SPT Energy Group Inc.
華油能源集團有限公司*

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

2012 Annual Report

* For identification purpose only

CONTENTS

SPT Energy Group Inc.
Annual Report 2012

Corporate Information

THE BOARD

Executive Directors

Mr. Wang Guoqiang
(Chairman and Chief Executive Officer)
Mr. Wu Dongfang
Mr. Liu Ruoyan
Mr. Jin Shumao (appointed on 27 March 2013)

Non-Executive Directors

Mr. Lin Yang
Ms. Chen Chunhua (re-designated on 27 March 2013)

Independent Non-Executive Directors

Ms. Zhang Yujuan (appointed on 27 March 2013)
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Ms. Zhang Yujuan *(Chairman)*
(appointed on 27 March 2013)
Mr. Wang Guoqiang
Mr. Wu Kwok Keung Andrew

NOMINATION COMMITTEE

Mr. Wang Guoqiang *(Chairman)*
Ms. Zhang Yujuan (appointed on 27 March 2013)
Mr. Wu Kwok Keung Andrew

AUTHORISED REPRESENTATIVES

Mr. Wang Guoqiang
Ms. Mok Ming Wai

COMPANY SECRETARY

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

COMPANY WEBSITE

www.spt.cn

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN PRC

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

REGISTERED OFFICE

Floor 4, Willow House,
Cricket Square,
PO Box 2804,
Grand Cayman KY1-1112,
Cayman Islands

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

Corporate Information

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISOR

Morrison & Foerster

COMPLIANCE ADVISER

Haitong International Capital Limited

PRINCIPAL BANKERS

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

INVESTOR RELATIONS

iPR Ogilvy Ltd.

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

1251

DATE OF LISTING

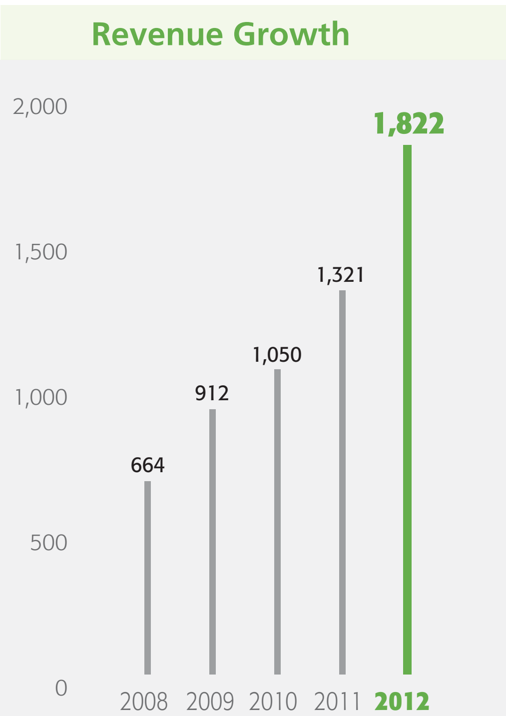
23 December 2011

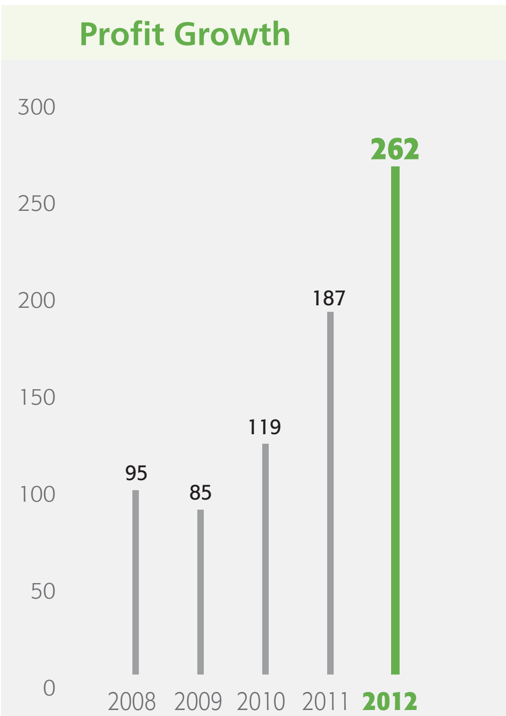
Financial Summary

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

CONDENSED CONSOLIDATED INCOME STATEMENT

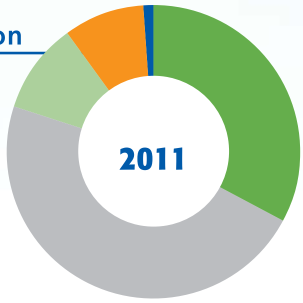
	Year ended for 31 December			
RMB'000	2012	2011	2010	2009
Revenue	1,821,661	1,321,260	1,050,432	911,526
Other (losses)/gains, net	(11,435)	(7,760)	4,206	(44,630)
Operating costs	(1,448,157)	(1,037,851)	(873,705)	(713,811)
Operating profit	362,069	275,649	180,933	153,085
Finance cost, net	(22,797)	(13,999)	(5,350)	(5,304)
Profit before income tax	339,272	261,650	175,583	147,781
Profit for the year	254,938	186,583	119,443	84,803
Attributable to:				
Equity owners of the Company	247,703	181,806	119,509	84,803
Non-controlling interests	7,235	4,777	(66)	—
Dividends proposed after balance sheet date	61,000	13,350	—	—



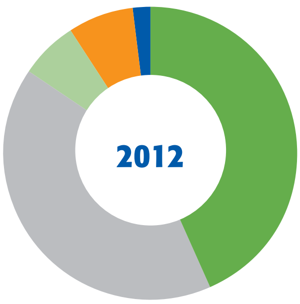


Revenue by Region

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

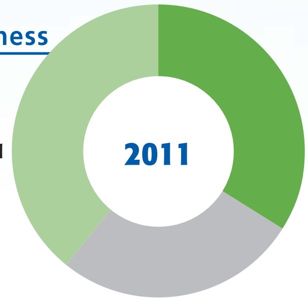


- China: 791,437
- Kazakhstan: 749,734
- Canada: 117,856
- Singapore: 131,244
- Others: 31,390

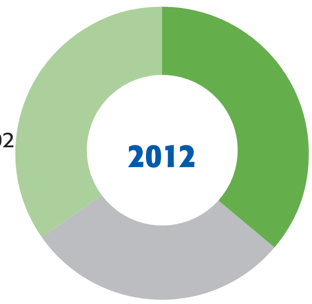


Revenue by Business

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



- Drilling: 658,850
- Well completion: 531,502
- Reservoir: 631,309



CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December			
RMB'000	2012	2011	2010	2009
Asset				
Non-current assets	388,849	284,416	236,175	184,427
Current assets	2,106,196	1,184,351	929,510	690,560
Total assets	2,495,045	1,468,767	1,165,685	874,987
Total equity	1,628,174	903,789	601,950	447,081
Liability				
Non-current liabilities	151,394	16,700	434	434
Current liabilities	715,477	548,278	563,301	427,472
Total liabilities	866,871	564,978	563,735	427,906
Total equity and liabilities	2,495,045	1,468,767	1,165,685	874,987
Net current assets	1,390,719	636,073	366,209	263,088
Total assets less current liabilities	1,779,568	920,489	602,384	447,515

Chairman's Statement

We strive to become a first-class international energy services enterprise.

Wang Guoqiang
Chairman and Executive Director

Dear shareholders,

On behalf of the board of directors (the "Board") of SPT Energy Group Inc. (the "Company" or "SPT Energy Group", together with its subsidiaries, the "Group"), I present the annual report of the Group for the year ended 31 December 2012 to the shareholders.

In 2012, the Group recorded a revenue of RMB1821.7 million and profit after tax of RMB254.9 million, representing a year-over-year increase of 37.9% and 36.6% respectively.

During the past year, under the double-whammy of the European and U.S. debt crisis, the recovery of the world economy suffered another hindrance, whereas potential risks triggered by the global financial crisis were in no way diminished. Despite numerous challenges, the Chinese government faced in 2012, the China economy maintained a stable growth owing to the effective measures taken to curb the aftermath of the international financial crisis, adjustment of economic structure and the inflation-expectation relationship. Alongside the continuous significant support and investment in oilfield services industry from the Chinese government as announced in the *12th Five-Year Plan*, the new direction of policies and relatively loose monetary policies also resulted in a more attractive valuation for the industry as a whole. With the great developmental potential behind the present market conditions and policy environment, it is expected that oilfield services industry will achieve a relatively optimistic performance in the coming years. Being one of the leading non-state-owned providers of integrated oilfield services in China, SPT Energy Group will actively adjust its own structure, optimize its assets portfolio, create new financing method and expand its market share. Driven by the promising macro-economic environment and relevant policies, the pace of adjustment will speed up accordingly. Meanwhile, the Group will restructure its business portfolio and expand its domestic market share as well as its business in oversea markets, so as to seek opportunities for merger and acquisition as well as new growth points for profit.

In 2012, the Group was dedicated to providing our customers with various turnkey and special technical services. After years of efforts, the Group has possessed the major technologies and on-site construction capacities necessary for oil exploration and production. In particular, the Group has gained abundant experience and achieved substantial results in the areas of research and assessment on oil and gas reservoir of complex wells, complicated and difficult wells and unconventional oil and gas wells, drilling, well completion and fracturing technologies. We are one of the few non-state-owned enterprises providing large-scale overseas oilfield services with worldwide business coverage throughout major oil and gas production regions, such as China, Central Asia, North America, Southeast Asia and the Middle East. During the reporting period, the Group successfully won a tender for sidetracking turnkey operations of 20 wells in NB oilfield in Kazakhstan with a contract amount of USD12 million. In the same year, the Group won another tender of the turnkey operations for 5 wells located in Mangystau, Kazakhstan of Emir-oil LLC with a contract amount of USD36 million. These recognitions in turnkey technologies demonstrated the Group's competitive strengths in this area and further enhanced our scale of operation and market position, which in turn represented a remarkable milestone for the turnkey services business of the Group. The Group has also proactively developed the turnkey projects in the whole well drilling and well completion of ultra-deep wells and unconventional oil and gas wells in the domestic market. It is expected that relevant business contracts would be obtained in 2013, so as to make significant contributions to the output value and performance of the Group.

Following the declaration of *the Shale Gas Development Planning (頁岩氣發展規劃) (2011–2015)*, the exploration of shale gas has drawn wide attention. In particular, after emphasis has been put on the cooperation with foreign parties for technologies development on shale gas exploration under the *12th Five-Year Plan*, several foreign-funded companies have started to target shale gas sector in China. The Group, as one of the leading non-state-owned providers of integrated oilfield services in China, will undoubtedly seize this opportunity. The Group has the capacity to independently design and develop the products necessary for shale gas development, such as mainstream mud, well cementation, well completion and fracturing fluid. The Group is also positively enhancing the processing capacity of well-completion tools, the testing of which is anticipated to be finalized and formally put into production in 2013. During the reporting period, the Group successfully completed the large-scale hydraulic fracturing technical services for the first horizontal shale gas well of CNPC in Changning, Sichuan. The fracturing operations were smoothly completed with the test output of 140,000 cubic meters per day. The said well is also one of the shale gas wells with highest yield among those independently developed wells in China. In November 2012, the Group won a tender in the competitive bidding with many international bidders and independently undertook an oil-based drilling fluid service for a total of 14 wells of two well groups in the second-round tender of shale gas demonstration zone of CNPC in Changning, Sichuan. In July 2012, the Group successfully implemented the turnkey drilling operation for the second coal-bed well in Indonesia. The remarkable success in the abovementioned businesses indicates that the service technologies of the Group are increasingly well recognized in the field of exploration and development of unconventional gas, and the Group is well prepared for the rapid development of subsequent related business.

Chairman's Statement

Meanwhile, with a view to acquiring professional knowledge on shale gas exploitation and to laying a solid foundation for cracking the shale gas market, the Group and American Gas Technology Institute (GTI) entered into a cooperation framework agreement and co-established the China Shale Gas Training and Consulting Center (中國頁岩氣培訓與諮詢中心). In addition to the Group's understanding and confidence on the local market and customers' needs, the Group will utilize the advanced knowledge and international experience of GTI in relation to technical research, training and education and technical consultation learnt in this cooperation to provide comprehensive and practical training and consultation services to state-owned oil companies, emerging independent medium-and-small-sized oil companies, investors, governmental departments, research institutions and universities in China, involved in the exploitation and development of shale gas. Close cooperation with GTI and the co-establishment of "China Shale Gas Training and Consulting Center" is crucial to the Group's strategy on unconventional gas business, and the Group will make use of this platform to provide more quality services and supports for exploration and development of shale gas in China.

The cash flow of the Group has been improved following its successful listing on the Main Board of the Hong Kong Stock Exchange at the end of 2011. In 2012, the Group raised sufficient funds through the issue of convertible bonds and the top-up placement, and conducted merger and acquisition projects through various channels. In June 2012, the Group succeeded to acquire 60% equity interest of Singapore Well Completion Tools Manufacturing Factory (新加坡完井工具製造廠), which would not only further enhance the market share of the Group and cut the cost, but also serve as an important stage for the Group to develop its integrated service for our customers.

Through the efforts of consolidation and development, the Group has optimized the organizational structure and completed procedural restructuring and other material management works during the past financial year. In 2012, the Group reinforced the development and training of internal talents, and continued to attract high-caliber talents in management, engineering service and Research and Development. With the rapid growth in the domestic and international businesses, the staff base of the Group has steadily expanded. As of 31 December 2012, the total number of staff of the Group was 3,324, among them, 1,191 were foreign employees. Meanwhile, in order to comply with the industry development requirements of the *12th Five-Year Plan*, the Group will strengthen its research on oil service industry, enhance and perfect the business model, and build a scientific and sustainable business development model suitable to the Group.

I would like to take this opportunity to express our heartfelt gratitude to the most honored shareholders for their continuing support and trust in SPT Energy Group. We will carefully listen to the precious opinions and recommendations from our shareholders and the general public to further improve and enhance our operation and management level, and strive for a better operating result in return to shareholders for their concern and kindness.

Wang Guoqiang
Chairman and Executive Director


112

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2012, the Company and the Group realised a revenue of RMB1,821.7 million and profits after tax of RMB254.9 million, representing increases of 37.9% and 36.6%, respectively, as compared with the year ended 31 December 2011.

The Group is dedicated to providing various turnkey and special technical services in respect of the exploration and development of oil and natural gas. After years of efforts, we possess the major technologies and on-site construction capacities necessary for oil exploration and production. In particular, the Group has gained abundant experience and positive results in the areas of core oilfield services and technologies, including the research and assessment on oil and gas reservoir of the complex wells, the complicated and difficult wells and unconventional oil and gas wells, drilling, well completion and fracturing technologies. The Company is one of the few non-state-owned enterprises providing large-scale overseas oilfield services with worldwide business coverage throughout major oil and gas production regions around the world, such as China, Central Asia, North America, Southeast Asia and the Middle East. During the year, the overseas and domestic business of the Group has developed rapidly. In overseas market, the Group was able to maintain its leading position in scale advantages and realised a revenue of RMB1,030.2 million, which accounted for 56.6% of the total revenue of the Group or represented an increase of 16.2% over the corresponding period last year. As for the domestic market, the Group realised a revenue of RMB791.4 million, which accounted for 43.4% of the total revenue of the Group or represented an increase of 82.2% over the corresponding period last year.

During the reporting period, the Group further strengthened the promotion and application of relevant technologies by focusing on the capacity construction of turnkey operations and unconventional oil and gas resources operations. In particular, the Group has put extra effort in self-developed tools, building talent pool, technology application and promotion, where a fruitful result has been seen.

Regarding turnkey operations, during the first half of the year, the Group recruited and redeployed various internal professional talents to establish an integrated project department, specializing in running the relevant oil and gas integration projects and in project management, reservoir research, drilling engineering, drilling fluid, fracturing and well completion, whereby forming the integrated projects operation capability with an integration of project assessment, design and engineering. In August 2012, the Group successfully won a tender for sidetracking turnkey operations of 20 wells in NB oilfield in Kazakhstan with a contract amount of USD12 million. In the same year, the Group won another tender of the turnkey operations for 5 wells located in Mangystau, Kazakhstan of Emir-oil LLC with a contract amount of USD36 million, which greatly demonstrated the Group's competitive strengths in this field. Meanwhile, during the reporting period, the Group has also proactively developed the turnkey projects in the whole well drilling and well completion of ultra-deep wells and unconventional oil and gas wells in the domestic market. It is expected that relevant business contracts would be obtained in 2013, so as to make significant contributions to the output value and performance of the Company.

Regarding unconventional gas business, firstly, the Group has been focusing on the core technologies of unconventional gas exploration and development, such as drilling, well completion and fracturing. In addition, the Group has conducted the research and development as well as on-site application, and is well equipped with the capacity to independently design and develop the products necessary for the development of shale gas, such as mainstream mud, well cementation, well completion and fracturing fluid. The Group is also positively enhancing the processing capacity of well-completion tools, the testing of which is anticipated to be finalized and formally put into production in 2013. In April 2012, the Group successfully completed the large-scale hydraulic fracturing technology services for the first horizontal shale gas well of CNPC in Changning, Sichuan. The fracturing operations ran smoothly with the testing output of 140,000 cubic meters per day. The well is also the shale gas well with the highest yield independently developed in China. In November 2012, the Group won a tender among many international bidders and independently undertook the oil-based drilling fluid service for a total of 14 wells of two well groups in the second-round tender for shale gas demonstration zone of CNPC in Changning, Sichuan. In July 2012, the Group successfully implemented the turnkey drilling operations for the second coal-bed methane well in Indonesia. The remarkable progress of these businesses indicated that the service technologies of the Group have been increasingly recognised in the field of exploration and development of unconventional gas, laying a solid foundation for the rapid development of subsequent related businesses. Secondly, during the reporting period, the Group has strengthened the external cooperation and resource integration. On 7 November 2012, the Company and American Gas Technology Institute (GTI) jointly established the "China Shale Gas Training and Consulting Center", which is committed to fully utilizing their advantages in providing comprehensive and practical training and consulting services to state-owned oil companies, emerging independent medium-and-small-sized oil companies, investors, governmental sectors, research institutions and universities in China involved in the exploitation and development of shale gas. GTI is a non-profit institution engaged in the gas research, technical development, training and education with a history of seventy years, which has always been in a leading position in the aspect of development and deployment of natural gas technical solutions, in particular, the overall solutions for the exploitation and development of unconventional natural gas. The establishment of the strategic alliances will significantly promote the Group's research and deployment of the development strategies in the domestic shale gas market, the involvement into customers' early valuation of exploration area, the exploration program design as well as the contracted turnkey operations of shale gas wells.

