Petro-king

TERMBRAY PETRO-KING OILFIELD SERVICES LIMITED

添利百勤油田服務有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 2178

2012 Annual Report

CONTENTS

FINANCIAL HIGHLIGHTS

Operating Figures

For the year ended 31 December	2012 HK$	2011 HK$	Change	2010 HK$	2009 HK$
Revenue	1,106,333,283	559,490,832	98%	558,261,469	286,677,682
Operating profits	194,084,367	116,074,393	67%	107,637,725	94,208,048
Profit for the year	184,690,978	92,092,536	101%	84,634,412	77,012,152
Earnings per share					
Basic (HK$ cents)	23	12	92%	16	17
Diluted (HK$ cents)	23	11	109%	16	17

Consolidated Balance Sheet

As at 31 December	2012 HK$	2011 HK$	Change	2010 HK$	2009 HK$
Total assets	1,832,335,809	1,234,526,218	48%	1,230,370,717	789,954,940
Non-current asset	741,629,235	549,393,417	35%	492,368,443	495,869,969
Current assets	1,090,706,574	685,132,801	59%	738,002,274	294,084,971
Total liabilities	741,497,540	231,530,769	220%	341,479,296	399,476,317
Non-current liabilities	11,821,404	12,873,620	-8%	10,244,983	10,257,986
Current liabilities	729,676,136	218,657,149	224%	331,234,313	389,218,331
Net current assets/(liabilities)	361,030,438	466,475,652	-23%	406,767,961	(95,133,360)
Net assets	1,090,838,269	1,002,995,449	9%	888,891,421	390,478,623

Financial Indicators

For the year ended 31 December	2012	2011	2010	2009
Trade receivables turnover days	165	263	188	176
Inventory turnover days	90	107	47	91
Trade payables turnover days	86	131	112	34
Current ratio	1.49	3.13	2.23	0.76
Gearing ratio (Note 1)	5%	3%	–	35%
Return on Equity (Note 2)	18%	10%	13%	22%

Note 1 Based on total borrowing net of cash and cash equivalents over total capital.

Note 2 Based on the profit for the year over the average of the total equity at the beginning and end of the financial year.

CORPORATE PROFILE AND STRUCTURE

CORPORATE PROFILE

Termbray Petro-king Oilfield Services Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**We**" or "**Our**") (stock code: 2178) is a leading independent (Note) China-based provider of high-end oilfield services.

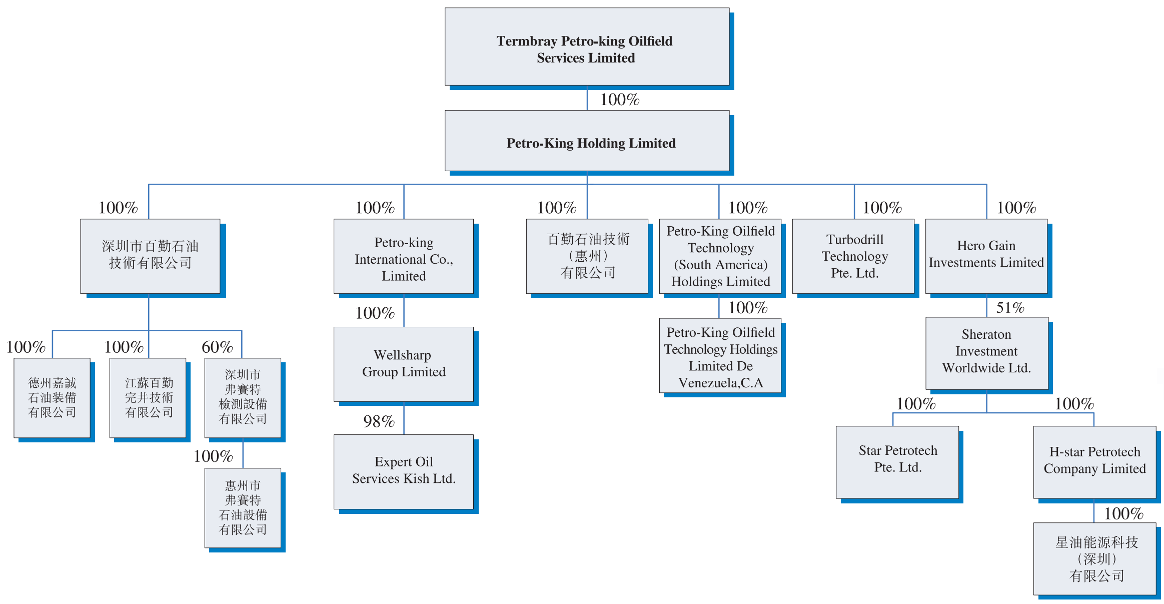
We provide high-end services and products across various stages in the life of an oil or gas field, including the provision of services in well evaluation and appraisal, drilling, casing, well completion, well production, well workover, production enhancement and well abandonment, as well as the supply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

Since our inception in 2002, we have provided services/products to customers located in various regions/countries in the world, including China, the Middle East, Russia, Australia, Western Africa, Turkmenistan, the Caribbeans and South America.

Headquartered in China, we operate 3 efficient manufacturing plants in Singapore and China. Our research and development center and production facilities are under construction in Huizhou, Guangdong Province, we target to commence the commercial operation of such facilities in the first half of 2014.

CORPORATE STRUCTURE

At the date of this report, the corporate structure is as below:



Note: In the context of describing the Group or other oilfield service providers/companies in this report, the word "independent" means "non-government-owned" or "non-state-owned".

CHAIRMAN'S STATEMENT

WANG JINLONG
Chairman

On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2012.

Results

During the year, we recorded a total revenue of HK$1,106.3 million, representing an increase of approximately 98% as compared to that of 2011, of which, total revenue from continuing operations increased by approximately 543% to HK$1,057.4 million in 2012. Profit for the year grew significantly by approximately 101% to HK$184.7 million, of which, net profit from continuing operations increased by approximately 507% to HK$174.1 million in 2012. Profit attributable to owners of the Company increased by approximately 105% to HK$178.3 million in 2012.

The high growth in 2012 was mainly attributable to strong market demand for our production enhancement services (in particular multistage fracturing services), driven by the speeding up of the development pace of the unconventional gas and oil (including tight gas and shale gas) in the People's Republic of China ("**China**" or "**PRC**").

Well positioned for China's unconventional gas

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

In the three phases of bidding undergone by Sinopec in respect of Ordos Basin in 2012, we were awarded contracts for 40 wells in each of these biddings (and therefore a total of 120 wells). Services for some of the wells won in the third round of bidding are expected to be completed in the first half of 2013. In addition, in January 2013, we entered into a strategic alliance framework agreement with 中國華電工程(集團)有限公司 (China Huadian Engineering Co., Ltd., "**Huadian**"), a subsidiary of 中國華電集團 (China Huadian Group), pursuant to which we will be the preferred partner to provide relevant oilfield project services for certain oil fields projects of Huadian.

In view of the PRC government policies on the development of unconventional gas, the impact of the growth of energy demand in China on the oil and gas companies and their investment orientation, and our proven track record and market leading position in the provision of production enhancement services, it is expected that the demand for our oilfield project services, particularly the production enhancement, will see sustainable growth in the forseeable future.

Further expanding our customer base

As China's oil and gas sector is dominated by three NOCs, namely CNPC, Sinopec and CNOOC, a majority of the domestic oilfield service providers are primarily serving these NOCs or their subsidiaries and joint ventures. Since our inception in 2002, our major customers have primarily been subsidiaries and joint ventures of Sinopec.

It is our recent business strategy to expand our customer base through diversification. While maintaining our good business relationship with the subsidiaries and joint ventures of Sinopec, we have also extended our reach to international oil companies, such as ConocoPhillips China Inc. ("**ConocoPhillips**") and Shell China Exploration and Production Company Limited ("**Shell**"), and non-PRC NOCs, such as LLC Venineft, Russia ("**Venineft**") (a subsidiary of the Russian NOC, Rosneft). In 2012, we have successfully secured a new customer, Petróleos de Venezuela, S.A. ("**PDVSA**"), the NOC of Venezuela, and its subsidiaries which marked the first step of our expansion to the South American market.

The percentage of revenue derived from sales to subsidiaries and joint ventures of Sinopec on a group basis has dropped from approximately 90% in 2011 to approximately 63% in 2012. It is expected that as we continue developing our overseas market, our reliance on Sinopec will continue to decrease.

In addition, in November 2012, we have disposed of one of the operating subsidiaries, Top Select Holdings Limited, which was the operating arm of our businesses in Iran and Syria, thereby terminating all of our businesses in these sanctioned countries and as such it is treated as discontinued operations since then ("**discontinued operations**"). We can hence redeploy more of our resources in developing businesses in China and other overseas markets.

Strengthening technology and product development

We are one of the few independent China-based providers of high-end oilfield services that have in-house capabilities of developing and manufacturing oilfield services tools and equipment. We value the importance of technology and pride ourselves in a number of areas in oilfield services, such as turbine drilling, multistage fracturing, surface facilities for safety and surface flow control systems and the use of safety valve, packer, other well completion and production enhancement tools, drilling fluids and fracturing fluids. In 2012, the number of experienced engineers in our technology development team was expanded to 45 and we had obtained certificates awarded by the API for a number of our self-developed products, including safety valves, packers, control systems for subsurface tools, casing centralisers, lock mandrels and actuators. This will further enhance our competitiveness in terms of product quality and technological advancement, which we believe will be beneficial to us in the long run.

Outlook

China's dynamic economic growth in the past 30 years has made it one of the world's largest energy consumers in the past few years. The PRC government's energy policy places strong emphasis on the sustained exploration and development efforts both at home and abroad.

In addition to the ambitious target of unconventional gas development as mentioned above, it is expected that the PRC NOCs will continue to aggressively pursue overseas exploration and production projects in order to secure adequate supplies of oil and gas to meet domestic consumption growth.

Since our first overseas project in Russia in 2006, we have successfully operated or served in many other overseas regions/countries in the Middle East, Australia, Western Africa, the Carribeans, Turkmenistan and South America. The diverse background of our personnel, our strong communication and technical skills and our in-depth knowledge and experience of working in overseas oilfields have allowed us to compete efficiently with the global players in the market, especially in oilfields where the PRC NOCs are involved, as we believe that our in-depth understanding of their operational norms gathered through years of working in close cooperation with them provides us with a competitive advantage in this area.

As a result of our continuous efforts on product design, acquisitions and integration of the technologies of our three major oilfield services in the past few years, we have developed a sustainable business model integrating our oilfield services with the manufacturing of certain key oilfield service tools and equipment. In addition, we also paid special efforts in conducting research, design and development of internationally advanced well completion, drilling, production enhancement and surface control tools and equipment in the past two years and we now possess strong capabilities in design, development and/or manufacturing of such products and technologies. Following our initial public offering in Hong Kong in early March 2013, we successfully raised funds for our future business development. We will speed up the construction of our research and development center and production facilities in Huizhou and target to commence the commercial operation of such facilities in the first half of 2014. The new production facilities will significantly enhance the production capacity of our manufacturing segment of key tools and equipment for oilfield services while lowering our reliance on our major suppliers, optimising the cost structure of our principal operations and enhancing our product and service qualities. This project will lay a solid foundation for our business development in the coming few years and maintain our market position as a leading China-based provider of high-end oilfield services.

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

Appreciation

On behalf of the Board, I would like to express my sincere thanks to all the Company's shareholders and customers for their continuous support. Also, I would like to take this opportunity to thank all our dedicated staff members for their valuable contribution during the year.

Wang Jinlong
Chairman

Hong Kong, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2012, total revenue of the Group's principal business amounted to HK$1,106.3 million, representing an increase of HK$546.8 million, or approximately 98%, as compared to that of 2011, of which, total revenue from continuing operations increased by approximately 543% to HK$1,057.4 million. Such significant growth was attributable to the rapid development of the Group's production enhancement business in the China market and the gain of new overseas customers for well completion projects in South America. The net profit after-tax of the Group amounted to HK$184.7 million in 2012, representing an increase of HK$92.6 million, or approximately 101% as compared to that of 2011. Profit attributable to the owners of the Company increased by approximately 105% to HK$178.3 million in 2012.

The Group's development strategy achieved notable results in 2012. During the year, it strategically scaled down and eventually ceased operations in Iran and Syria which are sanctioned countries, (referred to as "**discontinued operations**" in the analysis below) and redeployed resources to the development of the China and South American markets. Revenue from the China and South American markets accounted for approximately 68% and approximately 19% of total revenue in 2012 respectively with revenue from the China market increased by approximately 363% over that of 2011. Benefitting from the continuous growth in demand for energy from China as a major driver of the global economy, the Group's widely recognised professional and quality high-end oilfield services, especially its outstanding performance in tight gas and shale gas fields services, was well recognised by the market and its customers. The successful development of the South American market was of great achievement of the Group in 2012 contributing revenue of HK$209.0 million to the Group. It is expected that the Group's South American market business will continue to grow and have a significant contribution to the Group's revenue in 2013.

As a service provider of high-end oilfield services with in-house capabilities of developing and manufacturing of certain key oilfield services tools and equipment, the Group continued to expand its manufacturing and production capacities in Singapore and China in 2012. Such strategy provided the Group with important advantages in terms of cost, availability, quality and reliability of the tools and equipment over competitors lacking in-house manufacturing capabilities. Revenue from manufacturing and sales of tools and equipment business in 2012 surged by approximately 147% as compared to that of 2011.

Geographical Market Analysis

Set out below is the revenue analysis by geographical area:

	2012 (HK$ million)	2011 (HK$ million)	Approximate percentage Change (%)	Approximate percentage of total revenue 2012 (%)	Approximate percentage of total revenue 2011 (%)
Continuing operations:					
Domestic market	746.9	161.2	363%	68%	29%
Overseas markets	310.5	3.2	9,603%	28%	1%
Discontinued operations:					
Overseas markets (including Iran and Syria)	48.9	395.1	-88%	4%	70%
Total	1,106.3	559.5	98%	100%	100%

During 2012, the Group gradually scaled down and eventually ceased operations in Iran and Syria and thus the revenue generated from the operations in such areas is now classified as "**revenue from discontinued operations**". In 2012, revenue generated from operations in Iran and Syria amounted to HK$48.9 million, a substantial drop of approximately 88% as compared to that of 2011, and accounted for only approximately 4% of the Group's total revenue in 2012. Revenue from other overseas markets (including Russia, Venezuela, Turkmenistan, etc.) increased by HK$307.3 million (or approximately 9,603%) to HK$310.5 million in 2012 as compared to that of 2011. In 2012, the Group's geographical focus was shifted from Iran and Syria to China and other overseas markets. Revenue from the China market amounted to HK$746.9 million in 2012, representing an increase of HK$585.7 million (or approximately 363%) as compared to that of 2011.

The revenue breakdown by markets is as follows:

Revenue From China Market

Set out below is the breakdown of the revenue from the China market:

	2012 (HK$ million)	2011 (HK$ million)	Approximate percentage Change (%)	Approximate percentage of total 2012 (%)	Approximate percentage of total 2011 (%)
Northern China	523.1	60.6	763%	70%	38%
Southwestern China	95.2	42.7	123%	13%	26%
Other regions in China	128.6	57.9	122%	17%	36%
Total	746.9	161.2	363%	100%	100%

In 2012, the Group's business in China market was mainly concentrated in the northern region and revenue generated from operations in such region amounted to HK$523.1 million, representing an increase of HK$462.5 million, or approximately 763%, from HK$60.6 million for 2011. Such increase was mainly attributable to the winning of the three tenders in 2012 from Sinopec Northern China Oil Company Limited (中石化華北分公司) in respect of provision of multistage fracturing services in the Ordos Basin for a total of 120 wells. Out of the aforementioned 120 wells, the Group had completed 104 wells of multistage fracturing services in Ordos Basin during 2012. In addition, the Group has also completed additional 22 wells in Ordos Basin by applying multistage hydraulic fracturing technology in 2012.

