Group C Participants; and
- (iv) (in case of Non-Voting Shares) as to 1.29% of the total number of issued shares of the Company as at the Adoption Date or (in case of Ordinary Shares) as to approximately 1.277% of the aggregate of (a) the issued shares of the Company as at the date of adoption of the Addendum and (b) further issued shares of the Company to be issued to the holders of the aforesaid shares under (a) under the Capitalisation Issue at the time of Listing, to the Group D Participants.

Non-Voting Shares (but not Ordinary Shares) shall only be issued upon exercise of the Options in the event that the Options are exercised before Listing. Ordinary Shares (but not Non-Voting Shares) shall only be issued upon exercise of the Options in the event that the Company is to proceed with Listing and the Options are exercised at or after Listing.

5. Number of Shares authorised to be issued upon exercise of options

The total number of Non-Voting Shares or Ordinary Shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme shall be (i) (in case of Non-Voting Shares) 749 Non-Voting Shares, representing up to 7.49% of the total number of issued shares of the Company as at the Adoption Date or (ii) (in case of Ordinary Shares) such number of Ordinary Shares, representing up to approximately 5.632% of the total number of issued shares of the Company immediately after Capitalisation Issue but without taking into account the issue of the Offer Shares

in calculating the maximum number of Ordinary Shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme (assuming that there is no change in the total number of issued shares of the Company from the date of adoption of the Addendum to the date of Capitalisation Issue).

6. In the event of occurrence of an initial public offering of Shares on a recognised stock exchange (“IPO”)

In the event that an IPO by the Company occurs,

- (i) any outstanding Options as at the Listing Date shall remain valid and subsisting and upon exercise of the outstanding Options on or after the Listing Date, conditional upon the Stock Exchange granting or agreeing to grant listing of and permission to deal with the Ordinary Shares which may fall to be issued pursuant to the exercise of the Options, the Company shall issue such relevant number of Ordinary Shares (but not Non-Voting Shares); and
- (ii) to the extent that there exists any Non-Voting Shares that have previously been issued upon exercise of the Options and remain outstanding prior to the Listing Date, the Company shall use all reasonable endeavours to arrange for such Non-Voting Shares to be redeemed and exchanged for the same number of Ordinary Shares,

in each case of above paragraphs 6(i) and (ii), subject to any requirements under applicable laws, rules and regulations (including the Listing Rules) and by the relevant regulatory bodies or authorities.

7. Vesting of the Pre-IPO Options

There is no vesting period.

8. Exercise Period

An Option shall be exercised within 5 years from the date on which the offer of the grant of an Option is made (“**Exercise Period**”) provided that the grantee (the “**Grantee**”) has been a Participant on the date of exercise.

9. Exercise Price

The exercise price shall be determinable by the Board on the following basis:-

- (i) for each of the Group A Participants, the Exercise Price shall be determined based on the valuation of the Group at RMB500 million and shall be (a) HK\$58,370 (equivalent to RMB50,000 in accordance with the terms of the Pre-IPO Share Option Scheme) per Non-Voting Share or (b) HK\$0.7783 per Ordinary Share;

- (ii) for each of the Group B Participants, the Exercise Price shall be determined based on the valuation of the Group at RMB600 million and shall be (a) HK\$70,044 (equivalent to RMB60,000 in accordance with the terms of the Pre-IPO Share Option Scheme) per Non-Voting Share or (b) HK\$0.9339 per Ordinary Share;
- (iii) for each of the Group C Participants, the Exercise Price shall be determined based on the valuation of the Group at RMB700 million and shall be (a) HK\$81,718 (equivalent to RMB70,000 in accordance with the terms of the Pre-IPO Share Option Scheme) per Non-Voting Share or (b) HK\$1.090 per Ordinary Share; and
- (iv) for each of the Group D Participants, the Exercise Price shall be determined based on the valuation of the Group at RMB800 million and shall be (a) HK\$93,392 (equivalent to RMB80,000 in accordance with the terms of the Pre-IPO Share Option Scheme) per Non-Voting Share or (b) HK\$1.2452 per Ordinary Share.

The above exercise price per Ordinary Share is determined based on the assumptions that the Company is to proceed with Listing and that a total of 749,989,898 Ordinary Shares are to be issued under the Capitalisation Issue. In the event that the Ordinary Shares to be issued under the Capitalisation Issue are not in the number of 749,989,898 Ordinary Shares, both the number of the Ordinary Shares which may be issued upon exercise of the Option in full and the above exercise price per Ordinary Share (provided that the total subscription amount of the Ordinary Shares upon exercise in full shall remain unchanged) shall be adjusted proportionately on a pro rata basis in a reverse direction in such number and amount as may be determined by the Board, whose calculation shall be final and binding upon the Participants.

10. Exercise of options

10.1 The Option shall be personal to the Grantee and shall not be transferable and no Grantee shall in any way sell, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Grantee shall entitle the Company to cancel any Option granted to such Grantee (to the extent not already exercised) without incurring any liability on the part of the Company.