REVENUE ANALYSIS

For the year ended 31 December 2012, the analysis of the Group's revenue by business segment is as follows:

	2012 RMB'000	2011 RMB'000	Year-on-year growth
Drilling	658,850	450,798	46.2%
Well completion	531,502	354,911	49.8%
Reservoir	631,309	515,551	22.5%
Total	1,821,661	1,321,260	37.9%

Management Discussion and Analysis

In 2012, the three main business segments of the Group maintained a stable growth. The drilling segment and the well completion segment increased by 46.2% and 49.8%, respectively, driven by the rapid development in businesses such as turnkey drilling operations, oil-base mud and well cementation technology service and well completion technology service. In general, the output value attributable to the three main business segments maintained a relatively balanced development pattern. With the rapid growth of the turnkey drilling operations and unconventional gas business in 2013, we believe that the drilling segment and the well completion segment could further contribute to the Group's output value.

Reservoir Segment

Revenue	2012 RMB'000	2011 RMB'000	year-on-year growth
PRC	127,341	61,993	105.4%
Overseas	503,968	453,558	11.1%
Total	631,309	515,551	22.5%

For the year ended 31 December 2012, the reservoir services segment realised a revenue of RMB631.3 million, representing year-on-year growth of 22.5%. The overseas market contributed a revenue of RMB504.0 million, representing year-on-year growth of 11.1%, while the domestic market contributed a revenue of RMB127.3 million, representing year-on-year growth of 105.4%.

The reservoir segment is the earliest business segment commenced by the Group. It mainly comprises reservoir research, dynamic monitoring, oil testing service, oil production technology and turnkey business for oil and gas production.

1. Dynamic monitoring business: In the first half of 2012, the Group obtained a service contract of a total amount of USD32.38 million in relation to the provision of oilfield dynamic monitoring service for PetroKazhakstan Company in Kazakhstan for a term of 33 months. Accordingly, the Group's market position in Kazakhstan region has been further strengthened. In December 2012, the Group secured a contract with a total amount of USD1.15 million in relation to the provision of oilfield dynamic monitoring services for KOA, the national oil company of Kazakhstan, and the operation workload was approximately 1,200 wells. This was another breakthrough in monitoring projects achieved by the Group in overseas market. This has further contributed to the Group in the formation of an international operation team which enhanced our international recognition and reputation.

2. Oil testing and trial production business: In 2012, for the oil testing trial production business, the Group not only made business breakthrough in the surface testing for two new oil fields, i.e. Abdul kalam Cass and Redabai (熱的拜), but also completed the operation of 120 wells throughout the year. In addition, the scope of business was expanded into the comprehensive services for high pressure and high temperature wells. In the second half of 2012, the Group secured an oil testing contract with a contract amount of USD3.56 million from OTG in Aktobe of Kazakhstan. This extra-high pressure well was the first well undergoing deep exploration in the region. Upon the successful exploration, the Group may obtain additional 7 wells' exploration business.

3. Oil production technology business: In 2012, the Group benefited from oil production technology, such as submersible direct-driven screw pump, gas lift technology and water shut-off and profile control. The Group completed the technology integration of the submersible direct-driven screw pump, conducted the R&D for its own automatic centralizer device and self-cleaning sand control device and completely solved the technological bottleneck of the short lifespan troubled by downhole reducer. Due to such technological advantages as energy conservation, long-term efficiency and digital controlling system, the technology served as a revolution in the oil production technological field, bringing about potential cooperation with CNPC Xibu Drilling Engineering Company Limited, Sinopec North China Petroleum Bureau, CNOOC, Daqing Oilfield, etc. Gas lift technology: leveraging on the team of gas lift comprising experts with over 30 years' experience in gas lift operations, the Group developed its own negative pressure gas lift, gas lift with eccentric poising gas-lift valve and built-in fracturing and gas-unloading gas lift technology. We conducted operations in 17 wells in liquid unloading and gas production projects in Sulige (蘇裏格) gas field of CNPC Changqing with a success ratio of 100%. The Group has currently negotiated with MI Oilfield in Kazakhstan and has reached a preliminary cooperation intention. Water shut-off and profile control projects: it is one of the essential measures for oilfields to realize production enhancement at the middle and late stages. Taking into account of the current reservoir situation of KBM oilfield in Kazakhstan, the Group collaborated with the China University of Petroleum on the development of water shutoff agents to make a highly pertinent program. Recently, the Group entered into a construction contract on shut-off and profile control for 5 wells in KBM oilfield. Meanwhile, the Group has been undertaking a shut-off and profile control program based on the existing reservoir conditions in NB oilfield in Kazakhstan. Currently, the Group has reached a consensus on the evaluation program with our customers and is well positioned to commence a preliminary test.

4. Turnkey business of the oilfield daily operation and maintenance was a reservoir service business newly developed by the Company in 2012. The service mainly included the daily production of turnkey business of the oil and gas station, which was a crucial, regular and sustainable service for oilfields after entering the production stage. Compared with other businesses, this type of business is stronger in terms of stability and sustainability. In 2012, the Group carried out this business mainly in Tarim Oilfield and realised a revenue of approximately RMB68 million. It is expected that this business would record a significant growth with a forecasted output value of approximately RMB150 million.

5. As the Group was dedicated to the provision of a series of solutions from the design and evaluation of the oilfield at the early stage of exploration to oilfield development at the late stage, the Company has always placed great importance to reservoir research and evaluation. At present, the professional technology structure of reservoir research covers three backbone technologies, namely petroleum geology, geophysics and reservoir engineering. In 2012, the Group further strengthened the reservoir geological research. Based on the work in Daqing Oilfield, Northeast Petroleum Bureau of Sinopec and Jidong Oilfield which already possessed research markets, the Group expanded its research business into the international market and acquired the comprehensive research projects of reservoir geology for two additional oilfields in Kertz of Kazakhstan, i.e. South Kenneth Oilfield and Bektas (貝克塔斯) Field, with a project value of USD900,000. This was a strong driving force for the Group to enter the international market in the area of reservoir geology research and deepen its development in the global engineering service production chain. In addition, the research team currently plays an important role as technical support to the bidding activities for the exploration and development of turnkey projects of shale gas in China.

Well Completion Segment

Revenue	2012 RMB'000	2011 RMB'000	year-on-year growth
China	350,466	228,705	53.2%
Overseas	181,036	126,206	43.4%
Total	531,502	354,911	49.8%

In 2012, the well completion service business of the Group achieved a significant growth with a revenue of RMB531.5 million, representing year-on-year growth of 49.8%. The well completion services of the Group mainly consist of well completion technology services and fracturing technology services. During the year, the rapid growth in well completion business mainly benefited from the overall acceleration of domestic natural gas exploitation, as well as a faster growth of overseas well completion business, especially in the Central Asian market.

1. The Company was one of the earliest domestic enterprises engaged in the business of well completion, and occupied a leading position in the domestic market of high-end gas well completion services. In 2012, the Group realised a revenue of RMB350.5 million from well completion services in the PRC market, representing year-on-year growth of 53.2%. In 2012, while maintaining its leading position of high-end gas well completion services in Tarim Oilfield, the Group also successfully expanded into the well completion technology services

market of North China Petroleum Bureau of Sinopec (中石化華北局) and Shengli Oilfield of Sinopec respectively, which opened a new page for the domestic well completion technology market. In addition, the Group achieved significant results in the domestic gas storage well completion market. During the reporting period, the Group has completed the well completion technology services for a total of 21 wells in several gas storages, including Xinjiang Hutubi gas storage (新疆呼圖壁儲氣庫), Sichuan Xiangguosi gas storage (四川相國寺儲氣庫), Changqing Oilfield gas storage (長慶油田儲氣庫) and North China gas storage (華北儲氣庫). In overseas market, the well completion business has grown rapidly in 2012, among which, the Group realised a revenue of RMB82.7 million from well completion technology operation services in Kazakhstan during the period, representing year-on-year growth of 24.8%. In particular, a dual-lateral horizontal well in KJYK, Aktobe (阿克糾賓洲肯吉亞克鹽下) was the second dual-lateral horizontal well of CNPC in its overseas market and the first one in Kazakhstan. With the vertical depth of 4,900 metres of each dual-lateral horizontal section, as well as the high content of hydrogen sulfide gas in this well, there was a huge challenge to the completion process design and the construction operations of such well. The Group successfully defeated overseas competitors and overcame various problems in the design and engineering and smoothly completed the entire operation process as well as well completion at one time. This fully demonstrated the Group's leading technical strength in the high-end and complex well, and definitely strengthened the leading market position of the Group in this region.

2. With the acceleration of exploration and development of unconventional oil and gas (including tight oil and shale gas), the oil companies and service companies paid more and more attention to fracturing operations. The core of fracturing operations depends on whether a suitable hydraulic fracture can be designed and effectively connected with the reservoir according to the characteristics of the reservoir, and whether the fracturing fluid system is in line with the specific condition of different strata and reservoir and is compatible with formation fluid, so as to achieve the oil and gas stimulation. During the reporting period, the Group achieved good results in the domestic market of unconventional oil and gas, including shale gas and tight oil. In April 2012, the Group successfully completed the large-scale hydraulic fracturing technology services for the first shale gas horizontal well of CNPC in Changning, Sichuan. The well was the first shale gas well in the Changning-Weiyuan State-level Shale Gas Demonstration Area in Changning district, and the fracturing operations were smoothly completed through 10-stage fracturing at nearly 1,200 metres of horizontal section by applying the international leading shale gas horizontal well staged fracturing technology. With the testing output of 140,000 cubic meters per day, this well was currently a shale gas well with the highest yield self-developed in China. The great success in this well fully demonstrated its good gas content and great potential of exploration and development in this area, which casted a great strategic significance on the recognition and evaluation of the reservoir, and the confidence in shale gas exploration for the oil companies, including the research and deployment of subsequent development and investment schemes. It also further demonstrated that the Company maintained a leading position in the field of fracturing technology and indicated that the Group was in the front rank of the domestic shale gas fracturing area. In addition, it would have a positive and profound impact on the domestic shale gas fracturing operations of the Group. Notwithstanding the difficulty in ensuring the fracturing effect in the tight oil in Tuha Oilfield, the Group entered into this market through a huge success of an experimental well in 2011, and further successfully provided the fracturing services for 7 wells in the tight oil business operations in Tuha Oilfield in 2012, which enabled the Group to continuously maintain its leading position in the high-end fracturing technology service market in this oilfield.

Drilling Segment

Revenue	2012 RMB'000	2011 RMB'000	year-on-year growth
China	313,630	143,744	118.2%
Overseas	345,220	307,054	12.4%
	—	—	—
Total	658,850	450,798	46.2%

For the year ended 31 December 2012, the Group recorded a revenue of RMB658.8 million from the drilling service segment, representing year-on-year growth of 46.2%. The domestic market contributed a revenue of RMB313.6 million which represented year-on-year growth of 118.2%, while the overseas market contributed a revenue of RMB345.2 million which represented year-on-year growth of 12.4%.

The drilling business of the Group includes drilling turnkey service, mud service (drilling fluid service), cementing service, directional drilling service, under-balanced drilling, sidetracking well service, workover service, disposal of drilling waste as well as various integrated and specialized technical services. These services are widely rendered in domestic markets such as Tarim Oilfield, Sichuan Oilfield and Changqing Oilfield, as well as other overseas markets including Kazakhstan, Turkmenistan and Indonesia.

1. Drilling turnkey operations: during the reporting period, the drilling operations have developed rapidly in overseas market. After successfully carrying out the CBM drilling turnkey operations for the second well in Indonesia, in August 2012, we won the tender of the sidetracking drilling turnkey operations for 20 wells in NB Oilfield in Kazakhstan with a contract amount of USD12 million. Most of the operations had been successfully completed in 2012. In November of the same year, we won a tender in the drilling turnkey operations of 5 wells located in Mangystau (曼吉斯套州), Kazakhstan of Emir-oil LLC, with an amount of USD36 million. The success of above drilling turnkey projects has laid a solid foundation for the Group to further accelerate the development of the turnkey services.

2. Mud service operations: in view of the huge potential of drilling fluid new technologies and materials markets in respect of ultra-deep gas well and unconventional oil and gas well, the Group has always emphasized on the research and development and application of relevant drilling fluid technologies and products. Up to the end of the reporting period, the Group has basically developed a series of drilling fluid proprietary technologies applicable to various formations, and has applied the intellectual property rights declaration for the relevant products and technologies. In 2012, only in terms of oil-based drilling fluid, we have achieved the scale of operations in Tarim Oilfield and conducted accumulative operations for a total of 8 wells. In current period, we recorded an operating income of RMB61 million, representing year-on-year growth of 85%. In November 2012, the Group successfully defeated other competitors both at home and abroad, and undertook by itself the second round of investments in shale gas demonstration area of CNPC in Sichuan (中石油四川頁岩氣示範區) as well as all oil-based mud services for a total of 14 wells of two well groups. The related operations are expected to be fully completed in 2013.

3. Cementing operations: along with the increasing application of oil-based mud in high temperature wells, complicated wells and unconventional oil and gas wells, the difficulty in keeping the quality of oil-based mud cementing becomes a greater concern. To solve this new problem, the Group has started the research and resolution of related technologies as early as 2009, and has selected the appropriate reverse wetting agent and formulated the special spacer for use in oil-based mud cementing, so as to enhance the oil-based mud cementing quality. During the reporting period, we have achieved a huge success in such technology and maintained an absolute leading position in oil-based mud cementing operations in Tarim Oilfield. In current year, we completed the cementing operation services for 17 wells. Following further acceleration of shale gas exploration, oil-based mud cementing will inevitably become the main drilling fluid service technology, thereby facing huge development opportunities.

4. Waste disposal operations: with the increasing emphasis and attention on the environmental protection problems from the country, more and more oil companies attach great importance to the waste disposal technology in the process of oilfield drilling. In order to meet such need of customers, the Group has conducted independent Research and Development ("R&D") related to the special technology of applying microbial technology in disposal of oilfield wastes, which enables the Group to become one of the few domestic oilfield service enterprises being capable of providing such particular service. In 2012, we entered into service agreements with related customers of Southwest Oil and Gas Field Branch, CNPC and CNOOC in connection with the relevant products, proving huge market prospect of such products.

5. Drilling operations: in order to further strengthen the turnkey drilling capacity of the Group, the Group companies purchased a total of 5 drilling rigs in 2012, of which two 5,000 metres rigs were dedicated for the domestic market, which are expected to be formally put into use at the end of April 2013; two 3,000 metres rigs for Kazakhstan market, which have been delivered in September; and one CMB special rig for the Indonesia market, which has already arrived in September. The purchase of the above rig equipment further enhances the Group's equipment capacity in drilling turnkey operations and expands the operation scale of the Group's drilling operations, laying a solid foundation for subsequent scale operation of the Group's turnkey business.

Market Environment

For industry environment, the Group considers that the global oil and gas market will keep stable and maintain a rapid and steady growth in the coming five years, especially in the PRC market which is driven by the huge gap between supply and demand, accelerating the productivity construction of oil and gas fields as well as the exploitation rate of domestic oil companies. It is expected that the PRC will enter the golden era for oil and gas exploration in the coming three to five years. In particular, the exploration and development of shale gas in the PRC will be greatly accelerated as a result of the further implementation of the diversified policies for shale gas investment, which will bring a great development prospect for the oil services companies, especially the oilfield services enterprises with the capability of turnkey services.

1. *Increasing Importance of Turnkey Services Model*

   Along with the increasing number of complicated wells and unconventional oil and gas wells, the oil companies will focus more on turnkey operation services, especially those of unconventional gas like shale gas as a result of higher requirements of efficiency and cost from the clients. Accordingly, the turnkey operation services model will become the mainstream of the services model. In line with industry development, the small and medium oil services providers in China will make every effort to extend their industrial chain and break through barriers in service scale as well as service technologies, so as to expand their comprehensive advantages. It will be an industry trend in 2013.

2. *Great Development Opportunities in the Natural Gas Industry*

It is expected that both demand and import volume of natural gas in the PRC will maintain a rapid growth in 2013. With the acceleration of urbanization and worsening of air quality, the natural gas industry will face a favorable outlook. The demand of natural gas in the PRC will experience an explosive growth following the promulgation of the articles of the Twelfth Five-Year Plan for the Development of Natural Gas (天然氣發展"十二五"規劃). According to the deployment in respect of the domestic supply of natural gas in 2015, a diversified natural gas supply pattern will be formed, with conventional natural gas taking a major role while coal gas would be in a supplementary role. In term of demand, the growth rate of the demand for natural gas is expected to be higher than that of the output in the PRC, resulting in an increasing gap between supply and demand of natural gas and China's dependence on external natural gas. The proportion of natural gas in the primary energy sources will increase from the current 3% to 8%. The natural gas in the PRC will enter accelerated growth period following the implementation of natural gas pipeline project.

3. *A Prosperous Market Prospect for Shale Gas*

As PRC has leading and affluent shale gas reserves in the world, we are facing a favorable development opportunity on the exploration of unconventional gas in 2013 with an increasingly prominent development trend. The exploration of shale gas has attracted extensive attention from various parties subsequent to the promulgation of the Development Program of Shale Gas (2011–2015) (《頁岩氣發展規劃 (2011–2015)》). In particular, as the cooperation with other countries in respect of the exploitation technology are emphasized in the Twelfth Five-Year Plan, such trend has become more and more apparent. Compared with unconventional gas, the exploration and development of shale gas is still in the early stage. The technology necessary for exploration and development of shale gas is still in an exploratory stage for both state-owned services companies and private services companies. However, a number of works on exploration and development of shale gas have been conducted in China, such as outcrop geological survey, the pilot test of preliminary research as well as exploration and development. In particular, more than 40 shale gas wells were drilled and shale gas was exploited from more than 10 wells, in which the initial daily outputs of certain wells exceed 10,000 m^3 in the marine shale gas area in Southern China. The practices demonstrate that shale gas will possess a prosperous outlook in China, and the development of shale gas resources in China will demonstrate a further acceleration in 2013 along with the breakthrough in key technologies of exploration and development, the improvement of economic conditions as well as the support from national policies.

R&D AND MANUFACTURING

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

During the reporting period, the Group has integrated all of the intra-group strengths in research and development, and established the technology committee of the Group for arranging and deploying the Group's medium-and-long term plan in R&D and technology development, focusing on the research and development of tools and materials in well drilling and well completion required for the exploitation of shale gas and other unconventional gas. In December 2012, the Group held a review meeting for services and technical innovations. During the meeting, more than 40 innovations were assessed, of which 3 silver awards, 3 bronze awards and 15 consolation prizes were obtained. Prizes obtained in respect of numerical well test technology, piloted de-archive packer technology and the salvage technology of repairing complex wells demonstrated the Group's leading technical level in the world and its prosperous market prospect as assessed by relevant experts.