Revenue From Overseas Markets

Set out below is the breakdown of the revenue from overseas markets:

	2012 (HK$ million)	2011 (HK$ million)	Approximate percentage Change (%)	Approximate percentage of total 2012 (%)	Approximate percentage of total 2011 (%)
Continuing operations:					
Russia	53.9	0.7	7,600%	15%	0%
Venezuela	209.0	—	N/A	58%	0%
Turkmenistan	22.6	—	N/A	6%	0%
Other overseas regions (Note)	25.0	2.5	900%	7%	1%
Discontinued operations:					
Iran	42.9	368.6	-88%	12%	92%
Syria	6.0	26.5	-77%	2%	7%
Total	359.4	398.3	-10%	100%	100%

Note: Other overseas regions mainly include The Republic of Trinidad and Tobago, Kazakhstan and Singapore, etc.

The Group fully ceased its operations in Iran and Syria in the fourth quarter of 2012. Such strategy did not have material adverse impact on its total revenue from overseas markets as the Group has also secured customers from the other overseas markets such as Venezuela, Russia and Turkmenistan.

During 2012, the Group won new projects from Venezuela's NOC, PDVSA in the South American market and generated revenue amounting to HK$209.0 million, representing approximately 58% of the revenue generated from the entire overseas markets. Venezuela is one of the countries with largest oil reserves in the world, posing tremendous market potential for the Group.

Business Segment Analysis

Set out below is the revenue analysis by business segment:

	2012 (HK$ million)	2011 (HK$ million)	Approximate percentage Change (%)	Approximate percentage of total revenue 2012 (%)	Approximate percentage of total revenue 2011 (%)
Continuing operations:					
Oilfield project services	**921.8**	114.4	706%	**83%**	20%
Consultancy services	**49.6**	15.2	226%	**5%**	3%
Manufacturing and sales of tools and equipment	**86.0**	34.8	147%	**8%**	6%
Discontinued operations:					
Oilfield project services	**35.0**	356.2	-90%	**3%**	64%
Consultancy services	**13.9**	38.9	-64%	**1%**	7%
Total	**1,106.3**	559.5	98%	**100%**	100%

As a provider of high-end integrated oilfield services, the Group continued to focus on the provision of oilfield project services in drilling, well completion and production enhancement; manufacturing and sales of oilfield services tools and equipment; and provision of professional consultancy services. For continuing operations, revenue from oilfield services projects was HK$921.8 million in 2012, accounting for approximately 83% of the Group's total revenue. At the same time, the Group further expanded its manufacturing and sales of tools and equipment business in 2012, which generated a record high revenue amounting to HK$86.0 million, representing an increase of approximately 147% as compared to 2011. During 2012, the Group gradually scaled down and eventually ceased its operations in Iran and Syria ("**discontinued operations**").

Oilfield Project Services

Set out below is the revenue analysis of oilfield project services segment:

	2012 (HK$ million)	2011 (HK$ million)	Approximate percentage Change (%)	Approximate percentage of total 2012 (%)	Approximate percentage of total 2011 (%)
Continuing operations:					
Drilling	131.3	62.2	111%	14%	13%
Well completion	265.6	5.9	4,402%	28%	1%
Production enhancement	524.9	46.3	1,034%	55%	10%
Discontinued operations:					
Drilling	8.6	77.4	-89%	1%	17%
Well completion	26.4	278.8	-91%	2%	59%
Total	956.8	470.6	103%	100%	100%

In the past, drilling and well completion had been the major business segments of the Group. In addition to the continuous growth of demand for the Group's drilling and well completion services, demand for production enhancement services, and in particular multistage fracturing to improve the production of existing oil and gas wells, had soared in 2012. As the Group possessed the relevant technology and personnel, its production enhancement operations (from continuing operations) experienced robust growth in 2012, recognising revenue of HK$524.9 million, increased by HK$478.6 million, or approximately 1,034%, from HK$46.3 million in 2011. Revenue from production enhancement services accounted for approximately 55% of total revenue from oilfield project services in 2012.

Drilling Services

In 2012, revenue for the Group's drilling services amounted to HK$139.9 million (including revenue from continuing and discontinued operations) and remained stable as compared to revenue of HK$139.6 million (including revenue from continuing and discontinued operations) in 2011. Growth of drilling operations in the regions of continuing operations (regions other than Iran and Syria) was rapid and revenue from such business amounted to HK$131.3 million, representing an increase of HK$69.1 million, or approximately 111%, as compared to last year. The Group completed turbine drilling services for 15 wells in 2012. The Group is the pioneer in bringing turbine drilling to China with a dominant share of the turbine drilling market in China.

Ancillary to drilling is the use of drilling fluids. The Group has expanded into the production of oil-based drilling mud (which is a form of drilling fluid) for use in drilling services in 2012 and successfully applied the Group's proprietary oil-based drilling mud for a shale gas field at Jianghan Gasfield, Hubei, China. At present, oil-based drilling mud produced internally is mainly for use in the Group's own drilling projects. The oil-based drilling mud plant in Chongqing is currently able to provide up to 340 m^3 per day. As the Group continues to increase the capacity for its oil-based drilling mud, the Group will be able to increase its supply to the projects not undertaken by the Group. Due to the unique formula of constituents which enhances buoyancy and stability, oil-based drilling mud is well recognised by the Group's customers to be particularly suitable for drilling against collapse-prone and water-sensitive rock formations such as those in horizontal wells and extended reach drilling wells. The capacity of the oil-based drilling mud is expected to be increased to 800m^3 per day by the end of 2013, so as to further develop the oil-based drilling mud business. To this end, the Group also plans to recruit business development personnel specialised in oil-based drilling mud to strengthen the growth of this business.

Well Completion Services

Well completion has been one of the Group's major services of operations since the commencement of business in 2003. Revenue from well completion services for 2012 accounted for approximately 31% of the Group's revenue from oilfield project services from continuing and discontinued operations. During 2012, due to the new development strategy, the Group ceased its businesses in Iran and Syria while successfully expanded the well completion operations in South America. The Group recognised revenue of HK$292.0 million (including revenue from discontinued operations of HK$26.4 million) from well completion services in 2012 with slight increase as compared to HK$284.7 million (including revenue from discontinued operations of HK$278.8 million) for 2011.

It is expected that the demand for more advanced technologies in well completion will continue to increase due to the stringent conditions and type of wells for drilling and completion and increase in safety awareness of oil and gas companies. The Directors believe that the Group is best positioned to take advantage of its technological capabilities and expertise to seize such opportunities to further capture market share.

Production Enhancement Services

In 2012, the Group completed a total of 147 wells for production enhancement. During the year, the Group won three bids from Sinopec Northern China Oil Company Limited (中石化華北分公司) to provide multistage fracturing services to a total of 120 wells in the Ordos Basin, which was the third consecutive successful winning of tender for multistage fracturing services from such customer. The Group ranked second in all these three biddings, evidencing its leading position and well recognised brand name and service quality in multistage fracturing in the tight gas and shale gas market.

The Group's revenue from production enhancement services for 2011 amounted to approximately HK$46.3 million and increased to approximately HK$524.9 million in 2012, representing a growth of approximately 1,034%. Such increase was mainly driven by the state policy of China to develop its unconventional gas fields, for which extensive production enhancement work is required to improve production levels due to the low permeability of the geological formation of the oil and gas fields in China. The Group has been providing production enhancement services for tight gas/oil and shale gas fields to eight subsidiaries or affiliates of Sinopec in nine different regions since 2008. The Group has been retained by its key customers with repeated orders from 2008 to 2012 which demonstrates the recognition of the Group's services by these customers.

In view of the PRC government policies on the development of unconventional gas fields, the impact of energy demand growth in China on oil and gas companies and their investment orientation, and the proven track record of the Group in the provision of production enhancement services, the directors are optimistic about the future prospect of the Group's production enhancement business.

Consultancy Services

Set out below is the revenue analysis of consultancy services:

	2012 (HK$ million)	2011 (HK$ million)	Approximate percentage Change (%)	**Approximate percentage of total 2012 (%)**	Approximate percentage of total 2011 (%)
Continuing operations:					
Integrated project management services	**22.7**	2.4	846%	**36%**	4%
Supervisory services	**26.9**	12.8	110%	**42%**	24%
Discontinued operations:					
Integrated project management services	**13.9**	38.9	-64%	**22%**	72%
Total	**63.5**	54.1	17%	**100%**	100%

Revenue from provision of integrated project management services (from continuing operations) amounted to HK$22.7 million in 2012, increased by approximately 846% as compared to 2011, while revenue from supervisory services (from continuing operations) amounted to HK$26.9 million in 2012, increased by approximately 110% as compared to 2011.

Manufacturing and Sales of Tools and Equipment

Revenue from manufacturing and sales of tools and equipment for 2012 amounted to HK$86.0 million, representing an increase of HK$51.2 million, or approximately 147%, from HK$34.8 million in 2011. The Group's range of products mainly includes packers, safety valves and wellhead control panels. Manufacturing of tools and equipment not only enables the Group to broaden revenue streams, but also provides the Group with an important advantage in terms of lower costs, availability, quality and reliability of tools and equipment over competitors lacking in-house manufacturing capabilities. With in-house capabilities, the Group is able to better manage the lead time of delivery of oilfield services tools and equipment as well as services, provide more choices to its customers, and better customise the tools and equipment according to their different needs and circumstances.

The Group will further broaden its product range with an aim to diversify the revenue streams and lower the costs. The Group intends to develop new facilities in Huizhou, Guangdong Province, PRC, which will house additional production capacities for its products and a research and development center for the research and development of new well completion, drilling and production enhancement tools and equipment, ancillary products (such as air base drilling fluid and stimulation chemicals) and surface facility products. The Group completed the acquisition of the land use right of the parcel of land for construction of such facility in January 2013 and commercial operation is expected to commence in the first half of 2014. In addition, the Group targets to commence the manufacture of drilling tools once the research and development on this area becomes mature. The Group will also continue to conduct researches to enhance its technology in packers and safety valves in order to develop more advanced models. It is believed that the expansion of the Group's product range will simultaneously enhance its competitiveness in oilfield project services.

Customer Analysis

Set out below is the revenue analysis by customers:

Customers	**2012 (HK$ million)**	2011 (HK$ million)	Approximate percentage Change (%)	**Approximate percentage of total revenue 2012 (%)**	Approximate percentage of total revenue 2011 (%)
Sinopec	**701.2**	504.7	39%	**63%**	90%
Others (Note)	**405.1**	54.8	639%	**37%**	10%
Total	**1,106.3**	559.5	98%	**100%**	100%

Note: Others includes CNPC, CNOOC, PDVSA, Venineft, ConocoPhillips, Weatherford, SHELL, TerraWest Energy, etc.

In 2012, while the Group achieved a notable growth of business with its largest customer, Sinopec (on a group basis) of approximately 39%, the Group strived to broaden its customer base by gaining new customers (e.g. customers in the South American market). In 2012, revenue from other customers grew by approximately 639% as compared to 2011 and contribution from Sinopec (on a group basis) to the Group's revenue fell from approximately 90% in 2011 to approximately 63% in 2012, although the absolute amount of revenue in 2012 increased by approximately 39% as compared to that of 2011. The Group will continue to utilise the network of its business development and technical personnel to explore overseas opportunities. While the Group will continue to strengthen the relationship with its existing major customers, including Sinopec, the Group will further develop new customers, both domestically and overseas.

Backlog orders as at 22 March 2013

Geographical location	Types of services	Contract value of backlog projects (HK$ million)
China	Consultancy services	
	-Supervisory services	6.6
	Oilfield project services	
	-Production enhancement	148.6
	-Drilling	34.9
	-Well completion	10.3
Venezuela	Oilfield project services	
	-Well completion	241.7
Others (Note)	Consultancy services	
	-Supervisory services	3.9
Total		446.0

Note: Others mainly include Turkmenistan, Republic of Trinidad and Tobago, Kazahstan, Gabon and Nigeria.

As at 22 March 2013, the Group had projects under backlog with a total contract amount of approximately HK$446.0 million. Most of the backlog orders are expected to be completed in the first half of 2013. The major backlog orders from China market as at 22 March 2013 include multistage fracturing service contracts in the Ordos Basin and Sichuan Basin. The major backlog orders from overseas market are from PDVSA, the Group's customer in Venezuela, in relation to well completion oilfield project services with committed orders value of HK$241.7 million.

Research and Development

The Group values the importance of technology and prides itself on its skills and expertise in a number of areas in oilfield services, such as turbine-drilling, multistage fracturing, surface facilities for safety and surface flow control systems and the use of safety valve, packer, other well completion and production enhancement tools, drilling fluids and fracturing liquid. The Group will continue enhancing the existing oilfield services technologies as well as keeping abreast of other innovative and effective technologies in the industry.

Human Resources

The Group always believes that its employees are the most valuable asset and the development of each employee has always been the Group's first priority in human resources management. The Group has developed a modern training system that meets such needs. Such system not only helps the Group's employees to attain professional knowledge, but more importantly helps enhancing each employee's professional standard.

Due to the rapid development of the Group's business in 2012, the number of employees increased significantly. The Group recruited a number of experienced technical personnel during year, fulfilling the Group's need for business development. Recently, the Group also strengthened the training of young technical personnel for the Group's future development. In addition, the Group's sound reputation in the industry has helped to attract famous experts in the industry to join, which has significantly enhanced its brand influence.

As at 13 February 2013, the Group had 519 full-time employees. Set out below is a breakdown of the number of full time employees by function as of the same date:

Division	**Number of employees**
Management	28
Overseas project department	32
Commerce department	28
Human resources department	29
Drilling service department	18
Finance department	20
Production enhancement department	64
Well completion department	17
Integrated technology department	12
Marketing department	13
Manufacture department	78
Others	180
Total	519

FINANCIAL REVIEW

Revenue

The Group's revenue from continuing operations amounted to HK$1,057.4 million in 2012, representing a significant growth of approximately 543% as compared to HK$164.4 million in 2011. Such increase was mainly attributable to the growth of the production enhancement business in the oilfield project services. The revenue from production enhancement business amounted to HK$524.9 million in 2012, representing an increase by approximately 1,034% as compared to HK$46.3 million in 2011, as a result of the bids won during 2012 in respect of a number of multistage fracturing services in northern China region, which drove notable growth in production enhancement business.

The Group's revenue from discontinued operations amounted to HK$48.9 million in 2012, representing a significant decrease of HK$346.2 million as compared to HK$395.1 million for 2011, mainly due to the strategic scale down and cessation of discontinued operations.

Material costs

The Group's material costs in respect of continuing operations significantly increased by HK$454.9 million, or approximately 860%, from 2011's HK$52.9 million to 2012's HK$507.8 million, which was in line with the increase in revenue, in particular the growth in the production enhancement business.

The Group's material costs in respect of discontinued operations decreased by HK$175.0 million, or approximately 96%, from 2011's HK$182.0 million to 2012's HK$7.0 million, in line with the Group's strategy of scaling down and cessation of discontinued operations.