10.2 Subject as hereinafter provided and to the restrictions which may be imposed by the Board, the Option may be exercised by the Grantee at any time during the Exercise Period, provided that:-

- (i) (a) in the case where the Grantee is an Employee, if the Employee ceases to be an employee or a director of the Group for any reason other than on his or her death or the termination of his or her employment or directorship on one or more of the grounds specified in paragraph 11(v), the Grantee may exercise the Option in accordance with the provisions under this paragraph up to his or her entitlement at the date of cessation (to the extent he or she is entitled to exercise at the date of cessation but not already exercised) within the period of one (1) month (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual working day with the relevant company in the Group whether salary is paid in lieu of notice or not or the last date of appointment as director of the relevant company in the Group, as the case may be, failing which it will lapse;

- (b) in the case where the Grantee is a Trustee and where the relevant beneficiary of the Trust is an Employee, and such Employee ceases to be an Employee in the manner as referred to in paragraph 10.2(i)(a) above, the Grantee shall be entitled to exercise the Option in accordance with the provisions in paragraph 10.2(i)(a) above, failing which it will lapse;
- (ii)
 - (a) in the case where the Grantee is an Employee dies before exercising the Option in full and none of the events specified in paragraph 11(v) arises, the personal representative(s) of the Grantee shall be entitled within a period of one (1) month, or such longer period as the Board may determine from the date of death, to exercise the Option up to the entitlement of such Grantee at the date of death (to the extent which has become exercisable and not already exercised), failing which it will lapse;
 - (b) in the case where the Grantee is a Trustee and where the relevant beneficiary of the Trust is an Employee, and such Employee dies, the Grantee shall be entitled to exercise the Option in accordance with the provisions in paragraph 10.2(ii)(a) above, failing which it will lapse;
- (iii) if a general offer by way of take-over (other than by way of scheme of arrangement pursuant to paragraph 10.2(iv) below) is made to all the holders of Non-Voting Shares and/or Ordinary Shares (as the case may be) (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) with the terms of the offer and if such offer becomes or is declared unconditional prior to the expiry of the relevant Exercise Period, the Grantee (or where appropriate, his or her personal representative(s)) may give a notice in writing to the Company and within 21 days of such notice exercise the Option (to the extent which has become exercisable on the date of the notice of the offeror and not already exercised) to its full extent or to the extent specified in such notice;
- (iv) if a general offer by way of scheme of arrangement is made to all the holders of Non-Voting Shares and/or Ordinary Shares (as the case may be) and has been approved by the necessary number of holders of Non-Voting Shares and/or Ordinary Shares (as the case may be) at the requisite meetings, the Grantee (or his or her personal representative(s)) may thereafter (but only until such time as shall be notified by the Company, after which it shall lapse) exercise the Option to the extent not already exercised or to the extent specified in such notice from the Company;
- (v) other than a scheme of arrangement contemplated in paragraph 10.2(iv) above, if a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to the Grantee on the same date as it despatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the Grantee (or his or her personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date two

(2) months thereafter and the date on which such compromise or arrangement is sanctioned by the court, provided that the relevant Options are not subject to a term or condition precedent to them being exercisable which has not been fulfilled, exercise any of his or her Options whether in full or in part, but the exercise of an Option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all Options shall lapse except insofar as previously exercised under the Pre-IPO Share Option Scheme. The Company may require the Grantee (or his or her personal representative(s)) to transfer or otherwise deal with the Non-Voting Shares and/or Ordinary Shares (as the case may be) issued as a result of the exercise of Options in these circumstances so as to place the Grantee in the same position as nearly as would have been the case had such Non-Voting Shares and/or Ordinary Shares (as the case may be) been subject to such compromise or arrangement; and

- (vi) in the event that a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to the Grantee and the Grantee (or his or her personal representative(s)) may, subject to the provisions of all applicable law, by notice in writing to the Company (such notice to be received by the Company no later than the third business day prior to the proposed shareholders' meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Non-Voting Shares and/or Ordinary Shares (as the case may be) to the Grantee which falls to be issued on such exercise.

11. Lapse of options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Exercise Period;
- (ii) the expiry of the periods referred to in paragraph 10.2(i) or (ii);
- (iii) subject to the High Court of Hong Kong not making an order prohibiting the offeror to acquire the remaining Non-Voting Shares and/or Ordinary Shares (as the case may be) in the offer, the expiry of the 21 day-period referred to in paragraph 10.2(iii);
- (iv) subject to the scheme of arrangement or scheme for reconstruction or amalgamation becoming effective, the expiry of the period referred to in paragraph 10.2(iv) or (v);

- (v) the date on which:
- (a) the Grantee being an Employee, ceases to be an employee or director of the Group by reason of the termination of his or her employment or directorship on the grounds that he or she has been guilty of misconduct, or appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has become insolvent, or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty; or
 - (b) the Grantee being a Trustee, the relevant beneficiary being an Employee, the event referred to in (a) above occurs to such beneficiary;

provided that whether any one or more of the events specified in the above occur in relation to a Grantee shall be solely and conclusively determined by the Board;

- (vi) the close of business on the third business day prior to the shareholders' meeting of the Company held for the purpose of approving the voluntary winding-up of the Company, subject to the resolution approving the voluntary winding-up of the Company being duly passed; or the date of the commencement of the winding-up of the Company; and
- (vii) the date on which the Option is cancelled by the Board.