During the reporting period, the Group further accelerated the R&D and manufacturing of downhole tools. The construction of the Group's R&D and manufacturing base in Singapore has been completed and was officially put into use. Especially for shale gas, the Group has independent design and R&D capacity for the major well completion products of shale gas such as packer, slide bushing, bridge plug and ball set. The completion of the construction of the center would greatly enhance the Group's technological edges in respect of downhole operation, reduce the production cost and greatly enhance the Group's competitiveness in shale gas development market.

As of the end of the reporting period, the Group possesses a total of 34 approved patents. During the reporting period, the Group has newly applied for 5 patents and has 12 patents pending for approvals.

HUMAN RESOURCES

Upon the listing of the Group, in order to strengthen the technical and service capabilities for each business line and maintain the competitive edges of the business development, the Group has further optimized its internal organizational structure, reinforced the development and training of internal talents, and continued to attract high-caliber talents in management, engineering service and technology R&D in 2012. Subsequent to the rapid business growth in the PRC and abroad and steady increase of headcount, as of 31 December 2012, the Group had a total of 3,324 employees, including 1,191 non-Chinese employees. During the year of 2013, the Group will continue to introduce the core technology and service personnel, and increase the talent pool relating to unconventional oil and gas business. In the overseas market, the Group will keep on implementing the strategy of talent localization and optimizing the international personnel structure. The Group will make efforts to enhance the capability of expanding international business, which has become the important guideline of the talent strategy, proactively bring in international talents, and improve the ratio of talent localization so as to ensure the successful implementation of international business.

For the remuneration policy and employee incentives, in order to attract and retain crucial staff in key positions, the Group had implemented the share option scheme and granted options to some key employees in early 2012. Besides, to promote and meet the needs of the rapid business development, the Group has further improved its employee compensation management system, optimized the compensation structure and enhanced the incentive mechanism. Meanwhile, in order to meet the demand of business globalization, the Group will further develop and improve the compensation strategies for international staff from various countries and regions, to fulfill the actual requirement of human resources management in different regions.

For the staff development and training, based on the actual demand of our business, in 2012, the Group had strengthened the specialized technical training system of each technical department by increasing the training requirement and implementation efforts so as to accelerate talents training and enhance the training system. Moreover, the Group also provided specialized training in marketing skills for its marketing staff and offered oil-based professional foundation training program to non-professional oil officers and learning development program to certain senior management members to enable them to receive EMBA at internationally renowned business colleges. In 2013, the Group will not only carry on the regular training programmes, but also further promote and implement the technical training in unconventional oil and gas business, making good preparation for large-scale exploration of unconventional gas.

OUTLOOK

During a fairly long period in the future, the exploitation of natural gas will remain to be one of the most attractive industries for investment in the PRC market. With the promulgation of the five-year plan for shale gas in PRC and the completion of the second-round tender for shale gas sectors, exploration and development of shale gas in PRC will be further accelerated. In order to better cope with the external circumstances and seize the opportunities while laying a solid foundation for our plans in 2013, the Group will focus on the following aspects:

1. To reinforce and improve the turnkey operation capacity and further realize the design and implementation in organization, talent, equipment, technology and relevant aspects. Focusing on solving the difficulties and problems for our customers, the Group will make efforts to enable flexible mechanism, advanced technologies, reliable equipment and prompt reaction for integrated projects.

2. To further strengthen the expansion of shale gas in the markets concerned. By fully leveraging on the existing advanced technologies and performance, the Group will take comprehensive and in-depth actions to tap into such markets. Meanwhile, in response to the possible early mass development, the Group will use a combination of investment, alliance, merger and acquisition to strengthen its capabilities in heavy equipment such as drilling rig and fracturing pump, laying a solid foundation for subsequent large-scale turnkey operations.

3. To strive to enhance the level of internal management, make a practical and solid achievements in corporate process optimization, corporate culture development as well as technology and management innovation, so as to enhance the overall service quality of the Company and reduce overall costs.

As a result of the foregoing, looking ahead for 2013, with the further improvement in exteral operating environment as well as our full preparation of each segment of the Group, we are of the view that, based on a momentum of steady growth, the operating scale of the Group is expected to make considerable growth and the technological edge of the Company will be further enhanced in 2013. With the foreseeable rapid growth of the turnkey business and unconventional gas business, the Group will achieve even better performance in the turnkey drilling business (including the conventional natural gas and shale gas), the well completion business, oil-base mud and well cementation service business, oil and gas field operation turnkey service business, etc.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the Group realised a revenue of RMB1,821.7 million, representing an increase of RMB500.4 million, or 37.9%, as compared with the corresponding period last year. The increase in the Group's revenue was mainly due to the growth of well completion segment and drilling segment, for which the revenue increased by 49.8% and 46.2% respectively, as compared with the corresponding period last year.

Other (losses)/gains, net

The Group recognised net other losses of RMB11.4 million and RMB7.8 million for the year ended 31 December 2012 and 2011, respectively. The net other losses for the year ended 31 December 2012 was primarily due to the appreciation of USD-denominated liabilities of Kazakhstan subsidiaries against Kazakhstan Tenge ("KZT") while the net other losses for the year ended 31 December 2011 was primarily due to the appreciation of USD-denominated liabilities of Kazakhstan subsidiaries against KZT, as well as the devaluation of USD-denominated receivables of PRC subsidiaries against RMB.

Material cost

For the year ended 31 December 2012, material cost of the Group was RMB460.2 million, representing an increase of RMB96.8 million, or 26.6%, as compared with the corresponding period of 2011. The increase was due to the Group's business growth, especially the growth of well completion segment and drilling segment.

Employee benefit expense

Our employee benefit expense for the year ended 31 December 2012 was approximately RMB414.8 million, representing an increase of RMB161.8 million, or 64.0%, as compared with 2011. The increase was primarily due to the increase in the numbers of employees arising from our business growth.

Operating lease expense

Our operating lease expense for the year ended 31 December 2012 was approximately RMB79.3 million, representing an increase of RMB31.3 million, or 65.1%, as compared with 2011. The increase was mainly due to more offices leased by us to support our business expansion and more operating vehicles to support the growth of reservoir segment and drilling segment.

Transportation cost

For the year ended 31 December 2012, our transportation cost was approximately RMB75.9 million, representing an increase of RMB9.6 million, or 14.4%, as compared with 2011. The increase was primarily due to business growth of the Group.

Depreciation and amortisation

Our depreciation and amortisation expense for the year ended 31 December 2012 was approximately RMB57.4 million, representing an increase of RMB13.8 million, or 31.7% as compared with 2011. The increase was mainly due to the increase of machinery and equipment arising from the Group's business growth, especially the growth of reservoir segment and drilling segment, as well as the increase of land use right, buildings and other fixed assets for our manufacturing and service purposes.

Technical service expense

Our technical service expense for the year ended 31 December 2012 was approximately RMB129.4 million, representing an increase of RMB36.4 million, or 39.1%, as compared with 2011. The increase was mainly due to the business growth of the Group.

Impairment loss of assets

Our impairment loss of assets for the year ended 31 December 2012 was approximately RMB11.0 million. The impairment loss was mainly related to trade receivables from two Kazakhstan customers with unexpected financial difficulties, and the Group expected that the possibility to collect such receivables is minimal.

Others

Other operating costs of our Group increased from RMB161.3 million for the year ended 31 December 2011 to RMB220.2 million for the year ended 31 December 2012, representing an increase of RMB58.9 million, or 36.5%. This was mainly due to the increase of management expenses arising from the business expansion, the establishment of new subsidiaries and offices as well as the increased number of employees.

Operating profit

As a result of the foregoing, our operating profit increased to RMB362.1 million for the year ended 31 December 2012, representing an increase of RMB86.4 million, or 31.4%. Our operating profit margin (operating profit divided by revenue) for 2012 was 19.9%, representing a decrease of 1.0 percentage as compared with 20.9% for the corresponding period of 2011.

Finance cost, net

Our net finance cost for the year ended 31 December 2012 was approximately RMB22.8 million, representing an increase of approximately RMB8.8 million, or 62.8%, from RMB14.0 million for the year ended 31 December 2011. The increase was mainly due to an increase in borrowings.

Income tax expense

Our income tax expense for the year ended 31 December 2012 was approximately RMB84.3 million, representing an increase of approximately RMB9.3 million, or 12.3%, from RMB75.1 million for the year ended 31 December 2011. The effective income tax rate of the Group for 2012 was 24.9%, representing a decrease of 3.8 percentages as compared with 28.7% for the corresponding period in 2011. The decrease was mainly due to the fact that the subsidiaries incorporated in western China were entitled to the incentive income tax rate of 15% in 2012 and such subsidiaries contributed more profits to the Group.

Profit for the period

As a result of the foregoing, our profit for the year ended 31 December 2012 was approximately RMB254.9 million, representing an increase of RMB68.4 million, or 36.6%, from RMB186.6 million for the year ended 31 December 2011.

Profit attributable to the equity owners of the Company

In 2012, the profit attributable to the equity owners of the Company was approximately RMB247.7 million, representing an increase of RMB65.9 million, or 36.2%, as compared with the corresponding period of 2011.

Property, plant and equipment

Property, plant and equipment include buildings, machinery and equipment, motor vehicles, furniture, fixtures, construction-in-progress and others. As at 31 December 2012 and 2011, property, plant and equipment were approximately RMB277.5 million and RMB214.6 million, respectively. The increase was primarily due to the increased buildings, machinery and equipment arising from our business expansion.

Inventory

Our inventory balance increased from RMB245.1 million as at 31 December 2011 to RMB315.3 million as at 31 December 2012, representing an increase of RMB70.2 million, or 28.7%. The increase was mainly due to increased inventories prepared in advance to support further business expansion expected for 2013.

Trade receivables

As at 31 December 2012, our net trade receivables was RMB1,043.3 million, representing an increase of RMB466.2 million as compared with the corresponding period of 2011. The average turnover days of trade receivables in 2012 were 162 days, representing an increase of 21 days as compared with 2011. (Note: turnover days of trade receivables = (balance of trade receivables at the beginning of the period + balance of trade receivables at the end of the period)/2/revenue × 365 days per year). The increase was primarily due to a substantial increase in revenue during the current period and the majority of the revenue was recognised during the third or fourth quarter.

Liquidity and capital sources

As at 31 December 2012, our cash and bank deposit were approximately RMB672.5 million (including restricted bank deposit of RMB13.8 million and cash and cash equivalents of RMB658.7 million), representing an increase of RMB369.1 million as compared with the corresponding period of 2011. The increase was primarily due to the proceeds from the issuance of new shares and convertible bonds during the year.

As at 31 December 2012, our outstanding short-term bank borrowings and the current portion of long-term bank borrowings were RMB196.8 million, while our outstanding long-term borrowings were RMB125.7 million.

As at 31 December 2012, our gearing ratio was 19.8%, representing a decrease of 4.5 percentages as compared with the gearing ratio of 24.3% for the corresponding period in 2011. The decrease was mainly due to the issuance of ordinary shares in December 2012. Gearing ratio is calculated as total borrowings divided by total equity. Total borrowings include "borrowings" and "current portion of long-term borrowings" as shown in the consolidated balance sheet.

The equity attributable to the equity owners of the Group increased from approximately RMB870.3 million in 2011 to approximately RMB1,581.6 million in 2012. The increase was primarily due to the Company's issuance of new shares and the increased profit of 2012.

Cash flow from operating activities

For the year ended 31 December 2012, net cash flow used in operating activities was RMB57.9 million, while net cash flow generated from operating activities for the year ended 31 December 2011 was RMB31.5 million. The net cash flow used in operating activities was mainly due to the increased turnover days of the trade receivables in 2012.

Cash flow from investing and financing activities

For the year ended 31 December 2012, our net cash flow used in investing activities was approximately RMB143.2 million, which was primarily due to the RMB117.9 million used in purchasing property, plant and equipment and RMB17.6 million used in acquiring the land use right.

For the year ended 31 December 2012, our net cash flow generated from financing activities was approximately RMB559.3 million, which was mainly due to the Company's issuance of new shares and convertible bonds.

Foreign exchange risk

The Group mainly operates in PRC, Kazakhstan, Singapore and Canada, therefore transactions are usually denominated and settled in RMB, KZT, Singapore dollar and Canadian dollar, respectively, except the Group's international purchases and sales which are widely denominated and settled in USD. Foreign exchange risk also arises from borrowings comprising bank borrowings, convertible bonds and certain bank deposits denominated in foreign currencies. The Group is exposed to foreign exchange risk primarily with respect to USD.

During the current financial year, the Group did not use any financial instrument to hedge the foreign exchange risk. However, we will manage our foreign exchange risk by closely monitoring the foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

Contractual obligations

Our contractual commitments mainly include the capital expenditure commitment and the repayment obligations under operating lease arrangements, among which, the capital expenditure commitments mainly represent property, plant and equipment, and our property, plant and equipment commitment in 2012 amounted to RMB2.7 million. The operating leases mainly include the lease of offices, warehouses, equipments and devices. As at 31 December 2012, our commitment under operating leases was RMB28.8 million.

Contingent liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities or guarantees.

Off-balance sheet arrangements

As at 31 December 2012, the Group did not have any off-balance sheet arrangements.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Wang Guoqiang (王國強), aged 50, is an executive Director and the chief executive officer of our Company and the chairman of the Board and the founder of our Group who is responsible for the overall operation and management of our Group. Mr. Wang has over 28 years of experience in the petroleum industry. Prior to founding our Group, he served as an engineer of Huabei Petroleum Testing Company (華北石油測試公司), a subsidiary of CNPC, in charge of product design and research and development mainly relating to electromanometers and absorbers from July 1984 to August 1993. He obtained a diploma in field machinery from North China University of Petroleum Employees (華北石油職工大學) (currently known as Beijing Institute of Economic Management (北京經濟管理職業學院)) in July 1984. Mr. Wang also obtained an MBA degree from The National University of Singapore in April 2007.

Wu Dongfang (吳東方), aged 41, is an executive Director and a deputy general manager of our Company who is responsible for business development of our Group. Mr. Wu has over 21 years of experience in the petroleum industry. Prior to joining our Group in December 1993, Mr. Wu served as an assistant engineer of China Petroleum Huabei Oil Field Testing Company (中國石油華北油田測試公司) from March 1991 to November 1993. Mr. Wu obtained a bachelor's degree in electronic instrument and measuring technology from Xi'an Petroleum College (西安石油學院) of China in July 1991 and an EMBA degree from Tsinghua University (清華大學) of China in February 2006.

Liu Ruoyan (劉若岩), aged 65, is an executive Director and a deputy general manager of our Company who is responsible for marketing of well drilling and workover business and management of production and operation. Mr. Liu has approximately 39 years of experience in the petroleum industry. Prior to joining our Group in July 2008, Mr. Liu served as the general manager of Sino-Kazakhstan Greatwall Drilling Co., Ltd. (中哈長城鑽井有限公司), a subsidiary of CNPC, in charge of marketing and project operations management involving drilling and workover business in Kazakhstan from November 1999 to December 2006. From March 1984 to October 1999, he served as a team leader and well drilling engineer and the chief commander of Jidong Front Line and the deputy general manager and the general manager of No. 2 Well Drilling Company of North China Petroleum Administrative Bureau, a subsidiary of CNPC. From March 1974 to August 1984, Mr. Liu served as a technician of North China Petroleum Campaign Headquarters (華北石油會戰指揮部), a subsidiary of CNPC. From July 1972 to February 1974, he served as an assistant technician of the well drilling team of the Geophysical Prospecting Bureau of the Ministry of Fuel and Chemical Industry of the PRC (中華人民共和國燃料化學工業部). Mr. Liu obtained a diploma in petroleum management and engineering from Fushun Petroleum College (撫順石油學院) of China in July 1984. He also obtained a bachelor's degree in economic management from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) in December 1997.

NON-EXECUTIVE DIRECTOR

LIN Yang (林煬), aged 38, is a Vice President of China Everbright Investment Management Limited ("CEIM"). Prior to joining CEIM, Mr. Lin worked in the research department of China Everbright Limited. Mr. Lin holds an MBA in Finance from University of Ottawa and a Bachelor's degree in Mechanical and Automation Engineering from South China University of Technology. He is a CFA charter holder and a member of the CFA Institute.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chen Chunhua (陳春花), aged 49, was appointed as an independent non-executive Director of our Company on 1 December 2011. She has approximately 27 years of experience in academic education and practice in corporate operations and business management. Ms. Chen has served South China University of Technology (華南理工大學) since July 1986. Now she is a professor and a tutor of doctoral students in the Business Administration school. From March 2003 to December 2004, she served as the president of Shandong Liuhe Company Limited (山東六和集團有限公司) in charge of overall operations and development. Ms. Chen is currently an independent non-executive director of each of Welling Holding Limited (formally known as Hualing Holdings Limited), a listed company on the Main Board (stock code: 382), Merchant Funds Management Co., Ltd. (招商基金管理公司) and Foshan Shunde Rural Commercial Bank Company Limited (順德農村商業銀行有限公司). Ms. Chen obtained a bachelor's degree of engineering in radio technology from South China Institute of Technology (華南工學院) in June 1986. She obtained a master's degree in business administration from The National University of Singapore in May 2000. Ms. Chen became a post-doctoral candidate in the Business Administration School of Nanjing University (南京大學) in September 2005.

Wu Kwok Keung Andrew (胡國強), aged 59, was appointed as an independent non-executive Director of our Company on 1 December 2011. Mr. Wu had served Ernst & Young for over 32 years before retiring from the firm in January 2010. He served as the managing partner of the Beijing office from 1997 to 2000, the Quality & Risk Management Leader of the China firm of Ernst & Young in 2004 and 2005, managing partner of Assurance and Advisory Business Services ("AABS") for Greater China from 2005 to 2008, and the Far East Area managing partner of AABS in 2006 and 2007. Mr. Wu became a member of the management committee of the China firm in 2005. He was the regional managing partner of Hong Kong and Macau from July 2008 to December 2009. Mr. Wu graduated from the University of Hong Kong with a bachelor's degree in science in 1974. He is a fellow of the Association of Chartered Certified Accountants, United Kingdom and an associate of the Hong Kong Institute of Certified Public Accountants.