Employee benefit expenses

In 2012, the Group's employee benefit expenses in respect of continuing operations amounted to HK$80.5 million, which was approximately 4 times of such expenses of HK$20.9 million for 2011. The increase was mainly due to (a) an increase in the number of the Group's employees, which was in line with the growth of the Group's business, and higher salary; and (b) the acquisition of Sheraton Investment Worldwide Ltd. ("**Sheraton Investment**") and the resultant inclusion of its employee benefit expenses to the Group, thus increasing the Group's expenses of wages, salaries and bonuses due to increased number of employees.

In 2012, the employee benefit expenses of the Group in respect of discontinued operations amounted to HK$13.9 million, representing a decrease of HK$40.0 million, or approximately 74%, as compared to 2011's HK$53.9 million. This was primarily due to the scale down and cessation of discontinued operations.

Distribution expenses

In 2012, the Group's distribution expenses in respect of continuing operations were HK$23.4 million, increased by HK$20.5 million, or approximately 707%, from HK$2.9 million in 2011. Such increase was mainly due to the increase of the Group's transportation costs resulted from the increase of services in production enhancement and drilling.

In 2012, the Group's distribution expenses in respect of discontinued operations were HK$1.0 million, decreased by HK$5.9 million, or approximately 86%, from HK$6.9 million in 2011. This was mainly due to the scale down and cessation of discontinued operations in 2012 after the completion of the insignificant outstanding contracts entered into in 2011.

Technical service fee

In 2012, the technical service fee in respect of continuing operations amounted to HK$140.6 million, representing an increase of HK$107.8 million, or approximately 329%, as compared to HK$32.8 million in 2011. Such increase was primarily due to the notable growth of the Group's production enhancement business. In addition, other business segments also experienced growth in revenue and thus incurred different rates of growth in technical service fee.

The Group's technical service fee in respect of discontinued operations decreased from HK$31.2 million in 2011 to HK$0.6 million in 2012. Such drop was mainly due to the Group's business decision of scaling down and cessation of discontinued operations, thus bringing down the demand for technical services.

Other expenses

Other expenses of the Group's continuing operations were HK$88.9 million for 2012, representing an increase of HK$76.4 million, or approximately 611% as compared to HK$12.5 million for 2011, mainly due to (a) shift of the Group's geographical focus from regional markets to China market, with corresponding marketing activities which resulted in increased entertainment expenses, travelling expenses, marketing expenses, other tax-related expenses and office utilities, and (b) increased professional services fees as a result of the Group's preparation for the Global Offering.

Other expenses of the Group's discontinued operations were HK$10.2 million for 2012, representing a decrease of HK$23.0 million, or approximately 69% as compared to HK$33.2 million for 2011, mainly due to the scale down and cessation of discontinued operations.

Operating profit

As a result of the foregoing, the Group's operating profit for continuing operations increased from HK$34.2 million for the year ended 31 December 2011 to HK$179.9 million for the year ended 31 December 2012, representing a growth of HK$145.7 million, or approximately 426%. The Group's operating profit margin for continuing operations for 2012 was approximately 17%, representing a decrease of 4 percentage points as compared with approximately 21% for 2011.

Besides, the Group's operating profit for discontinued operations decreased from HK$81.9 million for the year ended 31 December 2011 to HK$14.2 million for the year ended 31 December 2012, representing a decrease of HK$67.7 million, or approximately 83%. The Group's operating profit margin for discontinued operations for 2012 was approximately 29%, representing an increase of 8 percentage points as compared with approximately 21% for 2011.

Finance costs, net

Finance costs, net of the Group's continuing operations for 2012 were HK$7.4 million, representing an increase of HK$6.4 million, or approximately 640% as compared to HK$1.0 million for 2011, mainly due to increase in bank borrowings to HK$198.7 million as at 31 December 2012 from HK$103.3 million as at 31 December 2011.

Finance costs, net of the Group's discontinued operations were HK$0.4 million for 2012, representing a decrease of HK$1.9 million, or approximately 83% as compared to HK$2.3 million for 2011, mainly due to the scale down and cessation of discontinued operations.

Share of (loss)/profit of an associate

Share of loss of an associate for the Group's discontinued operations was HK$1.1 million for 2012, while share of profit of an associate was HK$0.5 million for 2011. The change was due to the Group's share of loss generated by an associate in 2012 before its disposal to an independent third party.

Share of loss of a jointly controlled entity

Share of loss of a jointly controlled entity for the Group s continuing operations was approximately HK$43,000 for 2012, compared with HK$1.3 million for 2011. The share of loss of a jointly controlled entity was attributable to the Group's shareholding in Sheraton Investment prior to it became the subsidiary of the Group.

Gain on disposal of a jointly controlled entity

Following the increase of the Group's interests in Sheraton Investment to approximately 51% in 2012, the 45.5% equity interests in Sheraton Investment held before the business combination was re-measured at fair value, which resulted in a gain of HK$47.7 million in 2012.

Income tax expense

Income tax expense of the Group's continuing operations was HK$46.1 million for 2012, representing an increase of HK$42.9 million as compared to HK$3.2 million for 2011, mainly because most of the operating profit for 2012 was derived from China where a higher applicable tax rate was applied as compared to overseas subsidiaries where lower tax rates were applicable.

Income tax expense of the Group's discontinued operations was HK$2.1 million for 2012, representing a decrease of HK$14.6 million as compared to HK$16.7 million for 2011, mainly due to the scale down and cessation of discontinued operations.

Profit attributable to owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company for the year ended 31 December 2012 for continuing operations was approximately HK$167.7 million, representing an increase of HK$144.3 million or approximately 617%, from HK$23.4 million for the year ended 31 December 2011.

Besides, the Group's profit attributable to owners of the Company for the year ended 31 December 2012 from discontinued operations was approximately HK$10.6 million, representing a decrease of HK$52.8 million or approximately 83%, from HK$63.4 million for the year ended 31 December 2011.

Property, plant and equipment

Property, plant and equipment consists of building, leasehold improvements, plant and machineries, motor vehicles, computer equipment, and furniture and fixtures. As at 31 December 2012 and 2011, property, plant and equipment were approximately HK$157.1 million and HK$20.7 million, respectively. The increase in 2012 was primarily due to the Group's business expansion and its acquisition of a majority interest in Sheraton Investment.

Intangible assets

Intangible assets primarily consist of goodwill. The increase of intangible assets from approximately HK$525.9 million as at 31 December 2011 to approximately HK$571.6 million as at 31 December 2012 was mainly due to the increase of the Group's goodwill, contractual customer relationship and incomplete sales contracts following the Group's acquisition of a majority interest in Sheraton Investment.

Inventories

The Group's inventories balance increased from HK$91.9 million as at 31 December 2011 to HK$163.3 million as at 31 December 2012, representing an increase of HK$71.4 million, or approximately 78%. The increase of inventories was in line with the growth of the Group's businesses for which the Group prepared more inventories in advance for production enhancement services to be rendered in 2013 and the integration of inventories balance following the acquisition of a majority interest in Sheraton Investment.

Trade receivables

As at 31 December 2012, the trade receivables were HK$649.6 million, representing an increase of HK$299.3 million as compared with HK$350.3 million as at 31 December 2011. The increase was in line with the substantial increase in revenue. The average turnover days of trade receivables decreased from 263 days in 2011 to 165 days in 2012, primarily attributable to (a) a substantial portion of the trade receivables arising from the projects in the Middle East completed in 2011 were settled in 2012, and (b) the credit periods granted to the production enhancement projects in China in 2012 were relatively shorter in comparison to other projects in China.

Trade payables

As at 31 December 2012, the trade payables were HK$298.2 million, representing an increase of HK$288.0 million as compared with HK$10.2 million as at 31 December 2011. The increase was primarily due to the increase of materials that the Group purchased and consumed in the provision of production enhancement services in 2012 and the Group had credit terms for its purchases of some assembling tools and materials required for its production enhancement services in 2012 while the Group was not granted with any credit terms for its purchases of similar materials in 2011.

Liquidity and capital resources

As at 31 December 2012, the Group's cash and cash equivalents were approximately HK$136.8 million, representing an increase of HK$64.2 million as compared with HK$72.6 million as at 31 December 2011. The increase was primarily from cash generated from the Group's operation and proceeds from bank borrowings.

As at 31 December 2012, the Group's bank borrowings was HK$198.7 million, and the Group had undrawn facilitates of approximately HK$168.0 million under its banking facilities from its major bankers to facilitate its increasing demand of working capital requirement.

As at 31 December 2012, the Group's gearing ratio (calculated as net debt divided by total capital) was approximately 5%, representing an increase of 2 percentage points as compared with the gearing ratio of approximately 3% as at 31 December 2011. The increase was mainly due to the increase in bank borrowings in 2012.

The Group's equity attributable to the owners of the Company increased from approximately HK$983.4 million as at 31 December 2011 to approximately HK$1,052.6 million as at 31 December 2012. The increase was primarily due to the Group's profit generated in 2012 offset by the dividend approved on 19 June 2012.

Foreign exchange risk

The Group mainly operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from trade and other receivables, cash and cash equivalents, trade and other payables and bank borrowings in foreign currencies.

Contractual obligations

The Group's contractual commitment mainly includes the capital expenditure commitments and the payment obligations under operating lease arrangements. The capital expenditure commitments mainly represent land use rights as at 31 December 2012 (authorised but not contracted for) which amounted to approximately HK$24.7 million. The operating leases mainly include the lease of offices and warehouses. The Group's commitment under operating leases was approximately HK$25.7 million as at 31 December 2012.

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.

CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to attaining and maintaining high standards of corporate governance. The directors of the Company (the "**Directors**") recognise that good corporate governance practices and procedures are essential to ensure the Company's transparency and accountability and to its long-term success as well as to enhance the value of the shareholders and safeguard their interests. The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") as its own code of corporate governance.

As the shares of the Company were not yet listed on the Main Board of the Stock Exchange until 6 March 2013 ("**Listing Date**"), the CG Code was not applicable to the Company in the period under review. Throughout the period since the Listing Date, the Company has complied with the CG Code except the following deviations and disclosures in the paragraphs headed "**Code A.1.8**" and "**Chairman and Chief Executive Officer**" below.

Code A.1.8

Code provision A.1.8 stipulates that the Company should arrange appropriate insurance cover in respect of legal action against its Directors.

Since the Listing Date, the Company has been reviewing insurance plans for a suitable and cost-efficient coverage for the liabilities of its Directors and will arrange for such insurance to be made as soon as possible.

Directors' Securities Transactions

On 18 February 2013, prior to the Listing Date, 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 Rules as the code of conduct for Directors in dealings in the Company's securities. Having made specific enquiry to all the Directors, all the Directors have confirmed that they had complied with the required standards of dealings as set out in the Model Code since the Listing Date.

The Board of Directors

The board of Directors (the "**Board**") is responsible for, and has general powers for, supervising and overseeing all important matters of the Group, including but not limited to the formulation and approval of management strategies and policies, review of the internal control and risk management systems as well as financial performance, considering dividend policies and monitoring the performance of the senior management, while the management is responsible for the day-to-day management, administration and operations of the Group.

The Board comprises two executive Directors, namely Mr. Wang Jinlong and Mr. Zhao Jindong, three non-executive Directors, namely Mr. Ko Po Ming, Mr. Lee Tommy and Ms. Ma Hua, and three independent non-executive Directors, namely Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur.

To the best knowledge of the Company, there are no financial, business and family relationships among members of the Board.

Directors' Continuous Training and Professional Development

According to the code provision A.6.5, all directors should participate in continuous professional development and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

Before the Listing Date, all Directors attended a training programme in relation to the Listing Rules arranged by the legal advisors to the Company.

To ensure the Directors' contribution to the Board remain informed and relevant, the Company will be responsible for arranging and funding suitable training to the Directors.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wang Jinlong ("**Mr. Wang**") is currently performing both the roles of chairman and chief executive officer of the Group. Taking into account Mr. Wang's strong expertise in the oil and gas industry, our Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply with code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Independent Non-executive Directors

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, representing one-third of the members of the Board, and one of whom possesses the appropriate professional qualifications in accounting and financial management.

Having considered the factors for assessing the independence of the independent non-executive Directors and the written annual confirmations from each of them, the Board considers all the independent non-executive Directors to be independent.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company with an initial term of three years commencing from 18 February 2013.

Number of Meetings and Directors' Attendance

Code provision A.1.1 of the CG Code provides that board meetings should be held at least four times a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through electronic means of communication.

As the shares of the Company were not yet listed on the Main Board of the Stock Exchange until the Listing Date, the code provision A.1.1 above was not applicable to the Company during the period under review. During the period since the Listing Date to the date of this report, one board meeting was held on 28 March 2013 to consider and approve, among others, the final results of the Group for the year ended 31 December 2012. All members of the Board attended the meeting. The Board will schedule to hold board meeting regularly for at least four times a year at approximately quarterly intervals.

Term of Office of Non-executive Directors

The term of office of each of the non-executive Directors, namely, Mr. Ko Po Ming, Mr. Lee Tommy and Ms. Ma Hua is three years commencing from 18 February 2013.

Board Committee

The Board has established four Board committees, namely, the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the sanction oversight committee (the "**Sanction Oversight Committee**") to oversee the various aspects of the Company's affairs. The four Board committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and approve our Group's financial reporting process and internal control system. The members of the Audit Committee are Mr. Wong Lap Tat Arthur, Mr. Tong Hin Wor and Mr. He Shenghou. Mr. Wong Lap Tat Arthur is the chairman of the Audit Committee.

As the Audit Committee was not yet established in the period under review, no committee meetings were held during the year ended 31 December 2012. During the period since the Listing Date to the date of this report, a meeting of the Audit Committee was held on 28 March 2013 to review and consider, among others, the financial statements of the Company for the year ended 31 December 2012. All members of the Audit Committee attended the meeting.

The Audit Committee has reviewed, considered and discussed the Company's annual report and financial statements for the year ended 31 December 2012.

Remuneration Committee

The Remuneration Committee was established on 18 February 2013 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Group. The members of the Remuneration Committee are Mr. He Shenghou, Mr. Tong Hin Wor, Mr. Wong Lap Tat Arthur, Mr. Wang and Mr. Lee Tommy. Mr. He Shenghou is the chairman of the Remuneration Committee.

As the Remuneration Committee was not yet established in the period under review, no committee meetings were held during the year ended 31 December 2012. During the period since the Listing Date to the date of this report, a meeting of the Remuneration Committee was held on 28 March 2013 to discuss, among others, level of salaries of each of the executive Directors, non-executive Directors, independent non-executive Directors and the management of the Company, and to approve their remuneration proposals with reference to the corporate goals and objectives of the Board. All members of the Remuneration Committee attended the meeting.

Pursuant to code provision B.1.2(c) of the CG Code, the Remuneration Committee made recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

Pursuant to code provision B.1.5 of the CG Code, the emolument of the members of the senior management (excluding the Directors) paid by the Group by band for the year ended 31 December 2012 is set out below:

Emolument band	Number of individuals
Nil to HK$1,000,000	7
HK$1,000,001 to HK$1,500,000	1

Further particulars regarding Directors' and chief executive's emoluments and the five highest paid employees are set out in note 25 to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established on 18 February 2013 with written terms of reference. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and the management of the Board succession. The members of the Nomination Committee are Mr. Wang, Mr. Lee Tommy, Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur. Mr. Wang is the chairman of the Nomination Committee.