12. Termination

12.1 The Company may by Special Resolution (as defined herein below) in general meeting terminate or the Board may by a Special Board Approval (as defined herein below) at any time terminate the operation of the Pre-IPO Share Option Scheme and in such event no further Options will be offered but in all respects the provisions of the Pre-IPO Share Option Scheme in relation to any outstanding Options shall remain in full force and effect.

12.2 For the purpose of Pre-IPO Share Option Scheme, "**Special Resolution**" shall mean approval by shareholders of the Company holding an aggregate of not less than 75% shareholding interests in the Company at the time of approval while "**Special Board Approval**" shall mean approval of the Board passed by 75% or more of the votes of the Directors present at any meeting of the Board.

Non-disposal undertaking

Each Grantee has given the following undertakings as to the Non-Voting Shares and/or Ordinary Shares (as the case may be) falling to be issued to the Grantee upon exercise of his or her Options, or Shares as may be exchanged under paragraph 6(ii) (“**Subject Shares**”):

- (i) shall not, and shall procure that his, her or its associates (as defined in the Listing Rules) or companies controlled by him or her nominees or trustees holding in trust for him or her shall not, sell, transfer, dispose of or otherwise enter into any agreement to dispose of (including without limitation the creation of any options, rights, interests, liens, charges, mortgages or encumbrances in respect of) the Option or any of the Subject Shares as may be owned by him, her or it or the relevant company, nominee or trustee (including any interest on any shares in any company controlled by him or her which is directly or indirectly the ultimate beneficial owner of any of the Subject Shares) (together the “**Relevant Securities**”) at all material times within the period commencing on the date of the non-disposal undertaking and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”); and
- (ii) shall not, and shall procure that none of his or her associates (as defined in the Listing Rules) or companies controlled by him or her nominees or trustees holding in trust for him or her shall, within the further period of six months immediately after the expiry of the First Six-Month Period (the “**Second Six-Month Period**”) sell, transfer or otherwise, dispose of (including without limitation the creation of any options, rights, interests, liens, charges, mortgages or encumbrances in respect of), more than 50% of the Relevant Securities,

in each case, subject to any applicable laws, rules and regulations (including the Listing Rules) and the requirement of any relevant regulatory authority or body or as may be imposed by the underwriters under the IPO.

Letter of undertaking not to exercise Options granted pursuant to the Pre-IPO Share Option Scheme

Each Grantee has given an undertaking that he or she shall not, and shall procure that his or her associates (as defined in the Listing Rules) or companies controlled by him or her or nominees or trustees holding in trust for him or her shall not, exercise the Options, whether in part or in whole at any time before the IPO or such later date as the Stock Exchange may require.

15. Options granted pursuant to the Pre-IPO Share Option Scheme

Details of the unexercised Options granted pursuant to the Pre-IPO Share Option Scheme to our employees are set out below:

Grantee	Position	Address	Group of Participant	Number of Non-Voting Shares subject to the Options if the Options are exercised before Listing	Number of Ordinary Shares subject to the Options if the Options are exercised at or after Listing	Percentage of enlarged number of issued shares of our Company after full exercise of the Options pursuant to Pre-IPO Share Option Scheme at or after Listing
Senior Management						
Others						
Sun Jinxia (孫金霞)	Vice president	Flat D, 20/F, Block 1, Tuen Mun Town Plaza, Tuen Mun, New Territories, Hong Kong	A	100	7,424,273	0.990%
Yang Xiaoqing (楊曉慶)	Deputy manager of Integrated technology department	Nanshanrencai Building, West of Taoyuan Road, Nanshan District, Shenzhen, Guangdong Province, China	A	10	742,427	0.099%
Yin Zhen (尹震)	Chief technical officer on wellhead of Integrated technology department	Unit 10, East of Biyuan Road, Weicheng District, Xianyang, Shaanxi Province, China	A	5	371,214	0.049%
Zhang Taiyuan (張太元)	Vice president	Zhao Bei Community 35 Block 204, Nanshan District, Shenzhen, Guangdong Province, China	A	100	7,424,273	0.990%