Wan, Kah Ming (溫嘉明), aged 42, was appointed as an independent non-executive Director of our Company on 1 December 2011. He has over 18 years of experience in legal practice focusing on China inbound and outbound investment, finance, mergers and acquisitions and restructuring. Mr. Wan has been the Chief Counsel of Leung & Wan Solicitors since October 2001 and the first Chief Representative of China Council for the Promotion of Nationalities Trade Hong Kong Branch (中國民族貿易促進會香港分會) since 2013. He has also been the Executive Chairman of Boen Capital Ltd. (邦溫資本有限公司), Boen Resources Ltd. (邦溫資源有限公司) and Boen Land Ltd. (邦溫建地有限公司) since May 2006, December 2007 and June 2008, respectively. Mr. Wan served as a Consultant of Chan & Chiu Solicitors (陳彼得趙國榮律師行) from January 1998 to September 2001 and an Assistant Solicitor of S.H. Chan & Co. (陳淑雄律師行) from June 1994 to December 1997. Mr. Wan was admitted as a Solicitor to the High Court of Hong Kong in 1996 and to the Supreme Court of Wales in 2000. He is the member of The Law Society of Hong Kong and The Chartered Institute of Arbitrators. Mr. Wan has been a China-Appointed Attesting Officer by the Ministry of Justice, PRC (中國司法部委託公證人) since April 2009. He is currently Director of Hong Kong Association for the Promotion of Peaceful Reunification of China, an Adjudicator of Hong Kong Obscene Articles Tribunal and Hong Kong Registration of Persons Tribunal, a Director of the China International Council for the Promotion of Multinational Corporations (中國國際跨國公司促進會), a Director of Jiangsu Overseas Exchange Association (江蘇省海外交流協會) and Hong Kong Shaanxi Friendship Association Limited (香港陝西聯誼會), a Director of the China Industrial Overseas Development & Planning Association (中國產業海外規劃和發展協會), a Director of China Merger & Acquisition Association (中國併購公會) and a member of International Institute for Strategic Studies(國際戰略研究所). Mr. Wan received his bachelor's degree in laws and postgraduate certificate in laws from the University of Hong Kong in 1993 and 1994, respectively.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Shen Yi (沈翼), aged 58, is a deputy general manager of our Company. Ms Shen joined us in September 2001. She is primarily responsible for financial management. Ms. Shen has approximately 39 years of experience in finance. She was a lecturer at Central University of Finance and Economics (中央財經大學) in China from July 1974 to September 2001. Ms. Shen obtained her certificates of Chinese certified public accountant and Chinese certified tax agent in June and December 1999, respectively. She also became a member of The China Certified Tax Agents Association (中國註冊稅務師協會). Ms. Shen obtained her bachelor's degree in economics from Central University of Finance and Economics (中央財經大學) in July 1983.

Sun Siu Kong (孫小鋼), aged 55, is the chief financial officer of our Company. Mr. Sun joined us in March 2008. He is primarily responsible for the financing and restructuring of our Group. Mr. Sun has approximately 27 years of experience in investment, corporate finance and corporate management. He worked in China Investment Corporation (中國投資有限責任公司) from November 2007 to February 2008. Mr. Sun served as the assistant to the chairman and the general manager of the Beijing subsidiary of China International Fund (中國國際基金) from February 2006 to November 2007. He served in various positions in China Scientific International Trust and Investment Company (中國科技國際信託投資有限責任公司) responsible for asset operations, financial management, industrial assets and corporate finance from May 1993 to February 2006. Mr. Sun established Microstep, Inc. in August 1991, and worked at Microstep, Inc. from August 1991 to January 1993. He served as an intern in the New York office of Debevoise & Plimpton LLP from June 1986 to June 1988. Mr. Sun obtained his bachelor's degree in political economics from Beijing Economic College (北京經濟學院) in the PRC in June 1983. He studied at Financial Research Institute of the People's Bank of China (中國人民銀行總行金融研究所) in international finance from September 1983 to April 1986. He also obtained his master's degree in U.S. economic law from the Law School of New York University in February 1988.

Wang Jinbo (王金波), aged 38, is a deputy general manager of our Company. Mr. Wang Jinbo joined us in November 2004. He is primarily responsible for marketing and business development. Mr. Wang Jinbo has over 15 years of experience in corporate management. He worked at the exchange centre of Xinjiang subsidiary of China Unicom Telecommunications Corporation Ltd. (中國聯合網絡通信股份有限公司新疆附屬公司) from 1998 to 2000. He served as a deputy manager, a manager and the manager of the major client department of China Unicom Telecommunications Corporation Ltd. (中國聯合網絡通信股份有限公司) from 2000 to 2004. Mr. Wang Jinbo obtained his bachelor's degree in communication engineering from Northern Jiaotong University (中國北方交通大學) (currently known as Beijing Jiaotong University (北京交通大學)) in China in July 1998. He obtained his master's degree in management from BI Norwegian School of Management in August 2005.

Zhao Feng (趙峰), aged 47, is a deputy general manager of our Company. Mr. Zhao joined us in January 1999. He is primarily responsible for business development and management in Northern America and Singapore. He has approximately 27 years of experience in the petroleum industry. Mr. Zhao served as a reservoir engineer in Shell Canada Ltd. from May to August 1998. He served as a reservoir research engineer in the Langfang Branch of Research Institute of Petroleum Exploration and Development China National Petroleum Corporation (中國石油天然氣總公司石油勘探開發研究院廊坊分院) from August 1986 to October 1995. Mr. Zhao obtained his bachelor's degree in petroleum engineering from Southwest Petroleum Institute (西南石油學院) in China in July 1986. He obtained his master's degree in chemical and petroleum engineering from The University of Calgary, Canada in November 2002. Mr. Zhao obtained his master's degree in business administration from the Fuqua School of Business of Duke University in the U.S. in December 2009.

Wang Fan (王璠), aged 42, is a deputy general manager of our Company. Mr. Wang joined us in December 2004. He is primarily responsible for operation and management of our subsidiaries in East China. Mr. Wang Fan has over 21 years of experience in marketing and management. Prior to joining our Group, he served as a deputy general manager in Changchun Aohua Group Company of Jilin Province (吉林省長春市澳華集團公司) from July 1997 to November 2004. Mr. Wang Fan served as the manager of the marketing department in Canada Sunwing Energy Co., Ltd. (加拿大皇朝能源有限公司) from April 1996 to June 1997. He served as an account manager in Beijing Inter Tech Computer Co., Ltd. (北京英特泰克計算機有限公司) from November 1993 to March 1996. Mr. Wang served as the manager of the technology department at Beijing Wanda Computer Development Co., Ltd. (北京萬達計算機開發公司) from October 1992 to October 1993. Mr. Wang Fan obtained his diploma in marketing from Shanxi Electronic Information Specialised Institute (陝西電子信息專修學院) in China in July 1997.

Deng Qi, Charles (鄧其), aged 59, is a deputy general manager of our Company. Mr. Deng joined us in February 2011. He is primarily responsible for mergers and acquisitions. Mr. Deng has approximately 30 years of experience in banking, corporate finance, securities and business management. Prior to joining our Group, he served as the managing director of Starcapital Corporation (斯凱 (北京) 投資諮詢有限公司) from 2005 to 2010, the vice president of Beijing Enterprises Holdings Limited from 2001 to 2005, the general manager of China Securities (International) Limited (華夏證券 (國際) 有限公司) from 1996 to 2000, and an executive director of Yoshiya International Corporation, Limited (慶屋國際有限公司) from 1994 to 1996. Mr. Deng also worked at ING Bank from 1992 to 1994, Indosuez Asia Limited (惠嘉融資亞洲有限公司) from 1990 to 1992, and CITIC Group (中國中信集團公司) from 1984 to 1990. He graduated from Beijing Foreign Studies University (北京外國語大學) in July 1977 and obtained a post graduate degree in management from University of Lausanne, Switzerland in October 1983.

Kee Yong Wah (紀永華), aged 53, is a deputy general manager of our Company. Mr. Kee joined us in May 2011. He is primarily responsible for business development and management in new markets and integrated management of new and existing markets. Mr. Kee has more than 29 years of experience in the petroleum and gas industry. Prior to joining our Group, he served as the China general manager in Smith International Inc. from March 2010 to November 2010. Mr. Kee served in various positions (including global national account manager and senior business development manager) of Halliburton International Inc. from August 1984 to March 2010. He was also the key professional introducing dual-trip multi-zone and single-trip multi-zone sand control technology system into the development of Bohai Bay Oilfield in China. Mr. Kee completed various Halliburton technical courses including Halliburton Business Leadership Development Program and Halliburton Financial Leadership for Non-Financial Leaders Program of Mays Business School of Texas A&M University in February 2005 and August 2007, respectively.

Ong Cheng Suah Darry (王清山), aged 53, is a deputy general manager of our Company. Mr. Ong Cheng Suah Darry joined us in May 2011. He is primarily responsible is Technology and Manufacture of Downhole Completion Equipment. Mr. Ong Cheng Suah Darry has over 31 years of experience in Oil Gas industry. Prior to joining our Group, he served as a Vice President of Zhejiang WeiQiXin Petroleum Machinery Co. Ltd. (浙江惟其信石油機械有限公司) from February 2010 to March 2011. Mr. Ong Cheng Suah Darry served as the Regional Manager of Smith International Inc. in Beijing, China from August 2007 to February 2010. He served in various positions (including Customer Service Coordinator, Senior Technical Tool specialist, Sales Manager, Operations Manager and Business Development Manager) of Baker Hughes Inc. from June 1980 to July 2007. He obtained the Singapore-Cambridge General Certificate of Education in December 1977. Mr. Ong Cheng Suah Darry obtained a certificate in Purchasing and Store management from the Chartered Institute of Purchasing & Supply in Stamford, Lincolnshire, U.K. in January 1985. Mr. Ong Cheng Suah Darry also obtained a certificate in Business Code of Conduct & FCPA from Baker Hughes Legal Resources University in June 2002.

Jin Shumao (金樹茂), aged 63, joined the Company as a deputy general manager in February 2012. He is primarily responsible for assisting the general manager to develop and maintain the strategic customer relationship, formulate strategy plan, as well as develop and grow the strategic business and projects. He has over 40 years of experience in the global and china petroleum and gas industry. Prior to joining the Group, he served as Schlumberger China NOCs Global Account Director, Schlumberger Global Account Vice President, and Schlumberger China Vice President (斯倫貝謝中國公司) from 2002 to 2011. Mr. Jin worked at Halliburton USA (哈裏伯頓美國公司) and Halliburton China (哈裏伯頓中國公司) from 1989 to 2002, during which he had served as Director of Executive Business Development for Emerging Markets, Global Account General Manager for China NOCs, and Business President for Halliburton China. He worked at China National Offshore Oil Company (中海油) from 1982 to 1988 and at China National Petroleum Corporation and China Petroleum & Chemical Corporation from 1971 to 1982, served in various technical and management positions. Mr. Jin obtained his bachelor's degree in Petroleum Mechanical Engineering from Northeast Petroleum University and MBA from the University of Oklahoma USA (美國奧克拉哈馬州立大學), and is studying PhD program of Finance Economy in Chinese Academy of Social Sciences (中國社科院).

Wu Yulu (吳玉祿), aged 48, is a deputy general manager of our Company. Mr. Wu joined us in September 2012. He is primarily responsible for technology business in drilling and work-over engineering and regional management work for the Northern area. Mr. Wu has nearly 28 years of experience in the petroleum industry. From July 2007 to August 2012, Mr. Wu served as the chief engineer in Sinochem Petroleum Exploration and Development Company (中國中化集團石油勘探開發公司), in charge of overseas project evaluation and merger's and acquisitions, researching and promotion of engineering technology, management of drilling, work-over activities and ground facility construction as well as QHSE management. From January 1996 to June 2007, Mr. Wu served as the general manager of Drilling Service Company of CNPC Turkmenistan-Kazakhstan Petroleum Exploration and Development (中石油吐哈石油勘探開發指揮部鑽井公司). From March 1991 to December 1995, Mr Wu was the chief engineer of Drilling Department of CNPC Yumen Petroleum Administration Bureau (中石油玉門石油管理局鑽井處) and Yumen Drilling Department of Turkmenistan-Kazakhstan Petroleum Exploration and Development (吐哈石油勘探開發會戰指揮部玉門鑽井指揮部). In 1984, Mr. Wu graduated from China Petroleum University in Petroleum Engineering, and he also obtained a PHD degree in Mine Machinery (礦場機械) from South West Petroleum University. He is a senior engineer.

Report of the Directors

The board (the "Board") of directors (the "Directors") of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group's operations are substantially conducted through its subsidiaries in the PRC, Kazakhstan and Canada. The Group is principally engaged in the provision of integrated oilfield services. Analysis of the principal activities of the Group during the year ended 31 December 2012 is set out in the note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 58 of this annual report.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.04 (equivalent to HKD0.049) per share for the year ended 31 December 2012 (2011: HKD0.012335) to the shareholders of the Company (the "Shareholders"). The final dividend is subject to the approval of Shareholders at the forthcoming annual general meeting and will be payable before the end of July 2013 and paid out of share premium account.

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last four financial years are set out on page 4, 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The Company's shares were listed on the Stock Exchange on 23 December 2011 (the "Listing"). The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$372.4 million. On 31 December 2012, HK$295.0 million of the net proceeds from the Listing was used by the Company in the manner consistent with that in the Prospectus for the purpose of purchase of manufacturing equipment for the oilfield services lines, acquisition of selected companies in the oilfield services or related businesses, enhancing our research and development capabilities, repaying outstanding bank loans and for additional working capital purpose. The remaining HK$77.4 million will be continued to apply in proportion as the manner referred in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the Group's five largest suppliers accounted for 27.8% (2011: 33.1%) of the Group's total purchases.

For the year ended 31 December 2012, the Group's sales to its five largest customers accounted for 83.7% (2011: 61.4%) of the Group's total sales.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2012 are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 14 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the issue of convertible bonds of the Company during the year are set out in note 17 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on page 61 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB1,030.3 million (as at 31 December 2011: RMB545.9 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2012 are set out in note 17 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2012 and up to the date of this report were:

Executive Directors:
Mr. Wang Guoqiang *(Chairman and Chief Executive Officer)*
Mr. Wu Dongfang
Mr. Liu Ruoyan

Non-executive Director:
Mr. Lin Yang (appointed on 25 September 2012)

Independent non-executive Directors:
Ms. Chen Chunhua
Mr. Wu Kwok Keung Andrew
Mr. Wan Kah Ming

In accordance with article 108 of the articles of association of the Company (the "Articles of Association"), Ms. Chen Chunhua, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting of the Company.

In accordance with article 112 of the Articles of Association, Mr. Lin Yang, Mr. Jin Shumao and Ms. Zhang Yujuan (Mr. Jin and Ms. Zhang newly appointed on 27 March 2013, appointed by the Board as additional directors to the existing Board will retire and being eligible, have offered themselves for election as Directors at the forthcoming annual general meeting of the Company.

Details of the Directors to be re-elected/elected at the forthcoming annual general meeting of the Company are set out in the circular to the Shareholders.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 26 to 30 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent for the year ended 31 December 2012.

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from the date of Listing. The non-executive director and each of the independent non-executive Directors have signed a letter of appointment with the Company for a term of three years commencing from 25 September 2012 and the date of Listing respectively.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2012.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2012.

EMOLUMENT POLICY

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

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 22 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

During the year ended 31 December 2012, there is no change to information which is required to be disclosed and has been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules.

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

As at 31 December 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Mr. Wang Guoqiang (note 1)	Beneficiary of trusts	775,084,000 (L)	50.83%
Mr. Wu Dongfang (note 2)	Beneficiary of trusts	775,084,000 (L)	50.83%
Ms. Chen Chunhua (note 3)	Beneficial owner	1,000,000 (L)	0.07%
Mr. Liu Ruoyan (note 3)	Beneficial owner	1,300,000 (L)	0.10%
Mr. Wan Kah Ming (note 3)	Beneficial owner	1,000,000 (L)	0.07%
Mr. Wu Kwok Keung Andrew (note 3)	Beneficial owner	1,000,000 (L)	0.07%

Notes:

1. Mr. Wang Guoqiang and his family members are the beneficiaries of Truepath Trust, a discretionary trust established by Mr. Wang Guoqiang, and therefore he is deemed to be interested in 487,012,000 shares of the Company held by Red Velvet Holdings Limited via Truepath Limited. Mr. Wang Guoqiang is also deemed to be interested in the shares held by Mr. Wu Dongfang as they are parties acting in concert.
2. (i) Mr. Wu Dongfang and his family members are the beneficiaries of Widescope Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 135,872,000 shares of the Company held by Elegant Eagle Investments Limited via Widescope Holdings Limited. (ii) Mr. Wu and six members of the Company's senior management are the beneficiaries of True Harmony Trust, a discretionary trust established by Mr. Wu Dongfang, and therefore he is deemed to be interested in 152,200,000 shares of the Company held by Magic Flute Holdings Limited via True Harmony Limited. (iii) Mr. Wu Dongfang is also deemed to be interested in the shares held by Mr. Wang Guoqiang as they are parties acting in concert.
3. Ms. Chen Chunhua, Mr. Liu Ruoyan, Mr. Wan Kah Ming and Mr. Wu Kwok Keung Andrew hold share options in respect of these shares. Details of the share options are set out below in the section headed "Share Option Scheme".
4. "L" denotes long position.