As the Nomination Committee was not yet established in the period under review, no committee meetings were held during the year ended 31 December 2012. During the period since the Listing Date to the date of this report, a meeting of the Nomination Committee was held on 28 March 2013 to review the structure, size and composition (including the skills, knowledge and experience) of the Board, make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to assess the independence of independent non-executive Directors, to discuss the re-election of Directors in the forthcoming annual general meeting according to the articles of association of the Company. All members of the Nomination Committee attended the meeting.

Sanction Oversight Committee

The Sanction Oversight Committee was established on 1 November 2012 with written terms of reference. The primary duties of the Sanction Oversight Committee are to assess sanctions risk that the Group may face and to determine whether the Group should embark on business opportunities with any sanctioned countries. The members of the Sanction Oversight Committee are Mr. Wong Lap Tat Arthur, Mr. Wang and Mr. He Shenghou. Mr. Wong Lap Tat Arthur is the chairman of the Sanction Oversight Committee.

During the year ended 31 December 2012, no meeting of the Sanction Committee was held. During the period since the Listing Date to the date of this report, a meeting of the Sanction Committee was held on 28 March 2013 to review and discuss issues according to the working plan prepared by the Company. All members of the Sanction Committee attended the meeting.

External Auditor's Remuneration

The amount of fees charged by the Company's external auditor, PricewaterhouseCoopers, in respect of their audit services for the year ended 31 December 2012 amounted to approximately HK$6.3 million. Apart from the provision of annual audit services, the Company's external auditor also acted as reporting accountant for the Company's initial public offering.

The Company Secretary

The Company engaged an external service provider, Mr. Tung Tat Chiu, Michael as its company secretary. Mr. Shu Wa Tung Laurence, our Chief Financial Officer, is the key contact person with whom Mr. Tung can contact.

Internal Control

An effective internal control system is a key factor in maintaining the integrity of business, results of operations and reputation of the Group. As such, the Company has implemented an effective internal control system by developing and enhancing, from time to time since our establishment, different sets of internal control procedures and manuals covering a number of key control areas such as financial management, separation of management power, credit and settlement control and management and health, safety and environment compliance management, with a view to ensuring compliance by the Group with applicable laws and regulations.

To further improve the internal control system, the Group engaged an internal control consultant in May 2012 to review its internal control systems and procedures and there was no major weakness identified in our internal control policy and exercise.

During the year under review, the Company had implemented all the recommendations suggested by the internal control consultant relating to the internal control system of the Group in supplement to its existing measures, and the Directors consider that the measures under internal control system of the Group after implementing their recommendations are sufficient to enable them to make proper assessment of the Company's financial position and prospects and to ensure the Group's ongoing compliance with applicable laws and regulations. In particular, in order to ensure its ongoing compliance with applicable laws and regulations with respect to its overseas operations, the Company will ensure that (i) a special project group (comprising of major representatives from legal and compliance department, business line department, human resources department and finance department) will be established prior to execution of projects which involve operation in countries or regions that the Group has not had presence; (ii) the special project group will, having assessed the characteristics and features of the project, establish and implement specific measures (for instance, setting qualification for project manager and its responsibilities; laying down risk identification, evaluation and reporting mechanism, means for documentation and seeking advice from external consultants and the important compliance points to look out) to minimise the risk of non-compliance, with such specific measures being reviewed and approved by the senior management and updated from time to time; (iii) the special project group will report in writing to the Sanction Oversight Committee, on a regular basis of project risk assessment and work progress to ensure that the project is conducted in accordance with the scheduled plans and in compliance with relevant sanctions laws and rules; (iv) the special project group will seek external professional advice when they encounter any compliance issues, with all advice/opinions tendered by such professional parties being recorded in writing and reported to senior management for consideration and approval; (v) counterparty's background are evaluated and assessed before entering into any overseas transactions; (vi) records of reasons for selecting particular customers or countries and the applicable selection criteria are documented; (vii) approval from the Board (including approval from the non-executive Directors) is obtained before entering into material sales or services agreement in respect of overseas transactions; and (viii) training on update of sanction laws, if any, will be provided to the members of the special project group. The current members of the special project group are Mr. Wang Jinlong, Mr. Zhang Taiyuan, our vice president and a member of our senior management, Mr. Shu Wa Tung Laurence, our chief financial officer and a member of our senior management, Ms. Li Jianchun, controller of human resources department and Mr. Deng Naixian, controller of business department.

Shareholder's Rights

How shareholders can convene an extraordinary general meeting

Pursuant to Article 49 of the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of Company in Hong Kong at Office No. 504, 5th Floor, Tower 1, Silvercord, No. 30 Canton Road, Kowloon, Hong Kong by post for the attention of the Board.

The procedures and sufficient contact details for putting forward proposals at shareholders' meetings

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the Board by written requisition. Pursuant to the articles of association of the Company, shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures as set out in paragraph headed "**How shareholders can convene an extraordinary general meeting**" above.

Procedures for proposing a person for election as a director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the Announcements and Circulars section of the Company's website at http://www.petro-king.cn.

Investor Relations

The Company has uploaded its memorandum and articles of association on the websites of the Stock Exchange (http://www.hkexnews.hk/) and the Company (www.petro-king.cn). Since the Listing Date to the date of this report, there is no significant change in the Company's constitutional documents.

Directors' Responsibility on the Financial Statements

The Directors acknowledge their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports in accordance with statutory requirements and applicable accounting standards. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

In preparing the financial statements for the year ended 31 December 2012, the Directors have selected appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Jinlong (王金龍), aged 47, is our chairman, chief executive officer and executive Director. He was appointed as an executive Director on 31 December 2007 and is also a director of certain subsidiaries of the Group. Mr. Wang is primarily responsible for formulating our corporate strategy and overall operations of the Group. He has over 18 years of experience in the oil and gas industry. Mr. Wang founded our Group in April 2002 as the executive director and general manager of Petro-king Oilfield Technology Ltd. Prior to that, he worked at 菲利普斯中國有限公司 (Phillips China Inc.) (later known as 康菲石油中國有限公司 (ConocoPhillips China Inc.)) between 1994 and 2003 where he had served as a senior drilling/production engineer. Mr. Wang graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering degree majoring in drilling engineering in July 1986. Mr. Wang obtained a Mid-level Professional Qualification as an engineer in April 1993 issued by 中華人民共和國地質礦產部 (the PRC Ministry of Geology and Mineral Resources*), which was later reformed and incorporated into 中華人民共和國國土資源部 (the PRC Ministry of Land and Resources*), and a qualification of senior engineer issued by CNOOC in March 2002. Mr. Wang has been recognised for his contributions to the development of the technology of geology and was awarded certificates for such contributions by the PRC Ministry of Geology and Mineral Resources in December 1996. Mr. Wang is currently performing the roles of chairman and chief executive officer of our Company. Under code provision A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should not be performed by the same individual. Taking into account Mr. Wang's strong expertise in the oil and gas industry, our Board considered that the roles of chairman and chief executive officer being performed by Mr. Wang enables more effective and efficient overall business planning, decision making and implementation thereof by our Group. In order to maintain good corporate governance and fully comply with code provision, our Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Mr. Zhao Jindong (趙錦棟), aged 49, is our vice president and executive Director. He joined our Group in 2003 as a vice general manager. He was appointed as an executive Director on 24 December 2012. Mr. Zhao has over 28 years of experience in drilling and completion services of the oil and gas industry. Before joining our Group, Mr. Zhao was the senior drilling and completion engineer at 康菲石油公司 (ConocoPhillips Oil Company) from October 2002 to December 2003. He was employed by Conoco Phillips China Inc. from October 1997 to October 2002 where he was recognised for his exemplary performance and contributions to the operations in Xinjiang. Mr. Zhao started his career as an engineer trainee at 地質礦產部石油鑽井研究所 (Drilling Institute of Minority of Geology*) in December 1983. He continued his employment with the Drilling Institute of Minority of Geology where he became a senior engineer and an assistant manager of the drilling development department. Mr. Zhao graduated from 中國地質大學 (China Geology University*) with a diploma in drilling engineering in 1988.

Non-executive Directors

Mr. Lee Tommy (李銘浚), aged 36, is a non-executive Director. He joined our Group in December 2007 as a director of Petro-king Holding Limited. He was appointed as a non-executive Director on 31 December 2007 and is also a director of certain subsidiaries of the Group. Mr. Lee Tommy has been the vice chairman and chief executive officer of Termbray Industries International (Holdings) Limited, (the "**Termbray Industries**") since 2008 and 2010 respectively. Prior to that, he was a vice president of a private company which is principally engaged in the manufacture and sale of printed circuit board from 2001 to 2008. He was primarily responsible for the overall management and strategic planning of this private company. Mr. Lee Tommy studied Economics in the Seneca College of Canada.

Ms. Ma Hua (馬華), aged 37, is our non-executive Director. She was appointed as a non-executive Director on 12 June 2012 and is also a director of certain subsidiaries of the Group. She is now the executive director of TCL創業投資有限責任公司 (TCL Capital*). She was TCL Corporation's employee from January 2003 to February 2008 acting as the chairman s corporate secretary. Prior to that, Ms. Ma had already been employed by TCL國際控股 (TCL International Holdings Ltd.) as an investor relations personnel from July 2001 to January 2003. Ms. Ma Hua obtained her Master of Business Administration from 中國人民大學 (Renmin University of China*) in January 2004 and graduated from 太原理工大學 (Taiyuan Technology University*) with a Bachelor degree double majoring in industry and foreign trade/English language in July 1998.

Mr. Ko Po Ming (高寶明), aged 54, is our non-executive Director. He was appointed as a non-executive Director on 18 February 2013. Mr. Ko graduated from The Chinese University of Hong Kong in 1982 with a Bachelor's degree in Business Administration. Mr. Ko has over 30 years of experience in finance and investment banking business. Prior to co-founding Goldbond Capital Holdings Limited ("**GCHL**") in 2003, he was the Head of Asian Corporate Finance of BNP Paribas Peregrine Capital Limited where he was in charge of the corporate finance business in Asia. GCHL was acquired by Piper Jaffray Companies (NYSE: PJC) in 2007 and its name was changed to Piper Jaffray Asia Holdings Limited ("**PJA**"). Since then and until September 2012, Mr. Ko served as the chief executive officer of PJA. Mr. Ko joined China Minsheng Banking Corp., Ltd Hong Kong Branch as a consultant in October 2012. Mr. Ko had acted as independent non-executive directors of a number of Hong Kong and PRC listed companies, including (i) Nanjing Panda Electronics Company Limited (stock code: 553) between 1996 and 1999; (ii) Dazhong Transport (Group) Company Limited (SHA: 600611) between 1997 and 2003; (iii) Chinese Energy Holdings Limited (formerly known as iMerchants Limited (stock code: 8009)) between 2000 and 2004; and (iv) Tianjin Capital Environmental Protection Group Company Limited (stock code: 1065) between 2003 and 2009. He was a Listing Committee member of the Main Board and GEM Board of the Stock Exchange between May 2003 and June 2009. At present, he is an adviser of Minmetals Capital (Hong Kong) Limited and also a trustee of St. Johnsbury Academy, an independent day and boarding secondary school. St. Johnsbury Academy is a non-profit corporation under section 501(c)(3) of the Internal Revenue Code in the United States of America.

Independent Non-executive Directors

Mr. He Shenghou (何生厚), aged 66, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. Mr. He obtained his diploma in production engineering from 北京石油學院 (Beijing Petroleum Institute, now known as China University of Petroleum*) in July 1970. He has over 38 years of experience in oilfield development engineering and technology research and practice while being employed by Sinopec. Mr. He retired in December 2008 as Sinopec's vice executive commander. Mr. He is involved in several committees. He was a committee member of Sinopec's Science and Technology Committee. Since December 2000, Mr. He has been the vice chairman of 中國造船工程學會 (Chinese Society of Naval Architects and Marine Engineers*). He has also been the chairman of 石油工業標準化技術委員會第五屆油氣田開發專業委員會 (the Fifth Oil and Gas Development Professional Committee for the Oil Industry Standardisation Technology Committee*) since October 2001. Mr. He has been the vice chairman of 第六屆中國石油學會石油工程學會 (the Sixth China Petroleum Institute Petroleum Engineering Society*) since January 2004. In November 2007, Mr. He was engaged as a committee member of "**大型油氣田及煤層氣開發**"重大專項實施方案論證委員會 (the "**Large-scale Oil and GasFields and CBM Development**" Major Projects Implementation Planning Committee*) by the NDRC, the Ministry of Finance and the Ministry of Science and Technology. Mr. He has numerous achievements throughout his career. A recent achievement is the receipt of a Scientific Development Award certificate from 中國石油和化學工業聯合會 (China Petroleum and Chemical Industry Federation*) in October 2011.

Mr. Tong Hin Wor (湯顯和), aged 67, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. He holds a diploma in management studies from the Hong Kong Polytechnic University. Mr. Tong has over 30 years of working experience in financial management. He was appointed as an independent non-executive director of Termbray Industries in 2008 where he has also been serving as a member of the audit committee. Mr. Tong was the group vice president of Elec & Eltek Corporate Services Limited from 1995 to 2004 and the group controller of Elec & Eltek (International) Limited in 1995. He was the financial controller of Karrie Industrial Company Limited, a company principally engaged in electronics and sheet metal manufacturing in 1993.

Mr. Wong Lap Tat Arthur (黃立達), aged 53, is our independent non-executive Director. He was appointed as an independent non-executive Director on 18 February 2013. He is also the chairman of our audit committee. Mr. Arthur Wong has more than 30 years of experience in the field of accounting. He is currently the chief financial officer of 北京瑞迪歐文化傳播有限責任公司 (Beijing Radio Cultural Transmission Co., Ltd.*). He was the chief financial officer of GreenTree Inns Hotel Management Group, Inc. from February 2011 to May 2012. He had also previously acted as the chief financial officer of Nobao Renewable Energy Holdings Limited from March 2010 to November 2010 and of Asia New-Energy Holdings Pte. Ltd. from June 2008 to December 2009. Prior to that, Mr. Arthur Wong built his career at Deloitte Touche Tohmatsu ("**Deloitte**") from July 1982 to May 2008 where he left as a partner of the Beijing office. Mr. Arthur Wong received a Bachelor of Science in applied economics from the University of San Francisco in 1988 and completed a higher diploma of accountancy at Hong Kong Polytechnic University in 1982. He obtained his CPA accreditation from both the American Institute of CPAs and the Hong Kong Institute of CPAs. He is also a member of the Chartered Association of Certified Accountants. He is currently an independent non-executive director and the chair of the audit committee of Besunyen Holdings Company Limited (stock code: 926), VisionChina Media Inc. (NASDAQ: VISN), China Automotive Systems, Inc. (NASDAQ: CAAS) and Daqo New Energy Corp. (NYSE: DQ).

SENIOR MANAGEMENT

Mr. Du Heli (杜鶴立), aged 42, is our managing director. He joined our Group in 2011 and he is primarily responsible for the management of the surface facility engineering department, the unconventional gas department and several other departments. Mr. Du completed his Executive Master of Business Administration programme in May 2012 from the University of Texas at Arlington, US. Mr. Du graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering, majoring in offshore petroleum engineering in 1992. Mr. Du has over 15 years of experience in offshore drilling and completion management of the oil and gas industry. From December 2006 to October 2011, Mr. Du was employed as the group manager of Weatherford Integrate Service and Engineering Resource at 威德福(中國)能源服務有限公司 (Weatherford (China) Energy Service Ltd.*). Mr. Du joined CNOOC (China) Limited in July 2000 where he had served as an operations department manager until 2002. Prior to that, he was employed by Conoco Phillips China Inc. from 1992 to 2000. Mr. Du has received numerous awards for his outstanding contributions from his previous employers.