Grantee	Position	Address	Group of Participant	Number of Non-Voting Shares subject to the Options if the Options are exercised before Listing	Number of Ordinary Shares subject to the Options if the Options are exercised at or after Listing	Percentage of enlarged number of issued shares of our Company after full exercise of the Options pursuant to Pre-IPO Share Option Scheme at or after Listing
Cui Yun (崔允)	Senior drilling supervisor of Drilling service department	Haixiu Building, Nanyou 3rd District, Potou District, Zhanjiang, Guangdong Province, China	A	10	742,427	0.099%
Li Jianchun (李健春)	Controller of Human resources department	Yangri Wanpan 7 Block 23a, Haide 3rd Road, Nanshan District, Shenzhen, Guangdong Province, China	A	10	742,427	0.099%
Cai Gongwei (蔡恭維)	Senior drilling supervisor of Drilling service department	No.37, 5th Floor Unit 3 Block 2, No.151 East of Wujin Road, Wujin Town, Xinjin County, Sichuan Province, China	A	10	742,427	0.099%
Liu Ziyun (劉子雲)	Manager of Exploration & production department	4-301 of No.401 Building Guangming Xili Jia District, Lubei District, Tangshan, Hebei Province, China	A	20	1,484,854	0.198%
Wang Jingchuan (王京川)	Manager of Overseas project department	1-706 of Yuhai Garden Block 7, Tangu District, Tianjin, China	A	10	742,427	0.099%
Xu Tianyong (徐天用)	Senior drilling supervisor of Overseas project department	No.705-710, 7th Floor, Tianli Central Square, Nan Shan District, Shenzhen, China	A	10	742,427	0.099%

Grantee	Position	Address	Group of Participant	Number of Non-Voting Shares subject to the Options if the Options are exercised before Listing	Number of Ordinary Shares subject to the Options if the Options are exercised at or after Listing	Percentage of enlarged number of issued shares of our Company after full exercise of the Options pursuant to Pre-IPO Share Option Scheme at or after Listing
Chen Yang (陳洋)	Deputy general manager	Unit 8-2, Block 9, No. 67 Middle of Liyuan Road, Beicheng District, Mianyang, Sichuan Province, China	A	70	5,196,991	0.693%
Sun Baolin (孫保林)	Senior drilling supervisor of Drilling service department	No. A-3-C1, 149 Weiyang Road, Weiyang District, Xian, Shaanxi Province, China	A	10	742,427	0.099%
Liu Junkuan (劉軍寬)	Senior drilling supervisor of Overseas project department	4C Block 7, 1st section of Garden City, Nanshan Road, Nanshan District, Shenzhen, Guangdong Province, China	B	10	742,427	0.099%
Yue Gang (岳剛)	Manager of China Xibei area	No.5, Block 46, North of Xihe Road, Sandao Mountain, Hami, Xinjiang Uygur Autonomous Region, China	B	10	742,427	0.099%
Huang Liang (黃良)	Deputy manager of Commerce department	27th Floor, Aolinpike Building, Shangbao Road, Futian District, Shenzhen, Guangdong Province, China	B	10	742,427	0.099%
Lin Jingyu (林景禹)	Deputy general manager	705-710, 7th Floor, Tianli Central Square, Nan Shan District, Shenzhen, China	B	20	1,484,854	0.198%

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Group of Participant</u>	<u>Number of Non-Voting Shares subject to the Options if the Options are exercised before Listing</u>	<u>Number of Ordinary Shares subject to the Options if the Options are exercised at or after Listing</u>	<u>Percentage of enlarged number of issued shares of our Company after full exercise of the Options pursuant to Pre-IPO Share Option Scheme at or after Listing</u>
Qin Tao (秦濤)	Manager of Unconventional oil & gas services department	3-501, 3rd Building, Heping Road, Dongying District, Dongying, Shandong Province, China	C	20	1,484,854	0.198%
Bian Peiming (邊培明)	Manager of Drilling service department	2-302, 32nd Building, No.78 Jinan Road, Dongying District, Dongying, Shandong Province, China	C	5	371,214	0.049%
Lai Weihua (賴偉華)	Manager of Well completion department	5C, Block C, Wanxiang Xin Garden, Guimiao Road, Nanshan District, Shenzhen, Guangdong Province, China	D	20	1,484,854	0.198%
Shu Wa Tung Laurence (舒華東)	Chief financial officer	Flat 806, Block 47, Heng Fa Chuen, Chai Wan, Hong Kong	D	109	8,092,457	1.079%
			Total:	<u>569</u>	<u>42,244,108</u>	<u>5.632%</u>

Our shareholding immediately following completion of the Global Offering and Capitalisation Issue would be diluted by 0.422% upon the exercise in full of the Pre-IPO Share Options (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme).

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

E. SHARE OPTION SCHEME**1. Summary of terms of the Share Option Scheme:**

The following is a summary of the principal terms of the Share Option Scheme approved by the resolution of the Shareholders passed on 18 February 2013. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented Participants (as defined in paragraph (c) below), to strive for future developments and expansion of the Group. The Share Option Scheme shall be an incentive to encourage the Participants to perform their best in achieving the goals of the Group and allow the Participants to enjoy the results of the Company attained through their efforts and contributions.