Save as disclosed above, as at 31 December 2012, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, no time during the year ended 31 December 2012 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 31 December 2012, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of interest	Total number of shares/underlying shares held	Approximate percentage of interest in the Company
Widescope Holdings Limited	Beneficial owner	135,872,000 (L)	8.91%
Elegant Eagle Investments Limited (note 1)	Interest of controlled corporation	135,872,000 (L)	8.91%
True Harmony Limited	Beneficial owner	152,200,000 (L)	11.40%
Best Harvest Far East Limited (note 2)	Interest of controlled corporation	152,200,000 (L)	11.40%
Magic Flute Holdings Limited (note 3)	Interest of controlled corporation	152,200,000 (L)	11.40%
Truepath Limited	Beneficial owner	487,012,000 (L)	31.94%
Red Velvet Holdings Limited (note 4)	Interest of controlled corporation	487,012,000 (L)	31.94%
Jumbo Wind Limited	Beneficial owner	78,850,000 (L)	5.17%
Starshine Investments Limited (note 5)	Interest of controlled corporation	78,850,000 (L)	5.17%
Credit Suisse Trust Limited (note 6)	Trustee	899,476,000 (L)	58.98%
Mr. Wang Jinbo (note 7)	Beneficiary of a trust	78,850,000 (L)	5.17%
Morgan Stanley (note 8)	Interest of controlled corporation	105,959,091 (L) 66,289,091 (S)	6.95% 4.35%

Notes:

1. Widescope Holdings Limited is wholly owned by Elegant Eagle Investments Limited and therefore is deemed to be interested in 135,872,000 shares of the Company.
2. True Harmony Limited is owned as to 73.3% by Best Harvest Far East Limited and therefore is deemed to be interested in 152,200,000 shares of the Company.
3. Best Harvest Far East Limited is wholly owned by Magic Flute Holdings Limited and therefore is deemed to be interested in 152,200,000 shares of the Company.
4. Truepath Limited is wholly owned by Red Velvet Holdings Limited and therefore is deemed to be interested in 487,012,000 shares of the Company.
5. Jumbo Wind Limited is wholly owned by Starshine Investments Limited and therefore is deemed to be interested in 78,850,000 shares of the Company.
6. Credit Suisse Trust Limited is the trustee of the Widescope Trust, The True Harmony Trust, the Truepath Trust, the Jumbo Wind Trust and the Windsorland Trust which are discretionary trusts holding the shares in the Company on trust for True Harmony Limited, Elegant Eagle Investments Limited, Magic Flute Holdings Limited, Red Velvet Holdings Limited, Starshine Investments Limited and Tarkin Investments Limited, respectively. Therefore, Credit Suisse Trust Limited is deemed to be interested in shares of the Company held by True Harmony Limited, Widescope Holdings Limited, Truepath Limited and Jumbo Wind Limited.
7. Mr. Wang Jinbo and his family members are the beneficiaries of Jumbo Wind Trust and therefore he is deemed to be interested in 78,850,000 shares held by Jumbo Wind Limited.
8. Morgan Stanley holds equity interest in shares of the Company through companies controlled directly or indirectly by it.
9. "L" denotes long position.

Save as disclosed above, and as at 31 December 2012, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

NON-COMPETITION UNDERTAKING

Each of Mr. Wang Guoqiang, Truepath Limited, Red Velvet Holdings Limited, Mr. Wu Dongfang, True Harmony Limited, Best Harvest Far East Limited, Magic Flute Holdings Limited, Widescope Holdings limited and Elegant Eagle Investments Limited (the "Controlling Shareholders") has executed a deed of non-competition through which they have irrevocably and unconditionally warranted and undertaken to the Company not to, whether directly or indirectly or as principal or agent, and whether on its/his/her own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company), (i) carry on, engage, participate or hold any right or interest in or render any services to or provide any financial support to or otherwise be involved in the provision of integrated oilfield services or any other business which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with any business that may be carried on by any members of the Group of the Company from time to time whether as a Shareholder, Director, officer, partner, agent, lender, employee, consultant or otherwise and whether for profit, reward or otherwise; or (ii) take any action which interfere with or disrupt or may interfere with or disrupt the Group Business, including but not limited to, solicitation of any of the customers, suppliers or employees of any member of the Group of the Company.

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this annual report during the year ended 31 December 2012.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, as at 31 December 2012, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

During the year ended 31 December 2012, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

SHARE OPTION SCHEME

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

1. Purpose

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

2. Participants

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

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

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

4. **Maximum entitlement of each participant**

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

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

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

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

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

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

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

8. **Basis of determining the subscription price**

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

9. **Life of the Share Option Scheme**

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

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

Movements of the share options under the Share Option Scheme during the year ended 31 December 2012 are as follows:

	Number of share options								
Grantee	Outstanding as at 1 January 2012	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2012	Date of Grant	Date of expiry	Exercise price per share
Directors									
Mr. Liu Ruoyan	—	1,300,000 (note 1)	—	—	—	1,300,000	29/03/2012	28/03/2022	HK$1.360
Ms. Chen Chunhua	—	1,000,000 (note 1)	—	—	—	1,000,000	29/03/2012	28/03/2022	HK$1.360
Mr. Wan Kah Ming	—	1,000,000 (note 1)	—	—	—	1,000,000	29/03/2012	28/03/2022	HK$1.360
Mr. Wu Kwok Keung Andrew	—	1,000,000 (note 1)	—	—	—	1,000,000	29/03/2012	28/03/2022	HK$1.360
Employees (in aggregate)	—	26,500,000 (note 2)	—	—	3,750,000	22,750,000	20/02/2012	19/02/2022	HK$1.292
	—	3,000,000 (note 1)	—	—	—	3,000,000	29/03/2012	28/03/2022	HK$1.360
Total	**—**	**33,800,000**	**—**	**—**	**3,750,000**	**30,050,000**			

Notes:

1. The closing price of the shares immediately before the date on which the share options granted on 29 March 2012 was HK$1.33. 1/3 of which are exercisable from 29/03/2013 to 28/03/2022; 1/3 of which are exercisable from 29/03/2014 to 28/03/2022; and remaining 1/3 are exercisable from 29/03/2015 to 28/03/2022.
2. The closing price of the shares immediately before the date on which the share options granted on 20 February 2012 was HK$1.27. 1/3 of which are exercisable from 20/02/2013 to 19/02/2022; 1/3 of which are exercisable from 20/02/2014 to 19/02/2022; and remaining 1/3 are exercisable from 20/02/2015 to 19/02/2022.

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

Save as disclosed above, no share option was granted, exercised, cancelled nor lapsed during the year ended 31 December 2012 under the Share Option Scheme.

CHARITABLE DONATIONS

During the year ended 31 December 2012, the Group made no charitable and other donations.

AUDIT COMMITTEE

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

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the year ended 31 December 2012.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 43 to 52 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

PricewaterhouseCoopers has acted as auditor of the Company for the year ended 31 December 2012.

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

On behalf of the Board
Mr. Wang Guoqiang
Chairman

Hong Kong, 26 March 2013

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2012.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted code provisions of the Code of Corporate Governance Practices (from 1 January 2012 to 31 March 2012) and Corporate Governance Code (from 1 April 2012 to 31 December 2012) (the "CG Code") contained in Appendix 14 of the Listing Rules as its own code of corporate governance. Save for the deviation disclosed in this report, the Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2012. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

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

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

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

Board Composition

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

During the year of 2012, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

Under Rule 3.10A of the Listing Rules, listed issuers are required to appoint independent non-executive Directors representing at least one-third of the Board by 31st December 2012. The Company has three independent non-executive Directors currently representing more than one-third of the Board and therefore the Company has complied with Rule 3.10A before 31st December 2012.

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

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

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director, the role of the Board and the Company's major areas of business operations and practices. An induction programme was provided to Mr. Lin Yang shortly after his appointment in September 2012. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make informed decisions and to discharge their duties and responsibilities as Directors. In addition, the Company arranged a site visit to the Company's business operations in Singapore for Directors in mid of December 2012.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year of 2012, all Directors participated in continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers have facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. Mr. Wang Guoqiang, Mr. Wu Dongfang, Mr. Liu Ruoyan, Mr. Lin Yang, Ms. Chen Chunhua, Mr. Wu Kwok Keung Andrew and Mr. Wan Kah Ming all received this training. The Company Secretary from time to time updates and provides written training material relating to the roles, functions and duties of a Director and all the aforesaid Directors study such materials and they are asked to submit a signed training record to the Company on annual basis.

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the existing organization structure of the Company, Mr. Wang Guoqiang is our Chairman of the Board and the Chief Executive Officer. The Board believes that Mr. Wang's extensive experience in the oil industry is beneficial to the business prospects and management of the Group, The Board and the senior management, which comprises experienced and high calibre individuals can ensure the balance of power and authority. The Board currently comprises three executive Directors (including Mr. Wang Guoqiang), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Appointment and Re-Election of Directors

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

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

Mr. Lin Yang was appointed as non-executive Director of the Company on 25 September 2012. He has signed a letter of appointment with the Company for a term of three years from the appointment date, which is terminable by not less than three months' notice in writing.

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

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

At the 2012 Annual General Meeting on 5 June 2012 (the "2012 AGM"), Mr. Wang Guoqiang and Mr. Wu Dongfang retired by rotation pursuant to article 108 of the Articles and Association and were re-elected as Directors. Please refer to the Report of the Directors for details of the members of the Board who will retire from office and offer for re-election/election at the 2013 Annual General Meeting pursuant to the articles.

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

Board Meetings

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

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

During the year ended 31 December 2012, 12 board meetings and one general meeting (2012 AGM) were held and the attendance of the individual Directors at these meetings is set out in the table below:

	Attended/Eligible to attend	
Directors	Board Meeting	General Meeting
Mr. Wang Guoqiang	11/12	1/1
Mr. Wu Dongfang	11/12	1/1
Mr. Liu Ruoyan	12/12	1/1
Mr. Lin Yang (appointed on 25 September 2012)	5/5	—
Ms. Chen Chunhua	12/12	1/1
Mr. Wu Kwok Keung Andrew	12/12	1/1
Mr. Wan Kah Ming	12/12	1/1

During the year, the Chairman of the Company held various meetings with the non-executive Directors (including the independent non-executive Directors) without the executive Directors.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rule as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code for the year ended 31 December 2012.

During the year, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

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

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

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

(a) to develop, review and implement the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance Shareholders' relationship with the Company.

During the year, the Company has updated the compliance manuals on notifiable transactions and price sensitive information in accordance with the Listing Rules as guideline for its employees to report unpublished price sensitive information (inside information) to the Company to ensure consistent and timely disclosure and fulfillment of the Company's continuous disclosure obligations.

BOARD COMMITTEES

Nomination Committee

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

The principal duties of the Nomination Committee include the following:

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

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. Their written terms of reference had been updated during the year in line with the CG code and are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2012, two meeting of the Nomination Committee was held on 28 March 2012 and 25 September 2012 and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Mr. Wang Guoqiang (appointed as a member and chairman on 28 March 2012)	1/2
Ms. Chen Chunhua	2/2
Mr. Wu Kwok Keung Andrew	2/2
Mr. Wu Dongfang (ceased to be a member on 28 March 2012)	1/1

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

The appointment of Mr. Lin Yang as non-executive Director was nominated by Everbright Inno Investments Limited and CSOF Inno Investments Limited, the subscribers, pursuant to a subscription agreement dated 7 August 2012 in relation to the subscription of the convertible bonds; then recommended by the Nomination Committee and approved by the Board.

Remuneration Committee

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

The primary duties of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management to determine remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for formulating such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. Their written terms of reference had been updated during the year in line with the CG code and are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2012, three meetings of the Remuneration Committee were held on 28 March, 29 March and 25 September 2012 and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Chen Chunhua	3/3
Mr. Wang Guoqiang	3/3
Mr. Wu Kwok Keung Andrew	3/3

The Remuneration Committee reviewed the appointment letter and terms of office of Mr. Lin Yang in relation to his appointment as a non-executive Director of the Company. The Remuneration Committee discussed and reviewed the remuneration policy for directors and senior management of the Company, and made recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

Details of the remuneration by band of the 10 members of the senior management of our Company, whose biographies are set out on pages 28 to 30 of this annual report, for the year ended 31 December 2012 are set out below:

Remuneration band (RMB)	Number of individual
400,000–1,000,000	4
1,000,001–1,500,000	1
1,500,001–2,000,000	1
2,000,001–2,500,000	2
2,500,001–3,000,000	2

Audit Committee

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

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

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

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

During the year ended 31 December 2012, four meetings of the Audit Committee were held on 10 January, 27 March, 28 August and 14 December 2012 respectively and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/ Eligible to attend
Ms. Chen Chunhua	4/4
Mr. Wu Kwok Keung Andrew	4/4
Mr. Wan Kah Ming	4/4

The Audit Committee reviewed the audit plan, the financial reporting system, compliance procedures, internal control (including the adequacy of resources of the Company's accounting and financial reporting functions, staff qualifications and experience, and the adequacy of training program and budget), risk management systems and processes and the re-appointment of the external auditor. They also reviewed interim and final results of the Company and its subsidiaries for the fiscal year as well as the audit report prepared by the external auditors relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. Their written terms of reference had been updated during the year in line with the CG code and are available on the websites of the Company and the Stock Exchange.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2012 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. With effect from 1st April 2012, the Company provides all members of the Board with monthly updates on the Company's performance, position and prospects.

INTERNAL CONTROL

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

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

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

AUDITOR'S REMUNERATION

Annual audit fees of the Group for the year ended 31 December 2012 are RMB 4.0 million.

COMPANY SECRETARY

The Company engages Ms. Mandy Mok Ming Wai, director of KCS Hong Kong Limited, (a company secretarial service provider) as its company secretary. Its primary corporate contact person at the Company is Mr. Sun Siu Kong, the Chief financial officer of the Company.

During the year ended 31 December 2012, Ms. Mok has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The annual general meeting (the "AGM") of the Company provides opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company, the chairmen of the Board Committees and the External Auditor of the Company to attend AGMs to answer Shareholders' questions.

A shareholders' communication policy was adopted with effect from 1st April 2012 pursuant to CG code which aims at establishing a two-way relationship and communication between the Company and its Shareholders. To promote effective communication, the Company maintains a website at www.spt.cn, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

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

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting. At the 2012 AGM, all resolutions were passed by poll by the Shareholders.

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association. As regards proposing a person for election as a director, the procedures are available on the websites of the Company and the Stock Exchange.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to wangyang@spt.cn.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2012, there is no significant change in constitutional documents of the Company.

Hong Kong, 26 March 2013

Independent Auditor's Report

pwc 羅兵咸永道

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

We have audited the consolidated financial statements of SPT Energy Group Inc. ("the Company") and its subsidiaries (together, the "Group") set out on pages 55 to 124, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

PricewaterhouseCoopers 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

羅兵咸永道

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2013

Consolidated Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	6	277,497	214,625
Land use right	7	23,689	—
Goodwill	32	781	—
Intangible assets	8	9,055	229
Deferred income tax assets	20	57,233	42,071
Prepayments and other receivables	12	20,594	27,491
		388,849	284,416
Current assets			
Inventories	10	315,309	245,089
Trade and note receivables	11	1,043,269	577,067
Prepayments and other receivables	12	75,120	58,824
Restricted bank deposits	13	13,785	2,031
Cash and cash equivalents	13	658,713	301,340
		2,106,196	1,184,351
Total assets		2,495,045	1,468,767
Equity			
Equity attributable to the Company's equity owners			
Ordinary share	14	968	849
Share premium	15		
— Proposed final dividend	27	61,000	—
— Others		654,963	275,455
Other reserves	16	211,889	159,349
Currency translation differences		(37,054)	(33,596)
Retained earnings			
— Proposed final dividend	27	—	13,350
— Others		689,881	454,862
		1,581,647	870,269
Non-controlling interests		46,527	33,520
Total equity		1,628,174	903,789

Consolidated Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Liabilities			
Non-Current liabilities			
Borrowings	17	125,730	9,071
Deferred income tax liabilities	20	20,666	7,629
Trade payables	18	4,998	—
		151,394	16,700
Current liabilities			
Borrowings	17	194,189	210,101
Trade payables	18	325,375	199,929
Accruals and other payables	19	162,175	96,084
Current income tax liabilities		31,134	41,516
Current portion of long-term borrowings	17	2,604	648
		715,477	548,278
Total liabilities		866,871	564,978
Total equity and liabilities		2,495,045	1,468,767
Net current assets		1,390,719	636,073
Total assets less current liabilities		1,779,568	920,489

The notes on page 55 to 124 are an integral part of these financial statements.

The financial statements on page 55 to 62 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

Wang Guoqiang
Director

Liu Ruoyan
Director

Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Assets			
Non-current assets			
Interests in subsidiaries	9	686,783	425,625
Current assets			
Prepayments and other receivables	12	—	7
Cash and cash equivalents	13	411,760	147,320
		411,760	147,327
Total assets		1,098,543	572,952
Equity			
Ordinary shares	14	968	849
Share premium	15	715,963	275,455
Other reserves	16	316,755	276,899
Currency translation differences		(1,218)	(160)
Retained earnings		(1,188)	(6,302)
Total equity		1,031,280	546,741
Liabilities			
Non-Current liabilities			
Borrowings	17	65,249	—
Current liabilities			
Accruals and other payables	19	2,014	26,211
Total liabilities		67,263	26,211
Total equity and liabilities		1,098,543	572,952
Net current assets		409,746	121,116
Total assets less current liabilities		1,096,529	546,741

The notes on page 55 to 124 are an integral part of these financial statements.