Ms. Sun Jinxia (孫金霞), aged 38, is our vice president. She is also a director of certain subsidiaries of the Group. Ms. Sun is responsible for the Group's daily operation of the business department, QHSE department and market development department. She joined our Group in 2003 as an assistant to general manager. She has over 15 years of experience in business management. Ms. Sun was a sales manager of 深圳威尼斯酒店 (the Venice Hotel Shenzhen*) between October 2001 and July 2002. Prior to that, she was a sales supervisor and sales manager of 深圳南海酒店有限公司 (Shenzhen Nanhai Hotel Limited*) from July 1997 to April 1998 and from April 1998 to June 2000, respectively. She completed her Master of Business Administration at the University of Ballarat, Australia in July 2004.

Mr. Zhang Taiyuan (張太元), aged 48, is our vice president. He joined our Group in 2004 as a senior drilling supervisor and has been subsequently promoted to director of international projects and also to vice president. Mr. Zhang has over 26 years of experience in project management and drilling engineering of the oil and gas industry. He was an offshore drilling supervisor of Devon Energy China Ltd. prior to joining our Group from December 2002 to December 2004. Between January 2002 and December 2002, he was a project manager of CNPC. Mr. Zhang acted as a CNPC engineering professional representative for CNPC-Burlington (then known as CNPC-ENRON) from October 1997 to January 2002. Prior, he was employed by 川中油氣公司 (Chuanzhong Oil and Gas Company of SPA*) from August 1986 where he acted as a drilling engineer. He graduated from 西南石油學院 (Southwest Petroleum Institute*) in 1986 with a Bachelor of Engineering degree, majoring in drilling engineering. Mr. Zhang has accomplished numerous trainings including the IWCF Drilling Supervisor Level Practical Assessment & Written Test Programme and the Training of Hydrogen Sulfide Safety.

Mr. Shu Wa Tung Laurence (舒華東), aged 40, joined the Group in July 2010 as our chief financial officer and he is primarily responsible for the Group's overall financial strategies and daily management of the Group's financial and accounting functions. He is also a director in certain subsidiaries of the Group. Mr. Shu graduated from Deakin University, Australia in 1994 with a Bachelor degree in Business majoring in Accounting. He received his CPA accreditation from both the Hong Kong Institute of CPAs and the Australian Society of CPAs in 1997 and completed his CFO Programme at 中歐國際工商學院 (China Europe International Business School) in 2009. Mr. Shu has over 18 years of experience in audit, corporate finance, and financial management. He joined Deloitte in 1994 and later became a manager of the Reorganisation Services Group of Deloitte and joined Deloitte & Touche Corporate Finance Limited (a corporate finance service company of Deloitte) as a manager from 2001 to 2002. From 2002 to 2005, Mr. Shu was an associate director of Goldbond Capital (Asia) Limited. From May 2005 to July 2008, he served as the chief financial officer and company secretary of Texhong Textile Group Limited (stock code: 2678) overseeing the group's financial management functions. From July 2008 to June 2010, Mr. Shu served as the chief financial officer of Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司) and oversaw the group's financial management functions and corporate finance activities as well as the daily management of the group's finance department. He is currently an independent non-executive director of Greater China Holdings Limited (stock code: 431), HL Technology Group Limited (stock code: 1087) and Perception Digital Holdings Limited (stock code: 1822).

Mr. Wong Kwok Ping Albert (王國平), aged 59, is our chief technology officer. As our chief technology officer, Mr. Albert Wong oversees the technology development department of our Group. He is also a director/legal representative in certain subsidiaries of the Group. He joined our Group in 2011 after our acquisition of a majority of interests in Sheraton Investment Worldwide Ltd. Mr. Albert Wong has over 12 years of experience in the oil and gas industry. He has been the managing director for both Star Petrotech Pte. Ltd and Stelkraft Coiled Tubing and Pumps Pte Ltd since 2009. Mr. Albert Wong was a Design cum Quality Manager in Halliburton Manufacturing in Singapore from 1990 to 1997. He was recognised by his previous employer to possess vast experience in the designing and development of downhole completion products. Mr. Albert Wong obtained his Master of Business Administration degree from the University of Warwick in UK in July 1995 and received his Bachelor of Science in mechanical engineering from Texas A & M University in USA in 1978. He is a member of the Society of Mechanical Engineers (ASME) and the Society of Petroleum Engineers (SPE). He received a Professional Engineer License from Texas Board of Professional Engineers, U.S..

Mr. Xie Qingfan (謝慶繁), aged 49, is our chief engineer and technical department manager primarily responsible for the management of production capabilities, the overseas project department and direction of services in challenging projects. He joined our Group in 2006 as the manager of the northwest region. Mr. Xie has over 30 years of experience in the oil and gas industry. He had acted in various roles during his employment with 中石化中原石油勘探局 (Sinopec Zhongyuan Petroleum Exploration Bureau) between 1982 to 2005; such as engineering service centre director of the 鑽井工程技術研究院 (Drilling Engineering and Technology Research Institute*) in 2001, deputy chief engineer of the 鑽井管具工程處 (Drilling Pipe Tool Engineering Department*) in 2002, and senior engineer in 2005. He received numerous certificates for his contributions to this bureau from as early as 1985. For instance, he was presented with a Technology Advancement Certificate for his research on technology to prevent failure of drilling tools in February 2006 and for his research and development of PDC drill heads in February 2003. Mr. Xie completed a training course of electrical wireline freepoint & backoff provided by HOMCO in 1993 and received training for the operation of motorised freepoint equipment held by Applied Electronic Systems, Inc. in 2001. He graduated from 石油大學 (Petroleum University*) with a Bachelor degree majoring in mine machinery in July 1996.

Ms. Zhang Xiling, aged 52, joined our Group in 2011 as a deputy general manager and she is primarily responsible for project management and market development in equipment supplies and engineering services in the Middle East and in China. She has over 17 years of experience in the oil and gas industry. Prior to joining our Group, she was employed by 油企信通(北京)科技發展有限公司 (Infopetro Technology Development Ltd.) as a general manager from May 2002 to January 2011. She was employed by CNPC as the deputy chief of the engineering department between August 1982 and May 1989. Ms. Zhang received her Masters degree of science in petroleum engineering from the University of Alberta, Canada on 18 November 1993.

Mr. Chen Liang (陳亮), aged 39, is our deputy general manager and our manager of the unconventional gas department. He is primarily responsible for unconventional oil and gas project management and sales of multistage fracturing and acidising downhole systems. Mr. Chen has over 11 years of experience in the oil and gas industry. Before joining our Group in April 2012, he was, for some time, simultaneously the senior assistant president and completions director of 華油能源集團有限公司 (SPT Energy Group Inc.) between August 2005 and March 2012. From July 2001 to 2005, Mr. Chen was an employee of Schlumberger. He received his Masters degree in oil and gas exploration engineering in 2001 and obtained his Bachelors degree in petroleum engineering majoring in production engineering in 1996 at 江漢石油學院 (JiangHan Petroleum University*). Mr. Chen accomplished numerous trainings from 2001 to 2010 including the OPITO approved Basic Offshore Safety Induction Emergency Training in August 2001, the Well Completion & Productivity Course held by Network of Excellence in Training (NExT) in September 2001, the OFS-3: People Management Course in Beijing organised by Schlumberger in June 2004 and completed a shale gas ATW training held by the Society of Petroleum Engineers (SPE) continuing education courses in 2011. Mr. Chen has been a member of the SPE since 2008.

Mr. Yuan Fucun (袁夫存), aged 43, is our vice president. He joined our Group in 2013 and he is primarily responsible for the management of the international project department, exploration & production department, and several other departments. Mr. Yuan has over 21 years of experience in offshore drilling and completion management of the oil and gas industry. Mr. Yuan was employed as Drilling Manager, Senior Drilling Engineer, Drilling Superintendent of Schlumberger Group, and responsible for IPM integrated project management and drilling engineering and technical services in Russia, the Middle East, Algeria. He was highly praised for his outstanding performance and contributions. Mr. Yuan has worked for Conoco Phillips China Inc. for 12 years, and worked as Xijiang Drilling, Completion Services Manager, Senior Reservoir, Production Engineer, Senior Drilling Engineer, Senior Production, Completion Engineer, Engineers and so on. Mr. Yuan graduated from 西南石油學院 (Southwest Petroleum Institute*) with a Bachelor of Engineering, majoring in offshore petroleum engineering in 1992.

Mr. Pan Yuxin (潘玉新), aged 36, is our vice president. He joined our Group in 2011 and primarily responsible for the management of domestic market. Mr. Pan has over 18 years of experience in oil and gas service industry. He has worked as Northeast Project Manager, North China Project Manager, Southwest Project Manager, Marketing Director and Vice President for 北京一龍恒業石油工程技有限公司. He has worked as field and sales department manager for Anton Oilfield Services Group. He has been in charge of water injection station, oil production station and oil producing region for Zhongyuan oilfield. Mr. Pan graduated in July 1995 from the Zhongyuan Oilfield Petroleum School.

COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael (佟達釗), aged 51, was appointed as the company secretary of our Company on 18 February 2013. He is the principal of Tung & Co., a law firm providing legal advice as to Hong Kong laws to our Group since 2009. He holds a Bachelor of Arts degree in law and accounting from The University of Manchester, the United Kingdom. He has over 20 years of experience as practising lawyer in Hong Kong. Mr. Tung currently serves as a joint company secretary of Jiangxi Copper Company Limited (stock code: 358), Harbin Electric Company Limited (stock code: 1133) and Qingling Motors Co. Ltd (stock code: 1122) and the sole company secretary of Yunbo Digital Synergy Group Limited (stock code: 8050), respectively. He is currently the internal legal adviser of Silver Grant International Industries Limited (stock code: 171). Mr. Tung is also an independent non-executive director of ICube Technology Holdings Limited (stock code: 139).

Mr. Tung is an external service provider engaged by us as our company secretary and Mr. Shu Wa Tung Laurence (舒華東), our Chief Financial Officer, will be the key contact person with whom Mr. Tung can contact.

CORPORATE INFORMATION

Executive Directors
Mr. Wang Jinlong (王金龍)
Mr. Zhao Jindong (趙錦棟)

Non-executive Directors
Mr. Ko Po Ming (高寶明)
Mr. Lee Tommy (李銘浚)
Ms. Ma Hua (馬華)

Independent Non-executive Directors
Mr. Wong Lap Tat Arthur (黃立達)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)

Audit Committee
Mr. Wong Lap Tat Arthur (黃立達) (Chairman)
Mr. Tong Hin Wor (湯顯和)
Mr. He Shenghou (何生厚)

Remuneration Committee
Mr. He Shenghou (何生厚) (Chairman)
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)
Mr. Wang Jinlong (王金龍)
Mr. Lee Tommy (李銘浚)

Nomination Committee
Mr. Wang Jinlong (王金龍) (Chairman)
Mr. Lee Tommy (李銘浚)
Mr. He Shenghou (何生厚)
Mr. Tong Hin Wor (湯顯和)
Mr. Wong Lap Tat Arthur (黃立達)

Sanction Oversight Committee
Mr. Wong Lap Tat Arthur (黃立達) (Chairman)
Mr. Wang Jinlong (王金龍)
Mr. He Shenghou (何生厚)

Company secretary
Mr. Tung Tat Chiu, Michael (佟達釗)

Authorised representatives
Mr. Wang Jinlong (王金龍)
Mr. Tung Tat Chiu, Michael (佟達釗)

Registered office in the British Virgin Islands
Commerce House
Wickhams Cay 1
P.O. Box 3140
Road Town, Tortola
British Virgin Islands
VG1110

Principal place of business in Hong Kong
Office No. 504, 5th Floor
Tower 1, Silvercord
No. 30 Canton Road
Kowloon, Hong Kong

Principal place of business in the PRC
7/F, Tower A, Tiley Central Plaza
No. 3 Haide Road
Nanshan District
Shenzhen
Guangdong
China

Compliance Adviser

China Galaxy International Securities (Hong Kong) Co., Limited

Principal share registrar and transfer office in the British Virgin Islands

Codan Trust Company (B.V.I.) Ltd.
Commerce House, Wickhams Cay 1
P.O. Box 3140
Road Town, Tortola
British Virgin Islands VG1110

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal bankers

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

China Merchants Bank
China Merchants Building, Shekou
Shenzhen 518067
China

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

Hang Seng Bank Limited
83 Des Voeux Road
Central
Hong Kong

Auditor

PricewaterhouseCoopers

Legal Advisers (Hong Kong law)

Tung & Co.

Company's website

www.petro-king.cn

Stock code

2178

REPORT OF THE DIRECTORS

The directors of the Company (the "**Directors**") hereby present the first annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2012.

The Company and Initial Public Offering

The Company was incorporated in the British Virgin Islands with limited liability on 7 September 2007. It was formerly known as "**Termbray Oilfield Services (BVI) Ltd. (添利油田服務(英屬維爾京群島)有限公司)**". Its name was changed to "**Termbray Petro-king Oilfield Services (BVI) Limited (添利百勤油田服務(英屬維爾京群島)有限公司)**" on 13 March 2008 and was further changed to "**Termbray Petro-king Oilfield Services Limited (添利百勤油田服務有限公司)**" on 9 August 2012. As fully explained in the section headed "**History and Development**" in the Company's prospectus dated 22 February 2013 (the "**Prospectus**"), the Company has since its incorporation become the ultimate holding vehicle of the Group's various arms of business. The Company has completed its initial public offering and the shares of the Company were listed on the Stock Exchange on 6 March 2013.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by operating segments is set out in note 5 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on pages 56 to 57.

Pursuant to a meeting of the then shareholders of the Company held on 19 June 2012, the payment of a dividend of HK$120,000,000 in respect of years ended 31 December 2009 and 2010 payable to the shareholders of the Company whose names were registered in the Company's register of members as at 30 June 2010 on a pro rata basis was approved. The payment of such dividend was fully made in March 2013.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012.

Use of Proceeds from the Company's Initial Public Offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 6 March 2013. Net proceeds received from the Global Offering were approximately HK$912.7 million (after deduction of underwriting commission and related expenses), which are intended to be applied in accordance with the proposed applications set out in the section headed "**Future Plans and Use of Proceeds**" in the Prospectus.

Summary Financial Information

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 2.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

Share Capital and Share Options

Details of the movements in the Company's share capital and share options during the year are set out in notes 16 and 26 respectively, to the consolidated financial statements.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the British Virgin Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 17 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2012, the Company did not have any reserves available for distribution to its Shareholders.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,232,400.

Major Customers and Suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers were as follows:

(1) The aggregate amount of revenue attributable to the Group's five largest customers represented approximately 77% of the Group's total revenue. The amount of revenue to the Group's single largest customer represented approximately 48% of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 64% of the Group's total purchases. The amount of purchases to the Group's largest supplier represented approximately 31% of the Group's total purchases.