(b) Conditions

The Share Option Scheme is conditional upon:

- (i) the passing of the necessary resolution(s) by Shareholders to approve and adopt the Share Option Scheme;
- (ii) the Listing Committee granting approval (whether subject to conditions or not) of the Share Option Scheme and any right to subscribe for Shares pursuant to the Share Option Scheme (“**Share Options**”) which may be granted thereunder, and the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of the Share Options;
- (iii) the obligations of the Underwriters under the Underwriting Agreements referred to in the paragraph headed “Underwriting Arrangements and Expenses” in the section titled “Underwriting” of the prospectus becoming unconditional (including, if relevant, as a result of the waiver of any such conditions) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iv) the commencement of dealings in the Shares on the Main Board.

(c) Scope of Participants and eligibility of Participants

The Board may, at its discretion, invite:

- (i) any executive or non-executive Director including any independent non-executive Director or any employee (whether full-time or part-time) of any member of the Group;
- (ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of the Group;

- (iii) any adviser or consultant (in the areas of legal, technical, financial or corporate management) to the Group;
- (iv) any provider of goods and/or services to the Group; or
- (v) any other person who the Board considers, in its sole discretion, has contributed to the Group to take up the Share Options.

In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate

(d) Acceptance of offer

Offer of a Share Option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the Option duly signed by the grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company within 28 days from the date of the offer.

(e) Subscription price

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Participant and shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which a Share Option is granted, and (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date on which a Share Option is granted.

(f) Maximum number of Shares available for subscription

- (i) Subject to (iv) below, the total number of Shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of the Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (excluding any Shares that may be issued upon exercise of the Over-allotment Option (if any)), unless the Company obtains an approval from its shareholders pursuant to (ii) below.
- (ii) Subject to (iv) below, the Company may seek approval of its shareholders in general meeting for refreshing the 10% limit set out in (i) above such that the total number of Shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of the Shares in issue as at the date of approval to refresh such limit.

- (iii) Subject to (iv) below, the Company may seek separate approval from its shareholders in general meeting for granting Share Options beyond the 10% limit provided the Share Options granted in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. In such case, the Company shall send a circular to its shareholders containing the information required under the Listing Rules.
- (iv) Notwithstanding any other provisions of the Share Option Scheme, the maximum number of Shares in respect of which Share Options may be granted under the Share Option Scheme together with any options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of Shares in issue from time to time. No Share Option may be granted under the Share Option Scheme or any other share option schemes of the Company if this will result in such limit being exceeded.

(g) Conditions, restrictions or limitations on offers of Share Options

Unless otherwise determined by the Board and specified in the offer letter at the time of the offer of the Share Option, there are neither any performance targets that need to be achieved by the grantee before a Share Option can be exercised nor any minimum period for which a Share Option must be held before the Share Option can be exercised. Subject to the provisions of the Share Option Scheme and the Listing Rules, the Board may when making the offer of Share Options impose any conditions, restrictions or limitations in relation to the Share Option as it may at its absolute discretion think fit.

(h) Maximum entitlement of Shares of each Participant

- (i) Subject to paragraph (ii) below, the total number of Shares issued and to be issued upon exercise of the Share Options granted to each Participant (including both exercised, cancelled and outstanding Share Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.
- (ii) Notwithstanding (i) above, any further grant of Share Options to a Participant in excess of the 1% limit shall be subject to approval by the Shareholders in general meeting with such Participant and his or her associates (as ascribed under the Listing Rules) abstaining from voting. The number and the terms of the Share Options to be granted to such Participant shall be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date for grant for the purpose of calculating the subscription price.

(i) Grant of Share Options to connected persons

- (i) Any grant of Share Options to a Participant who is a director, chief executive or substantial shareholder (as defined under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the Participant).

(ii) Where the Board proposes to grant any Share Option to a Participant who is a substantial Shareholder or an independent non-executive Director, or any of their respective associates and such Share Option which if exercised in full, would result in such Participant becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued and issuable to him or her pursuant to all Share Options granted and to be granted (including Share Options exercised, cancelled and outstanding) to him or her in the 12-month period up to and including the date of such grant:

- (1) representing in aggregate more than 0.1% of the relevant class of securities of the Company in issue on the date of such grant; and
- (2) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of such grant and if the date of such grant is not a trading day, the trading day immediately preceding the date of such grant, in excess of HK\$5,000,000,

such proposed grant of Share Options must be approved by the Shareholders in general meeting. In such a case, the Company shall send a circular to its shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the relevant resolution provided that such intention to do so has been stated in the circular). Any vote taken at the meeting to approve the grant of such Share Options must be taken on a poll.

(j) Exercise of Share Options

A Share Option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which a Share Option was granted, at any time during the option period after the Share Option has been granted by the Board but in any event, not longer than 10 years from the date of grant. A Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the option period.

(k) Transferability of the Share Options

A Share Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favour of any third party over or in relation to any Share Option.