The financial statements on page 55 to 62 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

Wang Guoqiang
Director

Liu Ruoyan
Director

Consolidated Income Statement

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	5	1,821,661	1,321,260
Other (losses), net	21	(11,435)	(7,760)
Operating costs			
Material costs		(460,223)	(363,390)
Employee benefit expenses	22	(414,764)	(252,958)
Operating lease expenses		(79,340)	(48,056)
Transportation costs		(75,899)	(66,327)
Depreciation and amortisation		(57,372)	(43,551)
Technical service expenses		(129,357)	(93,005)
Impairment loss of assets		(10,999)	(9,263)
Others		(220,203)	(161,301)
		(1,448,157)	(1,037,851)
Operating profit	23	362,069	275,649
Finance income	24	2,331	536
Finance costs	24	(25,128)	(14,535)
Finance costs, net		(22,797)	(13,999)
Profit before income tax		339,272	261,650
Income tax expense	25	(84,334)	(75,067)
Profit for the year		254,938	186,583
Attributable to:			
Equity owners of the Company	26	247,703	181,806
Non-controlling interests		7,235	4,777
		254,938	186,583
Dividends proposed after balance sheet date	27	61,000	13,350
Earnings per share for the profit attributable to the equity owners of the Company			
Basic earnings per share	28	0.184	0.180
Diluted earnings per share	28	0.183	0.180

The notes on page 55 to 124 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

		Year ended 31 December	
		2012	2011
	Note	RMB'000	RMB'000
Profit for the year		**254,938**	186,583
Other comprehensive income:			
Currency translation differences		**(3,270)**	(18,299)
Total comprehensive income for the year		**251,668**	168,284
Attributable to:			
Equity owners of the Company		**244,245**	163,438
Non-controlling interests		**7,423**	4,846
		251,668	168,284

The notes on page 55 to 124 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

		Equity attributable to owners of the Company							
	Note	Ordinary shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Currency translation differences RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2011		68	—	313,330	(15,228)	303,837	602,007	(57)	601,950
Comprehensive income									
Profit for the year		—	—	—	—	181,806	181,806	4,777	186,583
Currency translation differences		—	—	—	(18,368)	—	(18,368)	69	(18,299)
Total comprehensive income		—	—	—	(18,368)	181,806	163,438	4,846	168,284
Transactions with owners									
Contribution to subsidiaries by their then equity owners		—	—	—	—	—	—	15,357	15,357
Deemed distribution to Controlling Shareholders	16	—	—	(3,866)	—	(9,508)	(13,374)	13,374	—
Transfer to statutory reserves	16	—	—	7,923	—	(7,923)	—	—	—
Consideration paid to their then equity owners for acquisition of subsidiaries under common control	16	—	—	(158,038)	—	—	(158,038)	—	(158,038)
Issuance of ordinary shares for Global Offering, net	14&15	212	276,024	—	—	—	276,236	—	276,236
Capitalisation issue	14&15	569	(569)	—	—	—	—	—	—
Total transactions with owners		781	275,455	(153,981)	—	(17,431)	104,824	28,731	133,555
Balance as at 31 December 2011		849	275,455	159,349	(33,596)	468,212	870,269	33,520	903,789

Consolidated Statement of Changes In Equity

		Equity attributable to owners of the Company							
					Currency			Non-	
		Ordinary	Share	Other	translation	Retained		controlling	Total
		shares	premium	reserves	differences	earnings	Total	interests	equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2012		849	275,455	159,349	(33,596)	468,212	870,269	33,520	903,789
Comprehensive income									
Profit for the year		—	—	—	—	247,703	247,703	7,235	254,938
Currency translation differences		—	—	—	(3,458)	—	(3,458)	188	(3,270)
Total comprehensive income		—	—	—	(3,458)	247,703	244,245	7,423	251,668
Transactions with owners									
Issue of ordinary shares	14&15	119	440,508	—	—	—	440,627	—	440,627
Convertible bond — equity portion, net of tax	17	—	—	32,370	—	—	32,370	—	32,370
2011 final dividend declared in June 2012	27	—	—	—	—	(13,350)	(13,350)	—	(13,350)
Share-based payments	22	—	—	7,486	—	—	7,486	—	7,486
Transfer to statutory reserves	16	—	—	12,684	—	(12,684)	—	—	—
Acquisition of a subsidiary	32	—	—	—	—	—	—	5,584	5,584
Total transactions with owners		119	440,508	52,540		(26,034)	467,133	5,584	472,717
Balance as at 31 December 2012		968	715,963	211,889	(37,054)	689,881	1,581,647	46,527	1,628,174

The notes on page 55 to 124 are an integral part of these consolidated financial statements.

Consolidate Cash Flow Statement

		Year ended 31 December	
		2012	2011
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Net cash inflows from operations	29	**54,174**	151,387
Interest paid		**(17,578)**	(10,226)
Interest received		**3,348**	262
Income tax paid		**(97,833)**	(109,970)
Net cash (used)/generated from operating activities		**(57,889)**	31,453
Cash flows from investing activities			
Purchases of property, plant and equipment		**(117,914)**	(83,126)
Proceeds from disposal of property, plant and equipment		**7,994**	5,175
Purchase of land use right		**(17,632)**	(6,500)
Payments for intangible assets		**(8,902)**	(153)
Acquisition of a subsidiary, net	32	**(6,754)**	—
Net cash used in investing activities		**(143,208)**	(84,604)
Cash flows from financing activities			
Net proceeds from issuance of convertible bonds		**94,526**	—
Proceeds from bank borrowings		**258,198**	515,496
Repayments of bank borrowings		**(220,744)**	(455,652)
Contribution to subsidiaries by their then equity owners		**—**	15,357
Consideration paid to their then equity owners for acquisition of subsidiaries under common control		**—**	(158,038)
2011 final dividend paid in 2012		**(13,350)**	—
Proceeds from issuance of ordinary shares		**446,778**	334,749
Payment of fees relating to issuance of ordinary shares		**(6,151)**	(61,207)
Net cash generated from financing activities		**559,257**	190,705
Net increase in cash and cash equivalents		**358,160**	137,554
Cash and cash equivalents, at beginning of the year		**301,340**	166,721
Exchange loss on cash and cash equivalents		**(787)**	(2,935)
Cash and cash equivalents at end of the year		**658,713**	301,340

The notes on page 55 to 124 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

SPT Energy Group Inc. (the "Company") was incorporated in the Cayman Islands on 12 June 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 4th Floor, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY-1112, Cayman Islands. The Company had its primary listing on the Stock Exchange of Hong Kong Limited on 23 December 2011 through a global offering ("Global Offering").

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 26 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1.1 Basis of preparation

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

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

2.1.2 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1.2 Changes in accounting policy and disclosures (continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially subsequently reclassifiable to profit or loss (reclassification adjustments). The amendments do not address which items are presented in OCI.

IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has assessed and concluded the adoption of IFRS 10 does not have a significant impact on the Group.

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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 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 where is 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.

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

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 or 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 or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) 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 or 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 or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. 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 statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(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 re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(b) Transactions and balances (continued)

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

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

2.5 Property, plant and equipment

Property, plant and equipment, other than construction-in-progress, are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Construction-in-progress is stated at cost, including the costs of construction, machinery and other expenditures for the purpose of preparing the construction-in-progress for its intended use and borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction-in-progress is not depreciated until the asset is completed and ready for its intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

2.6 Land use right

Land use right is stated at prepaid lease cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the period of the lease. The carrying amount of the land use right is written down to its recoverable amount if its carrying amount exceeds its estimated recoverable amount (Note 2.9)

2.7 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company'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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Goodwill (continued)

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 operating 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.

2.8 Intangible assets

Computer software

Computer software is 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, ranging from 3 to 5 years.

Patents

Patents are initially recorded at actual cost incurred to acquire and amortised on a straight-line basis over their estimated useful lives, ranging from 4 to 5 years. Development costs that are directly attributable to the design, development and application of patents are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the patents so that it will be available for use;
- Management intends to complete the patents and use or sell it;
- There is an ability to use or sell the patents;
- It can be demonstrated how the patents will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the patents are available; and
- The expenditure attributable to the patents during its development can be reliably measured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (continued)

Patents (continued)

Directly attributable costs that are capitalised as part of the patent include material costs, patent development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.9 Impairment of non-financial assets

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

2.10 Financial assets

(a) Classification, recognition and measurement

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(b) Impairment of financial assets

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

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.

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

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

2.11 Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment amounts (Note 2.10).

2.13 Cash and cash equivalents

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

2.14 Ordinary shares

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

2.15 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.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. 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 the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Compound financial instruments

Compound financial instruments issued by the Group are convertible bonds that can be converted to ordinary shares at the option of the bond holders, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Current and deferred income tax

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

(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's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (continued)

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

Outside basis differences

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

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 taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) Pension obligations

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (continued)

(b) Housing benefits

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

(c) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options 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, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service 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.

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 performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, 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 ordinary shares (nominal value) and share premium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (continued)

(c) Share-based compensation (continued)

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

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

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

(a) Provision of services

The Group provides well drilling services, well completion services and reservoir services to its customers. These services are provided on each well according to contracts with customers. The contract terms generally range from a few days to a month. Customers formally acknowledge satisfactory completion of the services. Provisions of services are recognised in the accounting period in which the services are accepted by the customers and collectability of the related receivables is reasonably assured.

The operating cycle for well drilling is assessed as April to December (9 months) of each year. Most drilling activities are completed during this period and as noted above revenue is recognised upon receipt of formal acknowledgement of satisfactory completion of the well drilling activity. However for drilling contracts that exceed the 9 months operating cycle, revenue is recognized using the percentage of completion method, by considering contract costs incurred to date, compared to estimated overall contracted costs and the depth of drilling completed compared to the total contract drilling depth.

Percentage of completion method is only recognised when the revenue and the actual and future costs of a contract can be reliably estimated, the economic benefits associated with the contract are likely to flow and the percentage of completion can be reliably measured. Where percentage of completion method is applied, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Revenue recognition (continued)

(a) Provision of services (continued)

Where revenue, the actual and future costs, the economic benefits and the percentage of completion of a contract cannot be reliably measured, the percentage of completion method is not used and the costs associated with the contract are deferred as work in progress.

Forecast losses on a contract are recognised in full when identified. Recognised contract profit includes profit derived from change orders and disputed amounts when, in management's assessment, realisation is probable and reasonable estimates can be made. Contract costs include costs directly related to specific contract and attributed indirect costs.

Contract revenue is classified as operating revenue in the profit and loss account. Work in progress is classified as inventory in the balance sheet. Advances from customers are deducted from work in progress for the specific customer contract, to the extent advances exceed this value, as customer advances.

(b) Sales of goods

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

(c) Lease income

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

(d) Interest income

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

(e) Dividend income

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

2.21 Operating lease

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Dividend distribution

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

2.23 Earnings per share

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

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, Kazakhstan, Singapore and Canada, therefore transactions are usually denominated and settled in RMB, Kazakhstan Tenge ("KZT"), Singapore Dollar ("SGD") and Canadian Dollar ("CAD"), respectively, except the Group's international purchases and sales which are widely denominated and settled in USD. Foreign exchange risk also arises from borrowings comprising bank borrowings and convertible bonds and certain bank deposits denominated in foreign currencies. The Group is exposed to foreign currency exchange risk primarily with respect to USD.

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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

	2012 RMB'000	2011 RMB'000
RMB against USD		
— Weakened 5%	13,010	4,523
— Strengthened 5%	(13,010)	(4,523)
KZT against USD		
— Weakened 5%	(17,610)	(8,353)
— Strengthened 5%	17,610	8,353
SGD against USD		
— Weakened 5%	(686)	24
— Strengthened 5%	686	(24)
CAD against USD		
— Weakened 5%	(207)	(312)
— Strengthened 5%	207	312

(ii) Cash flow and fair value interest rate risk

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

The Group's short-term borrowings, part of long-term bank borrowings and convertible bonds were obtained at fixed rates and expose the Group to fair value interest rate risk, while part of the long-term bank borrowings were obtained at floating rate and expose the Group to cash flow interest rate risk. The Group does not expect significant impact due to the changes in interest rate.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

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

The Group has concentrations of credit risk. Petro China Company Limited ("Petro China"), a PRC state owned enterprise with high credit rating, along with its related entities, represented approximately 78.3% and 82.7% of the revenue of the Group for the years ended 31 December 2012 and 2011 respectively. The Group has policies in place to ensure that services are rendered or sales of products are made to customers with an appropriate credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made.

As at 31 December 2012 and 2011, cash and cash equivalents and restricted bank deposits, were deposited in the major financial institutions in the PRC, Kazakhstan, Canada, Hong Kong and Singapore, which the directors of the Company believe are of good credit quality. The table below shows the bank deposit balances as at 31 December 2012 and 2011:

	2012 **RMB'000**	2011 RMB'000
PRC		
— State owned listed banks	**112,568**	16,259
— Other listed banks	**455,317**	210,053
	567,885	226,312
Kazakhstan government owned banks	**34,373**	36,909
Hong Kong listed banks	**14,662**	863
Singapore listed banks	**14,356**	20,689
Canada listed banks	**33,498**	13,060
Other listed banks	**5,550**	2,813
Others	**2,174**	2,725
Total	**672,498**	303,371

The Group's credit sales are only made to customers with appropriate credit history or their related parties who have no default history. Most of the credit period is six months.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Cash flow forecasting is performed by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and legal requirements, for example, currency restrictions.

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2012				
Borrowings	210,385	54,791	72,664	5,928
Trade payables	325,375	4,998	—	—
Accruals and other payables	24,043	—	—	—
As at 31 December 2011				
Borrowings	219,729	925	2,775	8,748
Trade payables	199,929	—	—	—
Accruals and other payables	27,420	—	—	—

3.2 Capital risk management

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (continued)

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

The gearing ratios as at 31 December 2012 and 2011 are as follows:

	2012 RMB'000	2011 RMB'000
Total borrowings	322,523	219,820
Total equity	1,628,174	903,789
Gearing ratio	19.8%	24.3%

3.3 Fair value estimation

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Income taxes

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Impairment of trade and other receivables

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

(c) Impairment of inventories

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

5. SEGMENT INFORMATION

The executive directors and senior management are considered as CODM, who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segment based on these financial statements.

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

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

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

5. SEGMENT INFORMATION (CONTINUED)

(a) Revenue

Revenue recognised during the years ended 31 December 2012 and 2011 are as follows:

	2012 RMB'000	2011 RMB'000
Drilling	658,850	450,798
Well completion	531,502	354,911
Reservoir	631,309	515,551
	1,821,661	1,321,260

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

Revenue amounting to RMB1,426,441,000 (2011: RMB1,093,253,000) are derived from Petro China and its related entities. The revenue is attributable to drilling, well completion and reservoir segments.

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information

The segment information for the years ended 31 December 2012 and 2011 are as follows:

	Drilling RMB'000	Well completion RMB'000	Reservoir RMB'000	Total RMB'000
Year ended 31 December 2012				
Revenue from external customers	**658,850**	**531,502**	**631,309**	**1,821,661**
EBITDA	**190,917**	**144,484**	**214,774**	**550,175**
Depreciation and amortisation	**(23,405)**	**(16,601)**	**(17,366)**	**(57,372)**
Income tax expense	**(34,596)**	**(26,411)**	**(40,770)**	**(101,777)**
Total assets	**589,149**	**538,760**	**485,602**	**1,613,511**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**48,034**	**15,952**	**25,022**	**89,008**
Year ended 31 December 2011				
Revenue from external customers	450,798	354,911	515,551	1,321,260
EBITDA	111,335	101,170	187,426	399,931
Depreciation and amortisation	(17,720)	(12,540)	(13,291)	(43,551)
Income tax expense	(26,858)	(25,428)	(49,959)	(102,245)
Total assets	308,510	399,241	325,358	1,033,109
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	53,907	2,138	16,436	72,481

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	2012 RMB'000	2011 RMB'000
EBITDA for reportable segments	550,175	399,931
Unallocated expenses		
— Share-based payments	(7,486)	—
— Other losses, net	(11,435)	(7,760)
— Unallocated overhead expenses	(111,813)	(72,971)
	(130,734)	(80,731)
	419,441	319,200
Depreciation and amortisation	(57,372)	(43,551)
Finance costs	(25,128)	(14,535)
Finance income	2,331	536
Profit before tax	339,272	261,650

5. SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

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

	2012 RMB'000	2011 RMB'000
Segment assets for reportable segments	1,613,511	1,033,109
Unallocated assets		
— Deferred income tax assets	57,233	42,071
— Unallocated inventories	73,832	26,067
— Unallocated prepayment and other receivables	77,971	64,149
— Restricted bank deposits	13,785	2,031
— Cash and cash equivalents	658,713	301,340
	881,534	435,658
Total assets per balance sheet	2,495,045	1,468,767

(c) Geographical segment

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

	2012 RMB'000	2011 RMB'000
Kazakhstan	749,734	615,607
PRC	791,437	434,443
Canada	117,856	131,393
Singapore	131,244	113,507
Others	31,390	26,310
	1,821,661	1,321,260

5. SEGMENT INFORMATION (CONTINUED)

(c) Geographical segment (continued)

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

	2012 RMB'000	2011 RMB'000
Kazakhstan	128,442	116,180
PRC	114,600	79,824
Canada	10,741	11,772
Singapore	43,137	18,982
Others	34,696	15,587
	331,616	242,345

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and others RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2011						
Opening net book value	33,440	110,703	22,273	24,440	5,577	196,433
Additions	12,897	47,110	3,750	8,408	163	72,328
Transfer in/(out)	5,577	—	—	—	(5,577)	—
Depreciation charge	(3,874)	(27,255)	(5,215)	(7,099)	—	(43,443)
Disposals	—	(3,912)	(113)	(1,185)	—	(5,210)
Exchange differences	(584)	(4,123)	(649)	(127)	—	(5,483)
Closing net book value	47,456	122,523	20,046	24,437	163	214,625
At 31 December 2011						
Cost	58,377	196,103	45,472	54,377	163	354,492
Accumulated depreciation	(10,921)	(73,580)	(25,426)	(29,940)	—	(139,867)
Net book value	47,456	122,523	20,046	24,437	163	214,625
Year ended 31 December 2012						
Opening net book value	**47,456**	**122,523**	**20,046**	**24,437**	**163**	**214,625**
Additions	**7,426**	**78,609**	**5,835**	**16,875**	**9,562**	**118,307**
Acquisition of a certain subsidiary (Note 32)	**—**	**11,710**	**231**	**934**	**—**	**12,875**
Depreciation charge	**(4,981)**	**(38,065)**	**(5,720)**	**(8,108)**	**—**	**(56,874)**
Disposals	**—**	**(6,508)**	**(46)**	**(144)**	**—**	**(6,698)**
Exchange differences	**(266)**	**(4,112)**	**(173)**	**(187)**	**—**	**(4,738)**
Closing net book value	**49,635**	**164,157**	**20,173**	**33,807**	**9,725**	**277,497**
At 31 December 2012						
Cost	**65,529**	**272,629**	**51,707**	**72,903**	**9,725**	**472,493**
Accumulated depreciation	**(15,894)**	**(108,472)**	**(31,534)**	**(39,096)**	**—**	**(194,996)**
Net book value	**49,635**	**164,157**	**20,173**	**33,807**	**9,725**	**277,497**

For the year ended 31 December 2012, depreciation expenses amounting to RMB56,874,000 (2011: RMB43,443,000) has been charged in operating costs.

As at 31 December 2012, certain property, plant and equipment amounting to RMB3,467,000 have been pledged for the Group's bank borrowings (2011: Nil) (Note 17).

7. LAND USE RIGHT

The Group's land use right represents operating lease prepayments for the leasehold land in PRC over 50 years. The details are as following:

	RMB'000
Year ended 31 December 2011	
Opening and closing net book value	—
At 31 December 2011	
Cost and net book value	—
Year ended 31 December 2012	
Opening net book value	**—**
Additions	**24,131**
Amortisation charge	**(442)**
Closing net book value	**23,689**
At 31 December 2012	
Cost	**24,131**
Accumulated amortisation	**(442)**
Net book value	**23,689**

As at 31 December 2012, all land use right have been pledged for the Group's bank borrowings (2011: Nil) (Note 17).