None of the Directors nor any of their associates nor any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

Directors

The Directors during the year and up to the date of this report were as follows:

Executive Directors:

Mr. Wang Jinlong (appointed on 31 December 2007)
Ms. Sun Jinxia (appointed on 31 December 2007 and resigned on 24 December 2012)
Mr. Zhao Jindong (appointed on 24 December 2012)

Non-executive Directors:

Mr. Ko Po Ming (appointed on 18 February 2013)
Mr. Lee Lap (appointed on 10 September 2007 and resigned on 18 February 2013)
Mr. Lee Tommy (appointed on 31 December 2007)
Mr. Liang Qijie (appointed on 20 October 2010 and resigned on 12 June 2012)
Ms. Ma Hua (appointed on 12 June 2012)

Independent Non-executive Directors:

Mr. He Shenghou (appointed on 18 February 2013)
Mr. Tong Hin Wor (appointed on 18 February 2013)
Mr. Wong Lap Tat Arthur (appointed on 18 February 2013)

Mr. Wang Jinlong, Mr. Zhao Jindong, Mr. Ko Po Ming, Mr. Lee Tommy, Ms. Ma Hua, Mr. He Shenghou, Mr. Tong Hin Wor and Mr. Wong Lap Tat Arthur will retire at the forthcoming annual general meeting in accordance with Article 74 of the Company's articles of association respectively and, being eligible, will offer themselves for re-election.

The Company has received annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from all independent non-executive Directors and still considers them to be independent.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to annual review at the discretion of the Board). An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Wang Jinlong	HK$180,000 as Director and RMB2,000,000 as chief executive officer
Mr. Zhao Jindong	HK$180,000 as Director and RMB1,300,000 as vice president

Each of the non-executive Directors has entered into a service contract with the Company. The terms and conditions of each of such service contracts are similar in all material respects. The service contracts are initially for a fixed term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these non-executive Directors is entitled to the respective basic salary set out below (subject to annual review at the discretion of the Board). A non-executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries of the non-executive Directors are as follows:

Name	Amount
Mr. Lee Tommy	HK$180,000
Ms. Ma Hua	HK$180,000
Mr. Ko Po Ming	HK$300,000

Each of the independent non-executive Directors has entered into a letter of appointment with the Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of the independent non-executive Directors are appointed with an initial term of three years commencing from 18 February 2013 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The annual remuneration payable to the independent non-executive Directors under each of the letters of appointment are as follows:

Name	Amount
Mr. He Shenghou	HK$180,000
Mr. Tong Hin Wor	HK$180,000
Mr. Wong Lap Tat Arthur	HK$300,000

Save as disclosed above, none of the Directors has or is proposed to have any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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.

Emolument Policy

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, workload and the time devoted to the Group.

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

Directors' and Chief Executive' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at the date of this report, the interests and/or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), 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 they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO were as follows:

Our Company

Name of Director	Capacity/Nature of interest	Number of Shares (Note 1)	Approximate percentage of interest in the Company
Mr. Wang Jinlong (Note 2)	Interest in a controlled corporation	327,410,414 (L)	31.56%
Mr. Lee Tommy (Note 3)	Beneficiary of trust	340,774,104 (L)	32.85%

Notes:

1. "**L**" denotes long position and "**S**" denotes short position.

2. Mr. Wang holds approximately 41.19% of the issued share capital in King Shine Group Limited ("**King Shine**") and King Shine directly holds approximately 31.56% of the total number of issued shares of the Company. Therefore, Mr. Wang is taken to be interested in the number of Shares held by King Shine pursuant to Part XV of the SFO.

3. 63.99% of the total issued share capital of Termbray Industries International (Holdings) Limited ("**Termbray Industries**") is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (B.V.I.) Limited ("**Termbray Electronics (BVI)**") which in turn holds 100% of the issued share capital of Termbray Natural Resources Company Limited ("**Termbray Natural Resources**"). Therefore, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited, First Trend Management (PTC) Limited, HSBC International Trustee Limited are taken to be interested in the number of Shares held by Termbray Natural Resources pursuant to Part XV of the SFO.

Save as disclosed above, as at the date of this report, none of the Directors or chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), 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 they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code and which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO

Substanital Shareholders

As at the date of this report, the following persons (other than a Director or chief executive of our Company) had an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding in the Company
Mr. Lee Lap (Note 2)	Settlor of a discretionary trust	340,774,104(L)	32.85%
First Trend Management (PTC) Limited (Note 2)	Trustee	340,774,104(L)	32.85%
HSBC International Trustee Limited (Note 2)	Trustee	340,774,104(L)	32.85%
Lee & Leung (B.V.I.) Limited (Note 2)	Interest in a controlled corporation	340,774,104(L)	32.85%
Termbray Industries (Note 2)	Interest in a controlled corporation	340,774,104(L)	32.85%
Termbray Electronics (BVI) (Note 2)	Interest in a controlled corporation	340,774,104(L)	32.85%
Termbray Natural Resources	Registered owner	340,774,104(L)	32.85%
TCL Corporation (Note 3)	Interest in a controlled corporation	74,242,724(L)	7.16%
T.C.L. Industries Holdings (H.K.) Limited ("**TCL HK**") (Note 3)	Interest in a controlled corporation	74,242,724(L)	7.16%
Excel Top Holdings Limited (Note 3)	Interest in a controlled corporation	74,242,724(L)	7.16%
Jade Max Holdings Limited (Note 3)	Interest in a controlled corporation	74,242,724(L)	7.16%
Jade Win Investment Limited	Beneficial owner	74,242,724(L)	7.16%
Ms. Zhou Xiaojun (Note 4)	Interest of spouse	327,410,414(L)	31.56%
King Shine	Registered owner	327,410,414(L)	31.56%

Notes:

1. "**L**" denotes long position and "**S**" denotes short position.

2. 63.99% of the total issued share capital of Termbray Industries is owned by Lee & Leung (B.V.I.) Limited which is wholly-owned by First Trend Management (PTC) Limited as trustee for Lee & Leung Family Unit Trust. All the units in Lee & Leung Family Unit Trust are held by HSBC International Trustee Limited as trustee for Lee & Leung Family Trust. Mr. Lee Lap is the settlor of the Lee & Leung Family Trust. The discretionary beneficiaries of the Lee & Leung Family Trust are Madam Leung Lai Ping, the children of Mr. Lee Lap and Madam Leung Lai Ping (including Mr. Lee Tommy) and the offspring of such children. Termbray Industries directly holds 100% of the issued share capital of Termbray Electronics (BVI) which in turn holds 100% of the issued share capital of Termbray Natural Resources. Therefore, Mr. Lee Lap, Mr. Lee Tommy, Lee & Leung (B.V.I.) Limited, First Trend Management (PTC) Limited, HSBC International Trustee Limited are taken to be interested in the number of Shares held by Termbray Natural Resources pursuant to Part XV of the SFO.

3. TCL Corporation directly holds 100% of the issued share capital of TCL HK, which in turn holds 100% of the issued share capital of Excel Top Holdings Limited, which in turn holds 100% of the issued share capital of Jade Max Holdings Limited (BVI), which in turn holds 100% of the issued share capital of Jade Win Investment Limited. Therefore, TCL Corporation, TCL HK, Excel Top Holdings Limited and Jade Max Holdings Limited are taken to be interested in the number of Shares held by Jade Win Investment Limited pursuant to Part XV of the SFO.

4. Ms. Zhou holds approximately 17.21% of the issued share capital in King Shine. Ms. Zhou is the spouse of Mr. Wang. Therefore, Ms. Zhou is deemed to be interested in the Shares in which Mr. Wang is interested for the purpose of the SFO.

Save as disclosed above, as at the date of this report, the Directors are not aware that there is any party (not being a Director) who had any interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such shares.

Particulars of Directors of the Company who were Directors/Employees of Substantial Shareholders

Mr. Wang Jinlong and Mr. Zhao Jindong are directors of King Shine which is a substantial Shareholder of the Company.

Mr. Wang Jinlong was a director of Termbray Industries, which is a substantial shareholder of the Company, from December 2007 to November 2010.

Mr. Lee Tommy is a director of Termbray Industries which is a substantial Shareholder of the Company.

Ms. Ma Hua was an employee of TCL Corporation, which is a substantial Shareholder of the Company, from January 2003 to February 2008 acting as the chairman's corporate secretary.

Mr. Tong Hin Wor was appointed as an independent non-executive director of Termbray Industries, which is a substantial Shareholder of the Company, in 2008 where he has also been serving as a member of the audit committee.

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 (as supplemented and amended by an addendum on 25 September 2012). As at the date of this report, 42,244,108 share options have been granted under the Pre-IPO Share Option Scheme, none of which has been exercised by the grantees.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme as at the date of this report:

Name of grantee	Number of options granted at Listing	Options exercised since Listing	Options lapsed/cancelled since Listing	Options outstanding as at date of this report
Director				
Sun Jinxia (resigned as director on 24 December 2012)	7,424,273	—	—	7,424,273
Other employees and senior management	34,819,835	—	—	34,819,835
Total	42,244,108	—	—	42,244,108

Save as disclosed above, at no time during the year and up to the date of this report was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Details of the Pre-IPO Share Option Scheme are stated in note 26 to the consolidated financial statements.

Share Option Scheme

On 18 February 2013, the Company's Share Option Scheme was adopted. As at the date of this report, no share options have been granted under the Scheme.

The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The Share Option Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

The Board may, at its discretion, grant an option to eligible participants to subscribe for the shares of the Company at a subscription price and subject to the other terms of the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 100,000,000 shares, being 10% of the total number of shares in issue at the time dealings in the shares first commenced on the Stock Exchange. The total number of shares issued and to be issued upon the exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

A share option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which an option was granted, at any time during the option period after the option has been granted by the Board but in any event, not longer than 10 years from the date of grant. There are neither any performance targets that need to be achieved by the grantee before an option can be exercised nor any minimum period for which an option must be held before the option can be exercised. Subject to the provisions of the Share Option Scheme and the Listing Rules, the Board may when making the offer of options impose any conditions, restrictions or limitations in relation to the option as it may at its absolute discretion think fit. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The principal terms of the Share Option Scheme are summarised in the section headed "**Share Option Scheme**" in Appendix V to the Prospectus.

Directors' Interests in Competing Businesses

During the year ended 31 December 2012 and up to the date of this report, none of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

Audit Committee

The audit committee comprises three independent non-executive Directors, namely Mr. Wong Lap Tat Arthur, Mr. Tong Hin Wor and Mr. He Shenghou. The principal duties of the audit committee are to review and approve our Group's financial reporting process and internal control system.

The audit committee has reviewed with the management about the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters in connection with the preparation of the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

Purchase, Sale or Redemption of the Company's Listed Securities

The shares of the Company were listed on the Stock Exchange on 6 March 2013. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2012 and up to the date of this report.

Continuing Connected Transactions

Certain continuing connected transactions during the year were required to be disclosed pursuant to Rules 14A.45 and 14A.46 of the Listing Rules:

(1) On 19 September 2011, Petro-king Holding Limited ("**Petro-king Hong Kong**") and Mr. Albert Wong entered into a guarantee (the "**Guarantee**"), pursuant to which Mr. Albert Wong shall guarantee 49% of the payment obligations of Sheraton Investment Worldwide Ltd ("**Sheraton Investment**") under a loan agreement dated 12 September 2011 (the "**Loan Agreement**") entered into between Petro-king Hong Kong (as lender) and Sheraton Investment (as borrower) in respect of a loan amount of US$1,000,000 (the "**Loan**") at an interest rate of 6% per annum. Pursuant to the Loan Agreement, the Loan shall be repayable on 26 August 2012. On 19 October 2012, Petro-king Hong Kong, Sheraton Investment and Mr. Albert Wong entered into a supplemental agreement as supplemental to the Loan Agreement, which provides that, among other things, (i) the payment date of the Loan is extended to 26 August 2013; and (ii) Mr. Albert Wong acknowledged the above extension and agreed that the Guarantee remains effective during such extension period.

Given that Sheraton Investment is a non-wholly owned subsidiary of the Company and is owned as to 51% and 49% by the Company (through its shareholding in Hero Gain Investments Limited) and Natural Peak Overseas Ltd ("**Natural Peak**") respectively, Natural Peak is a connected person of the Company (at the level of the Company's subsidiary) only by virtue of its substantial shareholding in Sheraton Investment. The provision of the Guarantee by Mr. Albert Wong, being a substantial shareholder of Natural Peak, a connected person of the Company, to Sheraton Investment constitutes a connected transaction of the Company under Rule 14A.13(2)(b)(i) of the Listing Rules.

The Directors, including the independent non-executive Directors, confirm that the Guarantee was entered into on normal commercial terms where no security over the assets of the Company is granted in respect of the Guarantee.

(2) On 2 August 2011, 深圳市弗賽特檢測設備有限公司 (Shenzhen Fluid Science & Technology Co., Ltd.*) ("**Shenzhen FST**") (as tenant) and Ms. Chen Hongli (as landlord) entered into a tenancy agreement ("**Shenzhen Tenancy Agreement**") in respect of the office premises located at Unit No. 2010, Block West, Haian Building, Commercial Cultural Centre District, Nanshan District, Shenzhen City, the PRC of 131.3 sq.m. for a term of two years commencing from 15 August 2011 at a monthly rental of RMB9,825. Given that Ms. Chen Hongli is interested in 16% equity interests in Shenzhen FST, a non-wholly owned subsidiary of the Company, Ms. Chen Hongli, being a substantial shareholder of Shenzhen FST, is a connected person of the Company. The annual rental payable by Shenzhen FST to Ms. Chen Hongli will be approximately RMB117,900. Since each of the percentage ratios calculated by reference in Rule 14.07 of the Listing Rules, where applicable, in respect of the Shenzhen Tenancy Agreement is expected to be less than 0.1%, the Shenzhen Tenancy Agreement constitutes exempted continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the independent property valuer of our Company, considers that the rentals payable under the Shenzhen Tenancy Agreement were fair and reasonable and did not exceed market rental for similar premises in similar locations in their respective countries.

Pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive Directors reviewed the above continuing connected transactions and confirmed that they were entered into (i) in the ordinary and usual course of business of the Company, (ii) on normal commercial terms, and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the auditor of the Company was engaged to conduct certain assurance procedures in respect of the Group's continuing connected transaction in item (1) above in accordance with Hong Kong Standard on Assurance Engagements 3000 "**Assurance Engagements Other Than Audits or Reviews of Historical Financial Information**" and with reference to Practice Note 740 "**Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules**" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed to the Board in writing that for the year ended 31 December 2012, nothing has come to attention that causes the auditor to believe that the continuing connected transaction in item (1) above (i) has not been approved by the Company's board of directors and (ii) was not entered into, in all material respects, in accordance with the relevant agreements government such transaction.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 23 to 29.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of at least 25% of the Company's issued shares under the Listing Rules since the Listing Date and up to the date of this report.

Subsequent Events

(i) Increase in Authorised Share Capital

On 18 February 2013, pursuant to the written resolution of all the then shareholders of the Company, it was passed to amend the memorandum of association of the Company to change the maximum number of shares the Company is authorised to issue from 50,000 no par value shares (comprising 42,000 voting shares with no par value and 8,000 non-voting shares with no par value) to 10,000,000,000 no par value shares of a single class.

(ii) Capitalisation Issue

On 6 March 2013, the Company capitalised an amount of HK$100 from the amount standing to the credit of reserve accounts of the Company and that the said sum was applied in paying up in full 749,989,898 shares of the Company, the said shares were allotted and issued, credited as fully paid to holders of shares appearing on the register of members of the Company on 22 February 2013 in proportion to their then respective shareholdings.

(iii) Global Offering

On 6 March 2013, the shares of the Company became listed on the Main Board of the Stock Exchange, pursuant to which 250,000,000 new shares of HK$3.28 each were issued by the Company.