(l) If a grantee ceased to be a Participant by reason other than death or misconduct

If the grantee ceases to be a Participant for any reason other than on the grantee's death or the termination of the grantee's employment or directorship on one or more of the grounds specified in paragraph (n) below, the grantee may exercise the Share Option up to his entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of

9 months (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual working day with the relevant company whether salary is paid in lieu of notice or not, or the last date of appointment as director of the relevant company, as the case may be, failing which it will lapse.

(m) On the death of a grantee

If the grantee dies before exercising the Share Option in full and none of the events which would be a ground for termination of the grantee's employment or directorship under paragraph (n) below arises, the personal representative(s) of the grantee shall be entitled to exercise the Share Option up to the entitlement of such grantee at the date of death (to the extent which has become exercisable and not already exercised) within a period of 12 months or such longer period as the Board may determine from the date of death, failing which it will lapse.

(n) Termination of employment of a grantee by reason of misconduct

A Share Option shall lapse automatically (to the extent not already exercised) on the date on which the grantee ceased to be a Participant by reason of the termination of his employment or directorship on the grounds that he or she has been guilty of misconduct, or appears either to be unable to pay or have no reasonable prospect to pay debts, or has become insolvent, or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty.

(o) Voluntary winding-up of the Company

In the event a notice is given by the Company to its shareholders to convene a Shareholders' meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees. Each grantee (or his or her legal personal representative(s)) may by notice in writing to the Company (such notice to be received by the Company not later than 4 business days prior to the proposed general meeting) exercise the Share Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, and the Company shall as soon as possible and, in any event, no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of shares to the grantee which falls to be issued on such exercise. Subject to the above, a Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(p) General offer by way of take-over

If a general offer by way of take-over is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) with the terms of the offer less than nine-tenths in value of the Shares comprised in the offer within four months from the date of the offer and the offeror thereafter gives a notice to acquire the remaining Shares, the grantee (or where appropriate, his or her legal personal representatives) shall be entitled to exercise the Share Options in full (to the extent not already

exercised) even though the option period has not come into effect during the occurrence of the general offer within 21 days after the date of such notice by the offeror. Subject to the above, a Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(q) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to the grantee on the same date as it despatches the notice which is sent to each shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may until the expiry of the period commencing with such date and ending with the earlier of the date 2 months thereafter and the date on which such compromise or arrangement is sanctioned by the court provided that the relevant Share Options are not subject to a term or condition precedent to them exercisable which has not been fulfilled, exercise any of his or her Share Options whether in full or in part, but the exercise of a Share Option as aforesaid shall be conditional upon such compromise or arrangement becoming effective. Upon such compromise or arrangement becoming effective, all Share Options shall lapse except insofar as previously exercised under the Share Option Scheme.

(r) Rank pari passu

The Shares to be allotted and issued upon the exercise of a Share Option will be subject to all the provisions of the Articles of Association for the time being in force and will rank pari passu with the fully paid Shares in issue as from the date of allotment and in particular will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date of allotment.

(s) Alteration in capital structure

In the event of any alteration in the capital structure of the Company whilst any Share Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, sub-division, or reduction of the number of Shares of the Company in accordance with legal requirements and requirements of the Stock Exchange, excluding any alteration in the capital structure of the Company as a result of an issue of Shares pursuant to, or in connection with, any share option scheme, share appreciation rights scheme or any arrangement for remunerating or incentivising any employee, consultant or adviser to the Company or any employee, consultant or adviser to the Group or in the event of any distribution of the Company's legal assets to its shareholders on a pro rata basis (whether in cash or in specie) other than dividends paid out of the net profits attributable to its shareholders for each financial year of the Company, such corresponding alterations (if any) shall be made to:

- (i) the number of Shares subject to the Share Option so far as unexercised; or

- (ii) the subscription price,

or any combination thereof, as the auditors or the independent financial adviser of the Company shall certify in writing, either generally or as regards any particular grantee, to have, in their opinion, fairly and reasonably satisfied the requirement that any such adjustment shall be in compliance with the relevant provisions of the Listing Rules or such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time.

(t) Duration of the Share Option Scheme

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further Share Options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and Share Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(u) Cancellation of Share Options granted

The Board may at any time at its absolute discretion cancel any Share Option previously granted to, but not exercised by the grantee. Where the Company cancels Share Options and offers Share Options to the same grantee, the offer of the grant of such new Share Options may only be made with available Share Options to the extent not yet granted (excluding the cancelled Share Options) within the limit approved by the Shareholders as mentioned in paragraph (f) above. A Share Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which the Share Option is cancelled by the Board as provided above.

(v) Termination of the Share Option Scheme

The Company may by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Share Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect.