8. INTANGIBLE ASSETS

Intangible assets comprise patents and computer software. The details are as follows:

	Patents RMB'000	Computer software RMB'000	Total RMB'000
Year ended 31 December 2011			
Opening net book value	—	760	760
Additions	—	153	153
Amortisation charge	—	(108)	(108)
Disposals	—	(576)	(576)
Closing net book value	—	229	229
At 31 December 2011			
Cost	—	2,076	2,076
Accumulated amortisation	—	(1,847)	(1,847)
Net book value	—	229	229
Year ended 31 December 2012			
Opening net book value	**—**	**229**	**229**
Additions	**8,902**	**—**	**8,902**
Amortisation charge	**—**	**(56)**	**(56)**
Disposals	**—**	**(20)**	**(20)**
Closing net book value	**8,902**	**153**	**9,055**
At 31 December 2012			
Cost	**8,902**	**2,056**	**10,958**
Accumulated amortisation	**—**	**(1,903)**	**(1,903)**
Net book value	**8,902**	**153**	**9,055**

9. INTERESTS IN SUBSIDIARIES

Company

	2012 RMB'000	2011 RMB'000
Investment in subsidiaries (a)	72,363	64,877
Loans to subsidiaries (b)	614,420	360,748
	686,783	425,625

Note

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2012:

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Interest Held
北京華油油氣技術開發有限公司 (Sinopetroleum Technology Inc.)	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	95%
北京華油先鋒石油裝備技術有限公司 (Pioneer Sinopetroleum Equipment Inc.)	PRC, Limited liability entity	Manufacturing, PRC	RMB10,000,000	95%
北京華油油氣工程科技有限公司 (Sinopetroleum Engineering Technology Co., Ltd.)	PRC, Limited liability entity	Trading, PRC	RMB15,600,000	90.3%
廊坊華油能源石油設備有限公司 (Langfang SPT Energy Limited)	PRC, Limited liability entity	Trading, PRC	USD1,000,000	100%
諾斯石油工具(天津)有限公司 (North Resource Oil Tools Limited)	PRC, Limited liability entity	Manufacturing, PRC	USD15,062,500	99.8%
新疆華油油氣工程有限公司 (Petrotech (Xinjiang) Engineering Co.,Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB43,220,000	95%
新疆華油能源工程服務有限公司 (Xinjiang SPT Engineering Service Co., Ltd)	PRC, Limited liability entity	Oil field services, PRC	RMB10,000,000	95%
德威興業(北京)油氣技術服務有限公司 (De Wei Oil & Gas technologies Services Co., Ltd.)	PRC, Limited liability entity	Oil field services and trading, PRC	RMB10,000,000	70%

9. INTERESTS IN SUBSIDIARIES (CONTINUED)

Company (continued)

Note (continued)

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2012: (continued)

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Interest held
新疆華油新海石油工程技術有限公司 (Petrotech (Xinjiang) Xinhai Petroleum Engineering Co., Ltd.)	PRC, Limited liability entity	Oil field services, PRC	RMB36,000,000	95%
M-Tech service Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT87,200	100%
CNEC Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT150,000	100%
FD Services Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT110,000	100%
OS Services (Kazakhstan) Limited Liability Partnership	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
Dowell LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT500,000	70%
MGD Services LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
HY Oil Technology Service LLP	Kazakhstan, Limited liability partnership	Oil field services, Kazakhstan	KZT151,800	100%
NE TKM Hyzmat Limited	Turkmenistan, Limited liability entity	Oil field services, Turkmenistan	Manats142,500	100%
DFW Oil Mechanical Services LLC	Uzbekistan, Limited liability entity	Oil field services, Uzbekistan	USD10,000	100%
Pioneer Petrotech Services Inc.	Canada, Limited liability entity	Manufacturing, Canada	CAD15	100%
Enecal Canada Corporation	Canada, Limited liability entity	Trading, Canada	CAD86	100%

9. INTERESTS IN SUBSIDIARIES (CONTINUED)

Company (continued)

Note (continued)

(a) Set forth below is a list of the principal subsidiaries of the Company as at 31 December 2012: (continued)

Company name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of Issued share capital	Interest held
SPT Energy (Hong Kong) Ltd.	Hong Kong, Limited liability entity	Investment holding, Hong Kong	HKD1,000,000	100%
SPT Oil Field Service Inc. Limited	Hong Kong, Limited liability entity	Trading, Hong Kong	HKD100,000	100%
PT. Enecal Indonesia	Indonesia, Limited liability entity	Oil field services, Indonesia	USD1,000,000	100%
Enecal PTE. Limited	Singapore, Limited liability entity	Trading, Singapore	SGD3,550,000*	63.2%
AWP Precision Engineering Pte. Ltd.	Singapore, Limited liability entity	Manufacturing, Singapore	SGD360,000	60%

* The issued share capital includes preferred shares amounting to SGD3,200,000 (equivalent to RMB16,302,000) (2011: SGD3,200,000 (equivalent to RMB16,302,000)) contributed by the Controlling Shareholders and other two shareholders ("Preference Shareholders") of the Company. The Preference Shareholders have neither dividends rights (unless the distributable profits of Enecal Pte. Limited available for distribution as dividends for the financial year in question exceed SGD10 billion) nor voting rights (save and except for matters specifically set out in the Singapore Companies Act principally (i) any resolution which varies the rights attached to the preference shares; or (ii) any resolution for the winding up of the company). Hence, the Group consolidated 100% profit of Enecal Pte. Limited while the amount received for the preferred shares are reflected as "Non-controlling interests".

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

10. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	**318,431**	233,613
Work-in-progress	**24,537**	40,243
Finished goods	**4,875**	14,077
	347,843	287,933
Less: Provision for impairment of raw materials	**(32,534)**	(42,844)
	315,309	245,089

The cost of inventories charged in "operating costs" amounted to RMB460,223,000 (2011: RMB363,390,000).

As at 31 December 2011, a provision amounted to RMB42,844,000 has been made as the carrying amount of respective raw materials has exceeded their realisable value for such amount. During the year ended 31 December 2012, a portion of the impaired raw materials were disposed of and the relevant provision amounted to RMB10,310,000 was written-off against the original value to reflect the disposal of the impaired raw materials.

11. TRADE AND NOTE RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**1,054,439**	586,341
Less: impairment of trade receivables (a)	**(13,170)**	(9,274)
Trade receivables — net	**1,041,269**	577,067
Note receivables	**2,000**	—
	1,043,269	577,067

Notes

(a) Trade and note receivables are financial assets classified as "loan and receivables". The fair values of trade and note receivables approximated their carrying values due to their short maturity.

(b) Most of the trade receivables are with credit terms of six months, except for retention money amounting to RMB11,909,000 (2011: RMB5,283,000).

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

(c) Ageing analysis of gross trade and note receivables as at 31 December 2012 and 2011 is as follows:

	2012 RMB'000	2011 RMB'000
Up to 6 months	**960,293**	554,184
6 months–1 year	**48,673**	12,233
1–2 years	**37,576**	19,378
2–3 years	**9,419**	—
Over 3 years	**478**	546
Trade and note receivables, gross	**1,056,439**	586,341
Less: Impairment of trade and note receivables	**(13,170)**	(9,274)
Trade and note receivables, net	**1,043,269**	577,067

(d) Trade and note receivables of RMB75,326,000 (2011: RMB21,047,000) were past due but not impaired. These receivables relate to a number of independent customers for whom there were no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
Up to 1 year	**60,069**	15,688
1 to 2 years	**15,243**	5,291
2 to 3 years	**14**	—
Over 3 years	**—**	68
	75,326	21,047

11. TRADE AND NOTE RECEIVABLES (CONTINUED)

Notes (continued)

(e) As at 31 December 2012, trade and note receivables amounted to RMB13,170,000 (2011: RMB9,274,000) were impaired and fully provided. The individually impaired trade and note receivables mainly related to certain customers who are in unexpectedly difficult financial situations and certain receivables with long ageing which the Company considered difficult to recover. The ageing of these impaired trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
Up to 1 year	**2,888**	—
1 to 2 years	**413**	8,796
2 to 3 years	**9,391**	—
Over 3 years	**478**	478
	13,170	9,274

Movements of impairment of trade receivables are as follows:

	2012 RMB'000	2011 RMB'000
As at 1 January	**(9,274)**	(647)
Add: provision for impairment of trade receivables	**(3,896)**	(8,796)
Less: reversal of impairment of trade receivables	**—**	169
As at 31 December	**(13,170)**	(9,274)

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

	2012 Equivalent in RMB'000	2011 Equivalent in RMB'000
RMB	**502,072**	273,792
KZT	**358,075**	187,892
USD	**175,958**	109,963
SGD	**4,847**	—
CAD	**2,317**	5,420
	1,043,269	577,067

(g) Trade receivables of RMB250,593,000 (2011: RMB179,276,000) have been pledged for the Group's borrowings (Note 17).

12. PREPAYMENT AND OTHER RECEIVABLES

Group

	2012 RMB'000	2011 RMB'000
Current		
Advances to suppliers (Non-financial assets)	29,478	30,997
Other receivables	53,380	28,462
Less: impairment of other receivables	(7,738)	(635)
Total financial assets	45,642	27,827
	75,120	58,824
Non-Current		
Advances to suppliers (Non-financial assets)	2,750	9,019
Prepayment for operating lease (Non-financial assets)	17,844	18,472
	20,594	27,491
Total	95,714	86,315

Notes

(a) Ageing analysis of prepayments and other receivables as at 31 December 2012 and 2011 is as follows:

	2012 RMB'000	2011 RMB'000
Up to 6 months	59,686	70,321
6 months–1year	15,325	12,321
1–2 years	26,610	2,990
2–3 years	1,520	697
Over 3 years	311	621
Other receivables, gross	103,452	86,950
Less: impairment of other receivables	(7,738)	(635)
Other receivables, net	95,714	86,315

12. PREPAYMENT AND OTHER RECEIVABLES (CONTINUED)

Group (continued)

Notes (continued)

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

	2012 Equivalent in RMB'000	2011 Equivalent in RMB'000
RMB	38,263	36,230
KZT	22,051	16,118
SGD	19,262	18,501
USD	14,035	14,907
Others	2,103	559
	95,714	86,315

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

(d) Movements in impairment of prepayments and other receivables are as follows:

	2012 RMB'000	2011 RMB'000
As at 1 January	(635)	—
Add: provision for impairment of prepayments and other receivables	(7,103)	(635)
As at 31 December	(7,738)	(635)

(e) As at 31 December 2012, non-current prepayments amounting to RMB17,844,000 (2011: RMB18,472,000) has been pledged for the Group's borrowings (Note 17).

Company

	2012 RMB'000	2011 RMB'000
Current		
Amounts due from inter-companies	—	—
Other receivables	—	7
Total financial assets	—	7
Total	—	7

13. CASH AND CASH EQUIVALENTS

Group

	2012 RMB'000	2011 RMB'000
Restricted bank deposits (a)	**13,785**	2,031
Cash and cash equivalents		
— Cash on hand	**1,061**	909
— Deposits in bank	**657,652**	300,431
	658,713	301,340
	672,498	303,371

Notes

(a) As at 31 December 2012, the restricted bank deposits comprised deposits of RMB1,785,000 (2011: RMB2,031,000) held as securities for issuance of bank letter of credit and deposits of RMB12,000,000 which have been pledged for the Group's bank borrowings (2011: Nil) (Note 17).

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

	2012 Equivalent in RMB'000	2011 Equivalent in RMB'000
RMB	**343,627**	33,775
USD	**70,573**	33,852
CAD	**4,886**	3,528
KZT	**51,781**	34,351
HKD	**196,610**	187,075
SGD	**2,530**	9,431
Others	**2,491**	1,359
	672,498	303,371

13. CASH AND CASH EQUIVALENTS (CONTINUED)

Company

The Company's bank deposits amounting to RMB411,760,000 (2011: RMB147,320,000) are financial assets classified as "loan and receivables" and denominated in the following currencies:

	2012 Equivalent in RMB'000	2011 Equivalent in RMB'000
RMB	**200,538**	—
USD	**14,721**	857
HKD	**196,501**	146,463
	411,760	147,320

14. ORDINARY SHARES

	Number of share (Thousands)	**Nominal value RMB'000**
Authorised shares:		
Ordinary shares of US$0.0001 each as at 31 December 2011 and 2012	2,000,000	1,295
Issued shares:		
As at 31 December 2011	1,335,000	849
Add: new issuance of ordinary shares (a)	190,000	119
As at 31 December 2012	**1,525,000**	**968**

Notes

(a) On 4 December 2012, the Company and, among others, Truepath Limited (the "Vendor"), a company ultimately controlled by Mr. Wang Guoqiang, entered into a placing and subscription agreement pursuant to which the Company issued 190,000,000 ordinary shares to the Vendor at the price of HKD2.9 per share subsequent to the placement by the Vendor of equivalent number of shares to certain independent third parties. The number of shares in the Company owned by the Vendor remained unchanged immediately after this transaction.

15. SHARE PREMIUM

	2012 RMB'000	2011 RMB'000
As at 1 January	**275,455**	—
Issuance of ordinary shares	**446,659**	334,537
Capitalisation issue	—	(569)
Share issue costs	**(6,151)**	(58,513)
As at 31 December	**715,963**	275,455

16. OTHER RESERVES

Group

	2012 RMB'000	2011 RMB'000
Merger reserves (a)	**(148,895)**	(148,895)
Equity component of convertible bonds (Note 17)	**32,370**	—
Share-based payments (b)	**71,486**	64,000
Statutory reserves (c)	**44,029**	31,345
Capital reserves (d)	**212,899**	212,899
	211,889	159,349

Company

	2012 RMB'000	2011 RMB'000
Equity component of convertible bonds (Note 17)	**32,370**	—
Share-based payments (b)	**71,486**	64,000
Capital reserves (d)	**212,899**	212,899
	316,755	276,899

16. OTHER RESERVES (CONTINUED)

Notes

(a) Merger reserves

As at 31 December 2012 and 2011, the merger reserves balances represented the aggregate of consideration paid for the acquisitions of subsidiaries under common control pursuant to the reorganisation of the Group which was completed on 14 February 2011.

(b) Share-based payments

Pursuant to the share option scheme, the Company granted on 20 February 2012 a total of 26,500,000 share options to 86 employees to subscribe for 26,500,000 ordinary shares of US$0.0001 each at an exercise price of HKD1.292. On 29 March 2012, another 7,300,000 share options were granted by the Company to four directors and one senior management member of the Company to subscribe for 7,300,000 ordinary shares of US$0.0001 each at an exercise price of HKD1.36. These share options will be evenly vested over 3 years from the first anniversary of the grant date and exercisable within 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2012		2011	
	Weighted average exercise price per share options HKD	Share options (Thousands)	Weighted average exercise price per share options HKD	Share options (Thousands)
As at 1 January	—	—	—	—
Granted	1.31	33,800	—	—
Forfeited	1.31	(3,750)	—	—
As at 31 December	1.31	30,050	—	—

As at 31 December 2012, no outstanding share options were exercisable (2011: Nil).

As at 31 December 2012, outstanding share options have the following expiry date and exercise price:

	Exercise price (HKD per share)	Share options (Thousands)
19 February 2022	1.292	22,750
28 March 2022	1.36	7,300

16. OTHER RESERVES (CONTINUED)

Notes (continued)

(b) Share-based payments (continued)

For the year ended 31 December 2012, the total expense recognised in the income statement for share options granted was RMB7,486,000 (Note 22) (2011: Nil). The fair value of share options granted using the Black-Scholes valuation model was RMB15,143,000. The significant inputs used in the valuation are as below:

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

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

(c) Statutory reserves

Subsidiaries incorporated in PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When balance of such reserve fund reaches 50% of each entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of share capital after such usage. For the years ended 31 December 2012 and 2011, 10% of statutory net profit of each entity was appropriated to this reserve. This reserve is non-distributable. The movement is as follows:

	RMB'000
As at 31 December 2011	31,345
Add: Appropriation	12,684
As at 31 December 2012	**44,029**

(d) Capital reserves

The capital reserves balances as at 31 December 2012 and 2011 arose from the Controlling Shareholders took over the Company's certain payables amounted to RMB212,899,000 with a nominal consideration of USD1 on 31 December 2010 during the Group's reorganisation.

17. BORROWINGS

Group

	2012 RMB'000	2011 RMB'000
Long-term borrowings:		
Secured bank borrowings (a)	13,745	9,071
Unsecured bank borrowings (a)	46,736	—
Unsecured liability component of convertible bonds (b)	65,249	—
	125,730	9,071
Short-term borrowings:		
Short-term bank borrowings (a)		
— Secured	97,189	92,101
— Unsecured	97,000	118,000
	194,189	210,101
Current portion of long-term borrowings:		
Secured bank borrowings (a)	2,604	648
	322,523	219,820

Company

	2012 RMB'000	2011 RMB'000
Long-term borrowings:		
Unsecured liability component of convertible bonds (b)	65,249	—

17. BORROWINGS (CONTINUED)

Note

(a) Bank borrowings

(i) As at 31 December 2012, long-term secured bank borrowings amounting to RMB9,242,000 comprising long-term bank borrowings amounting to RMB8,563,000 and its current portion amounting to RMB679,000 mature until 2026 and bear floating interest rate with repricing period of 3 months and the effective interest rate for the year ended 31 December 2012 is 2.75% (2011: 2.85%), while long-term secured bank borrowings amounting to RMB7,107,000 comprising long-term bank borrowings amounting to RMB5,182,000 and its current portion amounting to RMB1,925,000 mature until 2016 and bear fixed interest rate of 2.90% (2011: Nil).

As at 31 December 2012, unsecured long-term bank borrowings amounting to RMB46,736,000 mature until 2014 and bear fixed interest rate of 5.31% (2011: Nil).

As at 31 December 2012, short-term bank borrowings amounting to RMB194,189,000 mature in 1 year and bear interest rate ranging from 5.60% to 10.00% (2011: 6.06% to 7.87%).

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

As at 31 December 2012, long-term bank borrowings amounting to RMB16,349,000 (comprising long-term bank borrowings of RMB13,745,000 and its current portion of RMB2,604,000) were secured by the corporate guarantee provided by the Company, the Group's long-term prepayments of RMB17,844,000 and property, plant and equipment of RMB3,467,000 (2011: RMB9,719,000 comprising long-term bank borrowings of 9,071,000 and its current portion of RMB648,000, secured by the Group's certain long-term prepayments of RMB18,472,000 and joint personal guarantee granted by the Controlling Shareholders and Mr 趙峰(Zhao Feng)) (Note 6, 12 and 33).

As at 31 December 2012, short-term bank borrowings amounting to RMB97,189,000 were secured by Corporate guarantee provided by certain third-party company and certain subsidiaries of the Group, the Group's land use right of RMB23,689,000, trade and note receivables of RMB250,593,000 and restricted bank deposits of RMB12,000,000 (2011: RMB92,101,000, secured by certain subsidiaries of the Group and the Group's trade receivables of RMB179,276,000) (Note 7, 11 and 13).