(iv) Full Exercise of Over-Allotment Option

Pursuant to full exercise of the over-allotment option granted by the Company in the Global Offering on 25 March 2013, a total of 37,500,000 new shares of the Company were allotted and issued by the Company on 28 March 2013. As a result, the number of total issued shares of the Company was increased to 1,037,500,000.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Wang Jinlong
Chairman

Hong Kong, 15 April 2013

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF
TERMBRAY PETRO-KING OILFIELD SERVICES LIMITED
(incorporated in the British Virgin Islands with limited liability)

We have audited the consolidated financial statements of Termbray Petro-king Oilfield Services Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 53 to 148, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 disclosures 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.

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, 15 April 2013

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

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2012 HK$	2011 HK$
ASSETS			
Non-current assets			
Property, plant and equipment	6	157,092,704	20,723,244
Intangible assets	7	571,619,992	525,928,146
Investment in an associate	8	—	1,102,297
Investment in a jointly controlled entity	9	—	1,639,730
Prepayments for land use right	12	11,325,756	—
Deferred tax assets	20	1,590,783	—
		741,629,235	549,393,417
Current assets			
Inventories	11	163,269,915	91,927,038
Trade receivables	12	649,550,014	350,290,543
Other receivables, deposits and prepayments	12	106,243,772	121,525,687
Pledged bank deposits	13	34,832,005	48,756,417
Cash and cash equivalents	14	136,810,868	72,633,116
		1,090,706,574	685,132,801
Total assets		1,832,335,809	1,234,526,218
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16	671,891,801	662,644,041
Other reserves	17	50,496,932	47,689,553
Retained earnings		330,214,537	273,100,684
		1,052,603,270	983,434,278
Non-controlling interests		38,234,999	19,561,171
Total equity		1,090,838,269	1,002,995,449

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2012 HK$	2011 HK$
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	20	11,821,404	12,873,620
		11,821,404	12,873,620
Current liabilities			
Trade payables	18	298,241,083	10,213,515
Other payables and accruals	18	198,961,762	90,713,854
Derivative financial instrument	36	1,335,185	—
Current income tax liabilities		32,448,603	14,401,258
Bank borrowings	19	198,689,503	103,328,522
		729,676,136	218,657,149
Total liabilities		741,497,540	231,530,769
Total equity and liabilities		1,832,335,809	1,234,526,218
Net current assets		361,030,438	466,475,652
Total assets less current liabilities		1,102,659,673	1,015,869,069

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 53 to 148 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Mr. Wang Jinlong
Director

Mr. Zhao Jindong
Director

BALANCE SHEET

	Note	As at 31 December 2012 HK$	2011 HK$
ASSETS			
Non-current asset			
Investments in subsidiaries	39	284,300,993	275,053,233
Current assets			
Other receivables and prepayments	12	523,718,864	386,809,981
Total current assets		523,718,864	386,809,981
Total assets		808,019,857	661,863,214
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16	671,891,801	662,644,041
Other reserves	17	21,345,565	21,345,565
Accumulated losses	37	(17,388,327)	(27,688,959)
Total equity		675,849,039	656,300,647
LIABILITIES			
Current liabilities			
Other payables and accruals	18	132,170,818	5,562,567
Total liabilities		132,170,818	5,562,567
Total equity and liabilities		808,019,857	661,863,214
Net current assets		391,548,046	381,247,414
Total assets less current liabilities		675,849,039	656,300,647

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 53 to 148 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Mr. Wang Jinlong
Director

Mr. Zhao Jindong
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012 HK$	2011 HK$
			(As restated)
Continuing operations			
Revenue	5	1,057,393,236	164,380,924
Other income	21	5,244,813	8,816,593
Operating costs			
Material costs	11	(507,776,146)	(52,865,412)
Depreciation of property, plant and equipment	6	(7,233,526)	(1,190,256)
Amortisation of intangible assets	7	(11,952,313)	(10,602,109)
Operating lease rental		(9,797,992)	(3,956,670)
Employee benefit expenses	22	(80,507,304)	(20,940,884)
Distribution expenses		(23,398,007)	(2,861,535)
Technical service fee		(140,647,249)	(32,779,833)
Research and development expenses	22	(5,670,769)	(1,099,258)
Other expenses	23	(88,907,248)	(12,475,266)
Other losses, net	24	(6,867,714)	(274,618)
Operating profit		179,879,781	34,151,676
Finance income	27	120,644	81,274
Finance costs	27	(7,503,593)	(1,050,076)
Finance costs, net		(7,382,949)	(968,802)
Share of loss of a jointly controlled entity	9	(43,226)	(1,312,861)
Gain on disposal of a jointly controlled entity	36	47,742,893	—
Profit before income tax		220,196,499	31,870,013
Income tax expense	29	(46,114,300)	(3,193,562)
Profit for the year from continuing operations		174,082,199	28,676,451
Discontinued operations			
Profit for the year from discontinued operations	15	10,608,779	63,416,085
Profit for the year		184,690,978	92,092,536
Other comprehensive income			
Currency translation differences		1,665,300	8,040,679
Total comprehensive income for the year		186,356,278	100,133,215
Profit for the year attributable to:			
Owners of the Company		178,346,753	86,847,607
Non-controlling interests		6,344,225	5,244,929
		184,690,978	92,092,536

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012 HK$	2011 HK$
			(As restated)
Total comprehensive income for the year attributable to:			
Owners of the Company		179,921,232	94,254,615
Non-controlling interests		6,435,046	5,878,600
		186,356,278	100,133,215
Profit attributable to owners of the Company arises from:			
Continuing operations		167,737,974	23,431,522
Discontinued operations	15	10,608,779	63,416,085
		178,346,753	86,847,607
Total comprehensive income attributable to owners of the Company			
Continuing operations		169,294,674	30,843,863
Discontinued operations	15	10,626,558	63,410,752
		179,921,232	94,254,615
Earnings per share from continuing and discontinued operations attributable to owners of the Company during the year	31		(As restated)
Basic earnings per share			
From continuing operations (HK$ cents)		22	3
From discontinued operations (HK$ cents)		1	9
Total		23	12
Diluted earnings per share			
From continuing operations (HK$ cents)		22	3
From discontinued operations (HK$ cents)		1	8
Total		23	11

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

	Note	2012 HK$	2011 HK$
Dividends	32	120,000,000	—

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves (note 17)	Retained earnings	Total	Non-controlling interests	Total equity
	HK$	HK$	HK$	HK$	HK$	HK$
For the year ended 31 December 2011						
Balance at 1 January 2011	662,644,041	39,003,685	187,243,695	888,891,421	—	888,891,421
Comprehensive income						
Profit for the year	—	—	86,847,607	86,847,607	5,244,929	92,092,536
Other comprehensive income						
Currency translation differences	—	7,407,008	—	7,407,008	633,671	8,040,679
Total comprehensive income for the year	—	7,407,008	86,847,607	94,254,615	5,878,600	100,133,215
Total contributions by and distributions to owners of the Company recognised directly in equity						
Recognition of share-based payment (note 22)	—	288,242	—	288,242	—	288,242
Transfer to statutory reserve	—	990,618	(990,618)	—	—	—
Total contributions by and distributions to owners of the Company	—	1,278,860	(990,618)	288,242	—	288,242
Non-controlling interests arising on business combination (note 36(a))	—	—	—	—	13,682,571	13,682,571
Total transactions with owners	—	1,278,860	(990,618)	288,242	13,682,571	13,970,813
Balance at 31 December 2011	662,644,041	47,689,553	273,100,684	983,434,278	19,561,171	1,002,995,449

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves (note 17)	Retained earnings	Total	Non-controlling interests	Total equity
	HK$	HK$	HK$	HK$	HK$	HK$
For the year ended 31 December 2012						
Balance at 1 January 2012	662,644,041	47,689,553	273,100,684	983,434,278	19,561,171	1,002,995,449
Comprehensive income						
Profit for the year	—	—	178,346,753	178,346,753	6,344,225	184,690,978
Other comprehensive income						
Currency translation differences	—	1,552,585	—	1,552,585	90,821	1,643,406
Currency translation difference released upon disposal of a subsidiary (note 28)	—	21,894	—	21,894	—	21,894
Total comprehensive income for the year	—	1,574,479	178,346,753	179,921,232	6,435,046	186,356,278
Total contributions by and distributions to owners of the Company recognised directly in equity						
Issue of share capital (note 16)	9,247,760	—	—	9,247,760	—	9,247,760
Transfer to statutory reserve	—	1,232,900	(1,232,900)	—	—	—
Dividend (note 32)	—	—	(120,000,000)	(120,000,000)	—	(120,000,000)
Total contributions by and distributions to owners of the Company	9,247,760	1,232,900	(121,232,900)	(110,752,240)	—	(110,752,240)
Capital injection from the non-controlling interest of a subsidiary (note 39(a))	—	—	—	—	3,218,540	3,218,540
Non-controlling interests arising on business combination (note 36(b))	—	—	—	—	9,020,242	9,020,242
Total transactions with owners	9,247,760	1,232,900	(121,232,900)	(110,752,240)	12,238,782	(98,513,458)
Balance at 31 December 2012	671,891,801	50,496,932	330,214,537	1,052,603,270	38,234,999	1,090,838,269

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2012 HK$	2011 HK$
Cash flows from operating activities			
Cash generated from operations	33(a)	173,189,124	47,308,547
Interest paid	33(c)	(7,944,127)	(3,511,313)
Income tax paid		(34,660,408)	(36,798,593)
Net cash generated from operating activities		130,584,589	6,998,641
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	36	2,885,164	(11,418,461)
Settlement of consideration payable for acquisition of a subsidiary		(49,347,037)	—
Purchases of property, plant and equipment	6	(140,506,043)	(13,473,383)
Purchases of intangible assets	7	(64,586)	—
Proceeds from disposal of property, plant and equipment	33(b)	241,002	188,378
Prepayment for acquisition of land use right	12	(11,325,756)	—
Proceeds from disposal of a subsidiary, net of cash disposed	28	915,576	—
Acquisition of a jointly controlled entity	9	—	(2,952,591)
Decrease/(increase) in pledged bank deposits		13,988,823	(2,437,019)
Interest received		126,228	276,627
Advance to an associate	38(d)	(2,840,391)	(1,865,251)
Repayment of advance to an associate	38(d)	2,859,936	—
Advance to a jointly controlled entity	38(d)	—	(7,767,400)
Repayment of loan to/(loan to) a third party		24,257,077	(24,292,103)
Net cash used in investing activities		(158,810,007)	(63,741,203)
Cash flows from financing activities			
Proceeds from bank borrowings	33(c)	422,754,560	180,405,126
Repayments of bank borrowings	33(c)	(327,648,871)	(155,657,531)
Advance received from a related party	38(d)	2,622,624	3,917,748
Repayment of advance from a related party	38(d)	(2,511,345)	(4,522,512)
Capital injection from the non-controlling interests of a subsidiary		3,218,540	—
Share issuance costs		(5,970,324)	—
Net cash generated from financing activities		92,465,184	24,142,831

	Note	Year ended 31 December 2012 HK$	2011 HK$
Net increase/(decrease) in cash and cash equivalents		**64,239,766**	(32,599,731)
Cash and cash equivalents at beginning of year		**72,633,116**	106,006,482
Exchange losses on cash and cash equivalents		**(62,014)**	(773,635)
Cash and cash equivalents at end of year	14	**136,810,868**	72,633,116

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Termbray Petro-king Oilfield Services Limited (the "**Company**") was incorporated in British Virgin Islands on 7 September 2007 as an exempted company with limited liability. The address of the Company's registered office is at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands.

The Company is an investment holding company and its subsidiaries (together "**the Group**") are principally engaged in the provision of oilfield technology and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.

On 6 March 2013, the shares of the Company has become listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), pursuant to which 250,000,000 new shares of HK$3.28 each were issued by the Company (the "**Global Offering**"). Pursuant to full exercise of the over-allotment option granted by the Company in the Global Offering, a total of 37,500,000 new shares of the Company were allotted and issued by the Company on 28 March 2013. As a result, the number of total issued shares of the Company was increased to 1,037,500,000.

These consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 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 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of derivative financial instruments that are measured at fair value through profit or loss.

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

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

There are no new and amended standards to existing IFRSs that are effective for the Group's accounting year commencing 1 January 2012 that could be expected to have a material impact on the Group.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IAS 19 (Revised 2011)	Employee benefits	1 January 2013
IAS 27 (Revised 2011)	Separate financial statements	1 January 2013
IAS 28 (Revised 2011)	Associates and joint ventures	1 January 2013
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangement	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurements	1 January 2013
IFRIC – Int 20	Stripping costs in the production phase of a surface mine (November 2011)	1 January 2013
Amendments to IAS 1	Presentation of financial statements on OCI	1 July 2012
Amendments to IAS 32	Financial instruments: Presentation -Offsetting financial assets and financial liabilities	1 January 2014
Amendments to IFRS 1	First time adoption on government grants	1 January 2013
Amendments to IFRS 7	Financial instruments: Disclosures -Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IFRS 10 and 12, and IAS 27 (Revised 2011)	Investment entities	1 January 2014
Amendments to IFRS 10, 11 and 12	Transition guidance	1 January 2013
Improvements to IFRSs 2011	Several IFRS standards	1 January 2013

The most relevant ones to the Group in its current operations are explained in more detail below.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. In addition, its effective date was delayed from 1 January 2013 to 1 January 2015 by an amendment issued in 2011. At the same time, IFRS 7 was amended to disclosure requirements upon transition to IFRS 9. IFRS 9 replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

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

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

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the consolidated financial statements of the Group in the initial application and does not anticipate that the adoption will result in any material impact on the Group's operating results or financial position.

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 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.

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

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

(a) Business combinations

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

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

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 remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit 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) 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. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial information exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associate

Associate is the entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (Continued)

2.3 Associate (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investment in an associate are recognised in the consolidated statement of comprehensive income.

2.4 Jointly controlled entity

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

Investments made by means of joint venture structures where the Group or the Company controls the composition of the board of directors or equivalent governing body and/or is in a position to exercise control over the financial and operating policies of the jointly controlled entity are accounted for as subsidiaries.

Investment in jointly controlled entity is accounted for in the consolidated financial statements under the equity method, as described in note 2.3.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("**CODM**") is responsible for allocating resources and assessing performance of the operating segments.

2 Summary of significant accounting policies (Continued)

2.6 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 consolidated financial statements are presented in HK$, which is the Company's functional currency and the Company's and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit or loss.

Foreign exchange gains and losses that relate to bank borrowings are presented in the consolidated statement of comprehensive income within 'finance costs, net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other losses, net'.

(c) Group companies

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

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

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

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2 Summary of significant accounting policies (Continued)

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual value over its estimated useful lives, as follows:

Leasehold improvements	Shorter of lease term or useful life of 5 years
Building	5 years
Plant and machineries	3-5 years
Motor vehicles	5-10 years
Computer equipment	3-5 years
Furniture and fixtures	5 years

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

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

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses, if any. No depreciation is made on assets under construction in progress until such time as the relevant assets are completed and available for their intended use.

Gains and losses on disposal are determined by comparing the proceeds with carrying amounts and are recognised within 'other losses, net' in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (Continued)

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the reportable segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the contractual customer relationships of approximately 0.5-1.5 years.

(c) Contractual agreements on non-competition

Contractual agreements on non-competition acquired in a business combination are recognised at fair value at the acquisition date. The contractual agreements on non-competition have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the contractual agreements on non-competition of approximately 4 years.