(w) Alteration of provisions of the Share Option Scheme

The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board except that provisions relating to the class of persons eligible for the grant of Share Options, the option period and all such other matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the Participants without the prior approval of the Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of the Share Options granted must be approved by the Stock Exchange and the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The amended terms of the Share Option Scheme or the Share Options must still comply with the relevant requirements of Chapter 17 of the Listing Rules. Any change to the authority of the Board or scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

(x) Restrictions on the time of grant of Share Options

No offer shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the Listing Rules in particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish announcement for its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no Share Option may be granted.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. On the assumption that 1,000,000,000 Shares are in issue on the date of commencement of dealings in the Shares on the Stock Exchange (without taking into consideration of the Shares that may be issued upon exercise of the Over-allotment Option), the application to the Listing Committee for the listing of, and permission to deal in the Shares on the Hong Kong Stock Exchange includes the 100,000,000 Shares which may be issued upon the exercise of the Share Options which may be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

F. OTHER INFORMATION**1. Estate duty, tax and other indemnities**

Each of Termbray Industries, Termbray Electronics (BVI), Termbray Natural Resources and King Shine Controlling Shareholder Group (together, the "Indemnifiers") has entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries (being the material contract item (i) referred to in the section headed "Statutory and general information — B. Further information about our Business — 1. Summary of our Material Contracts" in Appendix V to this prospectus) to provide indemnities in connection with, among other things, any liability which might be payable by any member of our Group by reason of any transfer of property to any member of our Group or to any other person, entity or company made or deemed to have been made on or before the dealings in the Offer Shares first commence on the Stock Exchange (the "Effective Date").

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the BVI, the PRC, Singapore, Iran, Kish Island, Venezuela or Hong Kong, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities in favour of any member of our Group in connection with, among other things, any taxation falling on any member of our Group resulting from or by reference to any income, profits, gains earned, accrued or received (or alleged to have been, or which should have been or deemed to be so earned, accrued or received), or any transactions, events, matters, things or any business carried on or occurring or deemed to occur on or before the Effective Date.

However, the Indemnifiers shall not be liable for any taxation or any claim in relation to any of the indemnities given under the Deed of Indemnity:

- (a) to the extent that provision, reserve or allowance (if any) has been adequately made in the consolidated accounts of our Group for each of the three financial years ended 2009, 2010 and 2011 and the nine months ended 30 September 2012 (“Relevant Accounts”) for such taxation or taxation claim;
- (b) to the extent that such liability for taxation falls on any member of our Group in respect of its accounting period commencing on or after the date on which the Global Offering becomes unconditional unless such taxation or liability for such taxation would not have arisen but for some act or omission of, or transaction effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction) with the prior consent or agreement of the Indemnifiers;
- (c) to the extent that such liability for taxation would not have arisen but for any act or omission or delay by any member of our Group voluntarily effected after the Effective Date without the prior written consent or agreement of the Indemnifiers;
- (d) to the extent that such taxation or liability is discharged by another person who is not a member of our Group and that no member of our Group is required to reimburse such person in respect of the discharge of the taxation or liability; and
- (e) to the extent that any provision, reserve or allowance made for such liability for taxation or taxation claim in the Relevant Accounts is finally established to be an over-provision or an excessive reserve or allowance provided that the amount of any such over-provision or excessive reserve to reduce the Indemnifier’s liability in respect of taxation shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excessive reserve shall only be applied to reduce the liability of the Indemnifiers under the Deed of Indemnity as aforesaid and none of the members of our Group shall in any circumstances be liable to pay the Indemnifiers any such excess.

2. Litigation

As at the Latest Practicable Date, neither we nor any of our member of our Group are/is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial conditions.

3. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$9,000 which have been paid by our Company.

4. Sponsor

The Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and as mentioned herein, (including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the IPO Share Option Scheme). All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No material adverse change

Our Directors confirm that there has been no material adverse change in our Group's financial or trading position or prospects since 30 September 2012 (being the date on which the latest audited consolidated financial statements of our Group was made up).

6. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Disclaimers

- (a) so far as is known to our Directors, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account any Shares which may be issued pursuant to the Over-allotment Option or any Shares which may be issued upon exercise of any options that have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme) and save as disclosed under the section headed "Statutory and general information — C. Further information about our Directors and Substantial Shareholders — 3(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO" in Appendix V to this prospectus or the section headed "Substantial shareholders" of this prospectus, there are no other person (not being our Director or chief executive) who has an interest or a short position in the Shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the total number of Shares of any class of the Shares in issue carrying rights to vote in all circumstances at general meetings of any other members of our Group;

- (b) save as disclosed under the section headed “Statutory and general information — C. Further information about our Directors and Substantial Shareholders — 3(a) Interests and/or short positions of the directors and chief executive of our Company in the Shares, underlying shares or debenture of our Company and our associated corporations” in Appendix V to this prospectus or the section headed “Substantial shareholders” of this prospectus, none of our Directors nor any chief executive of our Company has any interest and/or a short position in the Shares, underlying Shares or debentures of our Company, or any of our associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties whose names are listed in the section headed “Statutory and general information — F. Other information — 11. Consents of experts” in Appendix V to this prospectus has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of the Directors nor any of the parties whose names are listed in the section headed “Statutory and general information — F. Other information — 11. Consents of experts” in Appendix V to this prospectus is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Statutory and general information — F. Other information — 11. Consents of experts” in Appendix V to this prospectus:
- (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) as far as is known to our Directors, none of our Directors nor their respective associates or any Shareholder (whom to the knowledge of our Directors owns 5% or more of the total number of Shares of our Company) has any interest in any of the five largest clients or the five largest suppliers of our Group.