(iii) The short-term bank borrowings of the Group are wholly repayable within 1 year, while the long-term bank borrowings will be repaid during the maturity period ranging from 2 years to 14 years. The Group's bank borrowings were repayable as follows:

	2012 RMB'000	2011 RMB'000
Within 1 year	196,793	210,749
Between 1 and 2 years	49,340	648
Between 2 and 5 years	5,294	1,944
Over 5 years	5,847	6,479
	257,274	219,820

(iv) As at 31 December 2012, the Group's long-term bank borrowings of RMB13,753,000 with contractual interest repricing period of 3 months is exposed to interest rate changes (2011: 9,719,000).

17. BORROWINGS (CONTINUED)

Note (continued)

(a) Bank borrowings (continued)

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

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

	2012 RMB'000	2011 RMB'000
Fixed rates		
— Expiring less than one year	—	3,568
Floating rates		
— Expiring less than one year	—	4,868
	—	8,436

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

	2012 RMB'000	2011 RMB'000
RMB	176,000	191,180
USD	46,736	18,921
SGD	16,349	9,719
KZT	18,189	—
	257,274	219,820

(b) Convertible bonds

During the year ended 31 December 2012, the Company and certain independent parties (the "Bond Holders") entered into an agreement (the "Agreement") pursuant to which the Company issued USD15,000,000 unsecured and non-redeemable convertible bonds with a coupon rate of 3% per annum (the "Bonds"). The Bonds are due on 20 August 2015 (the "Maturity Date"). The Bond Holders have the right to convert the Bonds into ordinary shares of the Company at a conversion price of HKD1.65 per share at any time commencing from 20 February 2013 up until to five business days before the Maturity Date. The Bonds were initially partially recognised as a liability which was subsequently re-measured at amortised cost and partially as a derivative liability which was subsequently re-measured at fair value through profit and loss.

17. BORROWINGS (CONTINUED)

Note (continued)

(b) Convertible bonds (continued)

Subsequently and before 31 December 2012, the Company and the Bond Holders entered into a supplemental deed whereby the conditions creating the partial derivative liability were extinguished and replaced by a new equity component (the "Supplemental Agreement"), other Bonds' conditions remained the same. As such the carrying value of the original Bonds was de-recognised and replaced by the fair value of the new Bonds. As at 31 December 2012, the new Bonds are recorded in the balance sheet as follows:

	2012 RMB'000	2011 RMB'000
Face value of convertible bonds issued on initial recognition date	94,526	—
Less: Equity component (Note 16)	(32,370)	
Liability component on initial recognition date	62,156	—
Add: Interest expense (Note 24)	4,131	—
Less: Interest payable	(1,038)	—
Liability component as at 31 December	65,249	—

The carrying amount of the liability component as at 31 December was calculated using cash flow discounted at a rate of 18.19%.

18. TRADE PAYABLES

	2012 RMB'000	2011 RMB'000
Current	325,375	199,929
Non-current	4,998	—
	330,373	199,929

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

	2012 RMB'000	2011 RMB'000
Up to 6 months	247,973	133,589
6 months to 1 year	43,871	29,901
1–2 years	11,014	29,895
2–3 years	27,515	2,187
Over 3 years	—	4,357
	330,373	199,929

As at 31 December 2012, the Group had no trade payables due to related parties (2011: Nil).

19. ACCRUALS AND OTHER PAYABLES

Group

	2012 RMB'000	2011 RMB'000
Interest payable	3,008	684
Others	21,035	26,736
Total financial liabilities	24,043	27,420
Customer deposits and receipts in advance	14,841	1,318
Payroll and welfare payable	42,856	30,561
Taxes other than income taxes payable	80,435	36,785
Total non-financial liabilities	138,132	68,664
	162,175	96,084

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

	2012 RMB'000	2011 RMB'000
Less than 1 year	152,079	92,928
1–2 years	8,082	2,999
2–3 years	2,014	133
Over 3 years	—	24
	162,175	96,084

Company

	2012 RMB'000	2011 RMB'000
Amounts due to subsidiaries	—	14,177
Others	2,014	12,034
Total financial liabilities	2,014	26,211

20. DEFERRED TAXATION

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2012 RMB'000	2011 RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**27,222**	22,560
Deferred tax assets to be recovered within 12 months	**30,011**	19,511
	57,233	42,071
Deferred tax liabilities:		
Deferred tax liabilities to be settled after 12 months	**(20,666)**	(7,629)
	36,567	34,442

The gross movements on the deferred income tax account are as follows:

	2012 RMB'000	2011 RMB'000
As at 1 January	**34,442**	31,392
Income statement credit (Note 25)	**3,562**	3,417
Currency translation difference	**(357)**	(367)
Acquisition of a subsidiary (Note 32)	**(1,080)**	
As at 31 December	**36,567**	34,442

20. DEFERRED TAXATION (CONTINUED)

The movement in deferred income tax assets and liabilities for the year ended 31 December 2011 and 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred Tax Assets

	Tax losses RMB'000	Impairment of assets RMB'000	Unrealised profit* RMB'000	Future deductible expenses RMB'000	Total RMB'000
As at 1 January 2011	226	14,634	13,615	3,351	31,826
Income statement credit/(charge)	1,103	(2,123)	9,291	2,341	10,612
Currency translation difference	—	—	(367)	—	(367)
As at 31 December 2011	1,329	12,511	22,539	5,692	42,071
Income statement credit/(charge)	6,288	(2,619)	8,891	2,959	15,519
Currency translation difference	—	—	(357)	—	(357)
As at 31 December 2012	**7,617**	**9,892**	**31,073**	**8,651**	**57,233**

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

Deferred Tax Liabilities

	Accelerated tax depreciation RMB'000	Withholding tax of the unremitted earnings of certain subsidiaries* RMB'000	Fair value gains RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2011	434	—	—	—	434
Charge to income statement	694	6,382	—	119	7,195
As at 31 December 2011	1,128	6,382	—	119	7,629
Charged to income statement	(149)	12,260	(96)	(58)	11,957
Acquisition of a subsidiary (Note 32)	—	—	1,080	—	1,080
As at 31 December 2012	**979**	**18,642**	**984**	**61**	**20,666**

* Deferred tax liabilities in relation to unremitted earnings of certain subsidiaries resulted from certain subsidiaries' accumulated profit earned subsequent from 1 July 2011 which are expected to be distributed as dividends in the future. Pursuant to the local tax regulations where such subsidiaries operate, when such subsidiaries declare or paid dividends, withholding tax will be imposed on these dividends.

20. DEFERRED TAXATION (CONTINUED)

Details of unrecognised deferred tax are as follows:

(a) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB7,320,000 as at 31 December 2012 (2011: RMB6,568,000), in respect of losses amounting to RMB38,875,000 (2011: RMB35,363,000) as at those dates, respectively, that can be carried forward against future taxable income and will expire between 2013 and 2017.

(b) As at 31 December 2012, the Group did not recognise deferred tax liabilities of RMB22,120,000 on withholding tax of unremitted earnings of certain subsidiaries earned prior to 1 July 2011 as such unremitted earnings amounting to RMB442,392,000 are expected to be retained in the respective subsidiaries for their future investment and expansion activities.

21. OTHER LOSSES, NET

	2012	2011
	RMB'000	RMB'000
Net foreign exchange losses	**(13,241)**	(7,635)
Others	**1,806**	(125)
	(11,435)	(7,760)

22. EMPLOYEE BENEFITS EXPENSES

	2012	2011
	RMB'000	RMB'000
Wages, salaries and allowances	**361,061**	220,218
Housing benefits	**7,911**	6,799
Pension costs	**27,644**	20,615
Share-based payments (Note 16)	**7,486**	—
Welfare and other expenses	**10,662**	5,326
	414,764	252,958

22. EMPLOYEE BENEFITS EXPENSES (CONTINUED)

Note

(a) Directors' and chief executive's remuneration

The remuneration of every director and the chief executive for the year ended 31 December 2011 and 2012 is as follows:

	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary Bonus RMB'000	Share-based payments RMB'000	Retirement benefits and others RMB'000	Total RMB'000
Year ended 31 December 2011						
Executive Directors						
Mr. 王國強 (Mr. Wang Guoqiang)*	—	759	230	—	52	1,041
Mr. 吳東方 (Mr. Wu Dongfang)	—	759	—	—	53	812
Mr. 劉若岩 (Mr. Liu Ruoyan)	—	324	208	—	—	532
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	—	6	—	—	—	6
Ms. 陳春花 (Ms. Chen Chunhua)	—	6	—	—	—	6
Mr. 温嘉明 (Mr. Wan Kah Ming)	—	6	—	—	—	6
	—	1,860	438	—	105	2,403
Year ended 31 December 2012						
Executive Directors						
Mr. 王國強 (Mr. Wang Guoqiang)*	—	**1,062**	—	—	**53**	**1,115**
Mr. 吳東方 (Mr. Wu Dongfang)	—	**1,062**	—	—	**54**	**1,116**
Mr. 劉若岩 (Mr. Liu Ruoyan)	—	**422**	—	**343**	—	**765**
Non-executive Directors						
Mr. 林煬 Lin Yang (Mr. Lin Yang)**	—	—	—	—	—	—
Independent Non-Executive Directors						
Mr. 胡國強 (Mr. Wu Kwok Keung Andrew)	—	**240**	—	**267**	—	**507**
Ms. 陳春花 (Ms. Chen Chunhua)	—	**240**	—	**267**	—	**507**
Mr. 温嘉明 (Mr. Wan Kah Ming)	—	**240**	—	**267**	—	**507**
	—	**3,266**	—	**1,144**	**107**	**4,517**

* Mr. 王國強 (Mr. Wang Guoqiang) is also the chief executive of the Company. The remuneration reflected his total emoluments as both the director and the chief executive for the year ended 31 December 2012 and 2011.

** Mr. 林煬 (Mr. Lin Yang) was appointed as the Non-executive director on 25 September 2012.

22. EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2012 and 2011 did not include any directors. The emoluments payable to the five highest paid individuals for the years ended 31 December 2012 and 2011 are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	13,075	11,274
Discretionary bonuses	—	4,014
Share-based payments	1,451	—
Retirement benefits and others	—	10
	14,526	15,298

The emoluments fell within the following bands:

	2012	2011
Emolument band		
HKD2,000,001 to HKD2,500,000 (equivalent to RMB1,621,000 to RMB2,026,000)	1	3
HKD3,000,001 to HKD3,500,000 (equivalent to RMB2,431,000 to RMB2,836,000)	1	—
HKD3,500,001 to HKD4,000,000 (equivalent to RMB2,836,000 to RMB3,242,000)	2	—
HKD4,000,001 to HKD4,500,000 (equivalent to RMB3,242,000 to RMB3,647,000)	1	1
HKD7,000,001 to HKD7,500,000 (equivalent to RMB5,673,000 to RMB6,078,000)	—	1
	5	5

For the year ended 2011 and 2012, no director or other member of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

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

Operating profit is arrived at after charging the following:

	2012 RMB'000	2011 RMB'000
(Gain)/Losses on disposal of property, plant and equipment	(6,118)	35
Losses on disposal of intangible assets	—	576
Sales tax and surcharges	8,451	7,380
Depreciation	56,874	43,443
Share issue costs	—	22,122
Amortisation of land use right and intangible assets	498	108
Auditor's remuneration	3,980	2,000

24. FINANCE COSTS, NET

	2012 RMB'000	2011 RMB'000
Finance income:		
— Interest income on short-term bank deposits	3,348	262
— Net foreign exchange (losses)/gains on financing activities	(1,017)	274
Finance income	2,331	536
Interest expense:		
— Bank borrowings	(18,864)	(10,120)
— Bank charges	(2,133)	(4,415)
— Liability component of convertible bonds	(4,131)	—
Total finance costs	(25,128)	(14,535)
Net finance costs	(22,797)	(13,999)

25. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current taxation	**87,896**	78,484
Deferred taxation	**(3,562)**	(3,417)
Income tax expense	**84,334**	75,067

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

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

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

d. The subsidiaries established in Singapore are subject to Singapore profit tax at 16.5% and an incentive tax rate at 10% respectively.

e. PRC enterprise income tax ("EIT") is provided on the basis of the profits of the subsidiaries established in Mainland China for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The statutory income tax is assessed on an individual entity basis, based on their results of operations. For the year ended 31 December 2012, certain subsidiaries established in the western area of PRC were subject to an incentive tax rate of 15% while other subsidiaries established in PRC are subject to income tax rate of 25%.

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

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

25. INCOME TAX EXPENSE (CONTINUED)

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

	2012 RMB'000	2011 RMB'000
Profit before income tax	**339,272**	261,650
Tax calculated at domestic tax rates applicable to profits in the respective countries	**62,601**	59,219
Expenses not deductible for taxation purposes	**4,802**	6,929
Losses not recognised as deferred tax assets	**752**	2,621
Accrued withholding tax of the unremitted earnings of certain subsidiaries	**12,260**	6,298
Withholding tax paid in foreign jurisdiction not deductible against local tax	**3,919**	—
Income tax expense	**84,334**	75,067

26. PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

The profit attributable to equity owners of the Company is dealt with in the financial statements of the Company to the extent of RMB18,464,000 (2011: a loss of RMB6,300,000).

27. DIVIDENDS

The dividends paid during the year ended 31 December 2012 were RMB13,350,000(2011: Nil).

A dividend in respect of the year ended 31 December 2012 of RMB0.04 (equivalent to HKD0.049) per share, amounting to a total dividend of RMB61,000,000 (equivalent to HKD74,725,000), is to be proposed at the next annual general meeting. The dividend will be paid out of the share premium account of the Company. The financial statements do not reflect this dividend payable.

28. EARNINGS PER SHARE

(a) Basic earnings per share

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

	2012 RMB'000	2011 RMB'000
Profit attributable to equity owners of the Company	247,703	181,806
Weighted average number of ordinary shares in issue (thousands)	1,345,932	1,008,260
Basic earnings per share (RMB per share)	0.184	0.180

(b) Diluted earnings per share

Dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to 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.

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to equity owners of the Company	247,703	181,806
Add: Interest expense on convertible bonds (Note 24)	4,131	—
	251,834	181,806
Weighted average number of ordinary shares in issue (thousands)	1,345,932	1,008,260
Adjustment for:		
— Assumed conversion of convertible bonds (thousands)	25,227	—
— Share options (thousands)	2,161	—
	1,373,320	1,008,260
Diluted earnings per share	0.183	0.180

29. CASH GENERATED FROM OPERATIONS

	2012 RMB'000	2011 RMB'000
Profit before income tax	339,272	261,650
Adjustments for:		
Property, plant and equipment		
— depreciation charge (Note 23)	56,874	43,443
— net (gain)/loss on disposals (Note 23)	(6,118)	35
Land use right and intangible assets		
— amortisation (Note 7&8)	498	108
— net loss on disposals (Note 23)	—	576
Provision for impairment of assets	10,999	9,263
Share issue costs (Note 23)	—	22,122
Net foreign exchange loss (Note 21 and 24)	14,258	7,361
Interest income (Note 24)	(3,348)	(262)
Interest expenses on borrowing (Note 24)	18,864	10,120
Interest expenses on convertible bonds (Note 24)	4,131	—
Share-based payments	7,486	—
Changes in working capital:		
Inventories	(69,349)	(34,024)
Trade receivables	(464,845)	(140,552)
Prepayments and other receivables	(17,979)	15,202
Trade payables	119,913	(55,848)
Accruals and other payables	55,272	3,530
Restricted bank deposits	(11,754)	8,663
Net cash inflows from operations	54,174	151,387

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

	2012 RMB'000	2011 RMB'000
Net carrying value (Note 6)	6,698	5,210
Gain/(Loss) on disposal of property, plant and equipment (Note 23)	6,118	(35)
Less: unsettled receivables in relation to the disposal	(4,843)	—
Proceeds from disposal of property, plant and equipment	7,973	5,175

30. CONTINGENCIES

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

31. COMMITMENT

(a) Capital commitments

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

	2012 RMB'000	2011 RMB'000
Property, plant and equipment	2,736	—
Land use right	—	16,670
	2,736	16,670

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

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

	2012 RMB'000	2011 RMB'000
No later than 1 year	17,691	25,184
Later than 1 year and no later than 5 years	11,069	28,259
	28,760	53,443

32. BUSINESS COMBINATIONS

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

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

32. BUSINESS COMBINATIONS (CONTINUED)

As at 31 December 2012, the Company has reviewed the business performance of AWP. Pursuant to the review, the recoverable amount which was determined as the higher of value in use and the fair value less costs to sell exceeded the carrying amount, no impairment loss of the good will was recognised.

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

	RMB'000
Purchase consideration — cash paid	9,157

Recognised amounts of identifiable assets acquired and liabilities assumed

As at the date of acquisition	**Fair value RMB'000**
Cash and cash equivalents	2,403
Prepayments and other receivables	1,021
Trade receivables	8,796
Inventories	872
Property, plant and equipment	12,875
Trade payables	(9,076)
Accruals and other payables	(1,851)
Deferred income tax liabilities	(1,080)
Total identifiable net assets	13,960
Non controlling interest	(5,584)
Goodwill	781
	9,157
Acquisition-related costs (included in other expenses in the consolidated income statement for the year ended 31 December 2012)	55
Outflow of cash to acquire business, net of cash acquired	
— cash consideration	9,157
— cash and cash equivalents in subsidiary acquired	(2,403)
Cash outflow on acquisition	**6,754**

32. BUSINESS COMBINATIONS (CONTINUED)

(a) Acquired trade receivables

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

(b) Non controlling interest

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

(c) Revenue and profit contribution

For the year ended 31 December 2012, the revenue and net profit contributed by AWP since the acquisition day were RMB12,394,000 and RMB2,354,000 respectively. Had AWP been consolidated on 1 January 2012, the consolidated income statement would show pro-forma revenue of RMB1,838,661,000 and net profit of RMB261,846,000.

33. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties for the year ended 31 December 2012 and 2011:

(a) Advances/Loans obtained from the related parties

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

* An entity controlled by the Controlling Shareholders of the Company and excluded from the Group on 31 December 2010 pursuant to the Group's reorganisation.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

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

As at 31 December 2011, the Controlling Shareholders of the Company provided joint personal guarantee for the long-term borrowings amounting to RMB9,719,000 (Note 17). The personal guarantee, as a transitional arrangement prior to the listing of the Company, has been replaced by the corporate guarantee of the Company during the year ended 31 December 2012.

(c) Indemnity provided by Controlling Shareholders

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

(4) Key management compensation

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

	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	20,463	15,233
Discretionary bonuses	—	5,162
Share-based payments	1,795	—
Other benefits including pension	221	222
	22,479	20,617

SPT Energy Group Inc.
華油能源集團有限公司 *