8. Miscellaneous

- (1) Save as disclosed in the section headed “History and development” of this prospectus or in Appendix V, within the two years immediately preceding the date of this prospectus:
 - (i) our Company or any of our subsidiaries has not issued or agreed to issue any of their share or loan capital fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
 - (iii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iv) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (2) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares.
- (3) none of our equity or debt securities is listed or dealt with in any other stock exchange nor any listing of or permission to deal in any of our equity or debt securities being or proposed to be sought.
- (4) we have no outstanding convertible debt securities or debentures.
- (5) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.
- (6) The principal register of our members will be maintained by the BVI principal share registrar and a branch register of our members will be maintained in Hong Kong by our Hong Kong Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the BVI.
- (7) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (8) There are no arrangements in existence under which future dividends are to be or agreed to be waived.

9. Promoter

Our Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, no cash, securities or other benefits had been paid, allotted or given within two years preceding the date of this prospectus, or proposed to be paid, allotted or given, to any promoter in connection with the Global Offering or the related transactions described in this prospectus.

10. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name of Experts	Qualification
CCB International Capital Limited	Licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
PricewaterhouseCoopers	Certified public accountants
Shu Jin Law Firm	Qualified PRC lawyers
Conyers Dill & Pearman	BVI legal advisers
Stamford Law Corporation	Qualified Singapore lawyers
Norton Rose LLP	Qualified United States, European Union and United Nations lawyers
Norton Rose Australia	Qualified Australian lawyers
NOERR OOO	Qualified Russian lawyers
Atieh Associates Law Firm	Qualified Iranian lawyers

11. Consents of experts

Each of the experts referred to in paragraph 10 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or valuation certificates and/or legal opinion (as the case may be) and the references to their name in the form and context in which it respectively appears.

None of the experts referred to in paragraph 10 above has any shareholding interests in any member of our Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Exemption from the requirement of a property valuation report

No property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration include copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section headed “Statutory and general information — F. Other information — 11. Consents of experts” in Appendix V to this prospectus and copies of each of the material contracts referred to in the section headed “Statutory and general information — B. Further information about our Business — 1. Summary of our Material Contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Messrs Tung & Co. at Office 1601, 16/F, LHT Tower, 31 Queen’s Road Central, Hong Kong at, during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in the section headed “Accountant’s Report” in Appendix I to this prospectus;
- (c) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (d) the letters relating to the profit estimate from PricewaterhouseCoopers and the Sponsor, the text of which are set out in Appendix III to this prospectus;
- (e) the letter prepared by Conyers Dill & Pearman summarising certain aspects of BVI company law referred to in Appendix IV to this prospectus;
- (f) the material contracts referred to in the section headed “Statutory and general information — B. Further information about our Business — 1. Summary of our Material Contracts” in Appendix V to this prospectus;
- (g) the written consents referred to in the section headed “Statutory and general information — F. Other information — 11. Consents of experts” in Appendix V to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
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- (h) the rules of the Pre-IPO Share Option Scheme;
- (i) the rules of the Share Option Scheme;
- (j) the Directors' respective service agreements and the letters of appointment referred to in the section headed "Statutory and general information — C. Further information about our Directors and Substantial Shareholders — 1. Particulars of Directors' service agreements and letters of appointment" in Appendix V to this prospectus;
- (k) the Companies Act;
- (l) the PRC legal opinions on our operations and our properties in the PRC, both dated 22 February 2013 prepared by Shu Jin Law Firm;
- (m) the Singapore legal opinions on Star Petrotech, dated 22 February 2013 prepared by Stamford Law Corporation;
- (n) the Singapore legal opinion on Turbodrill SG, dated 22 February 2013 prepared by Stamford Law Corporation;
- (o) the advice in respect of the sanctions regime under the laws of the BVI, dated 22 February 2013 prepared by Conyers Dill & Pearman;
- (p) the advice in respect of certain economic sanctions administered by the United States, European Union and United Nations, dated 22 February 2013 prepared by Norton Rose LLP;
- (q) the advice in respect of the sanctions regime under the laws of Australia, dated 22 February 2013 prepared by Norton Rose Australia;
- (r) the advice in respect of certain contracts entered into by the Group with certain aspects of Russian law, dated 22 February 2013 prepared by Noerr OOO; and
- (s) the advice in respect of (i) our operations in Iran and (ii) the divestment of a former subsidiary of the Group under the Iranian law, both dated 22 February 2013 prepared by Atieh Associates Law Firm.

Petro-king

TERMBRAY PETRO-KING OILFIELD SERVICES LIMITED

添利百勤油田服務有限公司