(d) Incomplete sales contracts

Incomplete sales contracts acquired in a business combination are recognised at fair value at the acquisition date. The incomplete sales contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the incomplete sales contracts of approximately 6 months.

(e) Computer software

Intangible assets comprised acquired computer software licenses which are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

2 Summary of significant accounting policies (Continued)

2.9 Impairment of investment in associate, jointly controlled entity and non-financial assets

Assets that have an indefinite useful life for example, goodwill, are not subject to amortisation and are tested annually for impairment. Assets 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.

Impairment testing of investments in associate or jointly controlled entity is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the associate or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or jointly controlled entity and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate', 'share of profit/(loss) of a jointly controlled entity' in the consolidated statement of comprehensive income.

Objective evidence of that an investment in associate or joint venture includes also assessing whether there has been any significant adverse change in the technological, market, economic or legal environment in which the associates operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associate or joint controlled entity is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable.

2.10 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

2 Summary of significant accounting policies (Continued)

2.11 Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in 'current assets', except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as 'non-current assets'. The Group's loans and receivables comprise 'trade and other receivables' (note 2.15), and 'cash and cash equivalents' (note 2.16) and 'pledged bank deposits' (note 2.17) in the 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.

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.12 Impairment of financial assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2 Summary of significant accounting policies (Continued)

2.12 Impairment of financial assets carried at amortised cost (Continued)

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 statement of comprehensive income.

2.13 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated statement of comprehensive income with "**other losses, net**".

2.14 Inventories

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

2.15 Trade and other receivables

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

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

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with bank, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts, if any. In consolidated balance sheet, bank overdrafts are shown within bank borrowings in current liabilities.

2.17 Pledged bank deposits

Pledged bank deposits represent the amounts of cash pledged as collateral to the banks for issuing performance bonds or providing additional financing.

2 Summary of significant accounting policies (Continued)

2.18 Share capital

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

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

2.19 Trade and other payables

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

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

2.20 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

2.21 Borrowing costs

All borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred.

2 Summary of significant accounting policies (Continued)

2.22 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

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

2 Summary of significant accounting policies (Continued)

2.22 Current and deferred income tax (Continued)

(c) Offsetting

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

2.23 Employee benefits

(a) Pension and employee social security and benefits obligations

(i) Hong Kong

The Group operates a Mandatory Provident Fund Scheme ("**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees, the assets of which are generally held in separate trustee-administered funds. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong.

The Group pays fixed contributions into a trustee-administered fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to the plan on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(ii) Mainland China

The Group companies in the Mainland China participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employees in the Mainland China. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 Summary of significant accounting policies (Continued)

2.23 Employee benefits (Continued)

(a) Pension and employee social security and benefits obligations (Continued)

(iii) Singapore

The Group's company in Singapore participates in Central Provident Fund ("**CPF**"), which is a defined contribution pension scheme. The Group's company and the employees are required to contribute a certain percentage of their payroll to the CPF. The contributions are charged to profit or loss as they become payable in accordance with the rules of the CPF. The Group's company has no further obligations for the actual pension payments or post-retirement benefits beyond their contributions.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.24 Share-based payment

Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of the Group.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

– including any market performance conditions (for example, an entity's share price);

– excluding the impact of any service and non-market performance vesting conditions (for example, profitability, remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value).

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the activity have been resolved.

(a) Provision of oilfield project services

The Group provides services on oilfield project in a wide range of areas at various stage in the life of an oilfield principally in drilling, well completion and production enhancement to its customers. The services mainly consist of providing oilfield development plan, procurement advice services and installation of tools and equipment and on-site project management.

Revenue from provisions of oilfield projects services are recognised in the accounting period in which the services are accepted by the customers and collectability of the related receivables is reasonably assured.

(b) Provision of consultancy services

The Group provides consultancy services consisting of integrated project management services and supervisory services.

Integrated project management services comprise of engineering and designing overall development plan for an oilfield project, assisting and providing advice on sourcing, by way of invitation or open tender, oilfield project management services in different technical areas including drilling, well completion, downhole operation, oilfield equipment installation and production enhancement and providing on-site operational management, supervision, support and advice.

Supervisory services include management, supervision and technical support in specific technical areas in various stages of the oilfield project. Supervisory services mainly serve to ensure the operation in the specific technical areas of the project works in accordance with the execution plan approved by the customers. While some of the contracts for supervisory services require the Group to provide services to customers for a definite term, others require the Group to provide services for a specific operation within a project.

Revenue from provision for integrated project management services is recognised in the accounting period in which the services are accepted by the customers and collectability of the related receivables is reasonably assured.

Revenue from provision for supervisory services is recognised in accounting period in which the services rendered and assessed on the basis of actual services provided.

2 Summary of significant accounting policies (Continued)

2.25 Revenue recognition (Continued)

(c) Manufacturing and sales of tools and equipment

Revenue from manufacturing and sales of tools and equipment is recognised on the transfer of risks and rewards of ownership of tools and equipment, which generally coincides with the time when the customer receives and accepts the goods.

(d) Agency fee income

Agency fee income is recognised in the accounting period upon the provision of services.

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.27 Operating leases

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

2.28 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under the direction of the directors and the major shareholders. Management has identified and evaluated financial risks in close cooperation with the major shareholders. Management reviews and approves principles for overall risk management, as well as policies and procedures covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. These policies and procedures enable management to make strategic and inform decision with regard to the operations of the Group.

(a) Market risk

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("**US$**") and the Renminbi ("**RMB**"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in currency that is not the entity's functional currency.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group mitigates the risk by maintaining US$ and RMB bank accounts to pay for the transactions denominated in these currencies. The amounts of assets and liabilities denominated in each currency can be seen in the relevant notes.

At 31 December 2012, if HK$ had weakened/strengthened by 1% against the US$ with all other variables held constant, net post-tax profit for the year would have been approximately HK$242,000 higher/lower (2011: HK$943,000 lower/higher), mainly as a result of foreign exchange differences on translation of US$ denominated trade and other receivables, cash and cash equivalents, trade and other payables, and borrowings.

At 31 December 2012, if HK$ had weakened/strengthened by 5% against RMB with all other variables held constant, net post-tax profit for the year would have been approximately HK$39,000 lower/higher (2011: HK$9,000 lower/higher), mainly as a result of foreign exchange differences on translation of RMB denominated trade and other receivables, cash and cash equivalents, trade and other payables, and borrowings.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings, pledged bank deposits and cash and cash equivalents. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group currently does not hedge its exposure to cash flow and fair value interest rate risk. The Group analyses its interest rate exposure on a regular basis and will consider the interest rate exposure when enter into any financing, renewal of existing positions and alternative financing transactions.

The Group's practice is to manage its interest cost through monitoring and reviewing interest rate changes in the market and its impact to the Group's financial performance. During 2012 and 2011, the Group's borrowings at variable rates were denominated in HK$, US$ and RMB.

At 31 December 2012, if interest rate on borrowings and pledged bank deposits held at variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax results for the year would have been approximately HK$1,303,000 (2011: HK$407,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents and pledged bank deposits, as well as credit exposures to the customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent rated parties with a good reputation are accepted. For credit exposures to the customers, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Credit risk is managed at company level, except for credit risk relating to trade receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

As at 31 December 2012 and 2011, all cash and cash equivalents, and pledged bank deposits, were deposited with major financial institutions in the Mainland China and Hong Kong, which are of good credit quality. The table below shows the bank deposit balances as at 31 December 2012 and 2011.

	2012 HK$	2011 HK$
PRC state-owned listed banks	33,674,565	12,224,487
Other listed banks	137,372,677	107,628,544
Others	595,631	1,536,502
Total	171,642,873	121,389,533

The Group has policies in place to ensure that sales of its services and products are made to customers with sufficient level of creditworthiness and the Group generally grants its customers a credit term of up to six months. The Group has concentrations of credit risk which arise from trade receivables mainly from customers. The Group's outstanding amounts of trade receivables from a single customer as at 31 December 2012 accounted for 51% (2011: 92%) of total trade receivables, respectively. This single customer is a PRC state-owned enterprise and its subsidiaries or its joint ventures of good credit quality within the oilfield project services and consultancy services business segment. However, management does not believe the credit risk in relation to this customer is significant, considering the fact that this customer is carrying out large business with solid financial positions.

(c) Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Fair values of balances due on demand or less than 1 year appropriate their carrying balances as the impact of discounting is not significant.

	On demand or less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$	Over 5 years HK$	Total HK$
Group					
At 31 December 2012					
Trade and other payables	447,082,120	—	—	—	447,082,120
Term loans subject to a repayment on demand clause	2,244,795	10,838	—	—	2,255,633
Other bank borrowings	200,167,189	—	—	—	200,167,189
Derivative financial instrument	1,335,185	—	—	—	1,335,185
At 31 December 2011					
Trade and other payables	65,093,649	—	—	—	65,093,649
Term loans subject to a repayment on demand clause	3,475,983	42,827	10,361	—	3,529,171
Other bank borrowings	102,453,671	—	—	—	102,453,671

	On demand or less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$	Over 5 years HK$	Total HK$
Company					
At 31 December 2012					
Other payables	126,812,923	—	—	—	126,812,923
At 31 December 2011					
Other payables	600,000	—	—	—	600,000

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table following summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates. Taking into account the Group's net assets, the directors do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – term loans subject to a repayment on demand clause based on scheduled repayments			
	Within 1 year HK$	Over 1 year but less than 2 years HK$	Over 2 years but less than 5 years HK$	Over 5 years HK$
31 December 2012	1,244,795	1,010,838	—	—
31 December 2011	1,275,983	1,242,827	910,361	—

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group may price their services adequately in accordance with their pricing policy, secure access to financing at reasonable costs, obtain borrowings from financial institutions or related parties, and issue new shares or sell assets.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

3 Financial risk management (Continued)

3.2 Capital management (Continued)

The Group has an aspired gearing target at not more than 50%, which is commercially defensible and takes into consideration the Group's ability to operate on a stand-alone basis and is set after appropriate advice has been taken from its major shareholders. Accordingly, the gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 HK$	2011 HK$
Bank borrowings (note 19)	198,689,503	103,328,522
Less: cash and cash equivalents (note 14)	(136,810,868)	(72,633,116)
Net debt	61,878,635	30,695,406
Total equity	1,090,838,269	1,002,995,449
Total capital	1,152,716,904	1,033,690,855
Gearing ratio	5%	3%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's liability that is measured at fair value as at 31 December 2012.

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Liability				
Financial liability at fair value through profit or loss				
Derivative financial instrument	—	—	1,335,185	1,335,185

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The Group entered into a sale and purchase agreement on 24 January 2011 pursuant to which they agreed to acquire total of 55% equity interest in Sheraton in stages (note 9). The contractual agreement to acquire additional interests in Sheraton is forward contracts and accounted for as derivative financial instrument. The forward contracts have been exercised throughout 2011 and 2012 when the Group has acquired additional equity interests in Sheraton. The remaining balance as at 31 December 2012 represents the fair value of the forward contract which will be settled when the Group acquires the remaining 4% interest in Sheraton to reach the 55% ownership.

The fair value of derivative financial instrument is determined by using valuation techniques based on the fair value of the issued shares and equity interests in Sheraton. The Group makes assumptions that are based on market conditions existing at each balance sheet date. The valuation of the issued shares and further acquired interests were determined using the income approach based on free cash flow valuation method.

The following table presents the changes in the derivative financial instrument for the year ended 31 December 2012.

	HK$
Opening balance at 1 January 2012	—
Fair value changes recognised in consolidated profit or loss (note 24)	**5,811,663**
Settlement (note 36 (b))	**(4,476,478)**
Closing balance at 31 December 2012	**1,335,185**

The remaining balance is the fair value of the outstanding forward contract related to the third tranche of the acquisition.

4 Critical accounting estimates and judgements

Estimates and 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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.8. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

There will not be any impairment charges in 2012 against goodwill in any of the CGUs if the discount rate for the Group had been 3 percentage points higher than management's estimates or the annual growth rate for the Group had been 3 percentage points lower than management's estimates.

(b) Income taxes

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

(c) Fair value of other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for its derivative financial instrument that is not traded in active markets.

The fair value of derivative financial instrument would be an estimated HK$27,000 lower or HK$239,000 higher were the discount rate used in the discount cash flow analysis to differ by 10% from management's estimates.

4 Critical accounting estimates and judgements (Continued)

4.2 Critical judgements in applying the Group's accounting policies

(a) Provision for impairment of trade receivables

Provision for impairment of trade receivables is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, and in making this judgment, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each customer and the current market conditions, and that there is no evidence of impairment present.

(b) Provision for warranty

The tools and equipment sold by the Group are covered by warranty for one year from the date of delivery. The Group does not make any provision for warranty according to their historical records and practice of the industry.

(c) Inventory realisability

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

(d) Lease registration of certain properties

Certain lease properties of the Group were not completed the lease registration or obtained the title document. However, based on the Group's past experience, available information and consultation with the Group's PRC legal advisers, the directors of the Company are of the view that since the production facility of one of the subsidiaries is being occupied by them for the assembly of parts and components used only for production (no heavy machineries and non-removable fixtures in the facility) and since all other leased properties in the PRC without lease registration are not production related and can be relocated, if they are needed without having to incur significant relocation costs, the Group should be able to identify alternative office spaces. Accordingly, no impairment provision for such assets is considered necessary according to the Group's accounting policies. Should there be any change in circumstances, it would adversely affect the result of operations.

5 Segment information

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

The Group's operating segments, which are also the reportable segments, are entity or group of entities that offer different products and services.

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

The CODM assesses performance of three reporting segments: oilfield project services, consultancy services and manufacturing and sales of tools and equipment. These reporting segments comprise respective services performed in these areas and related ancillary trading and manufacturing activities.

5 Segment information (Continued)

(a) Revenue

Revenue recognised during the year ended 31 December 2012 is as follows:

	2012 HK$	2011 HK$
		(As restated)
Continuing operations		
Oilfield project services		
– Drilling	131,281,987	62,166,081
– Well completion	265,603,430	5,924,921
– Production enhancement	524,871,351	46,279,433
Total oilfield project services	921,756,768	114,370,435
Consultancy services		
– Integrated project management services	22,677,131	2,432,827
– Supervisory services	26,969,441	12,806,678
Total consultancy services	49,646,572	15,239,505
Manufacturing and sales of tools and equipment	85,989,896	34,770,984
Revenue from continuing operations	1,057,393,236	164,380,924
Discontinued operations		
Oilfield project services		
– Drilling	8,590,663	77,361,349
– Well completion	26,409,674	278,833,693
Total oilfield project services	35,000,337	356,195,042
Consultancy services		
– Integrated project management services	13,939,710	38,914,866
Revenue from discontinued operations	48,940,047	395,109,908
Total revenue	1,106,333,283	559,490,832

The measurement of profit and loss and assets of the operating segments are the same as those described in the summary of significant accounting policies. The CODM evaluates the performance of the reportable segments based on a measure of revenue and revenue less all directly attributable costs.

The largest customer represented approximately 59% (2011: 20%) and 4% (2011: 70%) of the Group's revenue from continuing operations and discontinued operations for the year ended 31 December 2012. This single customer is a PRC state-owned enterprise and its subsidiaries or its joint ventures within the oilfield project services and consultancy services business segments.

5 Segment information (Continued)

(b) Segment information

The segment information for the year ended 31 December 2012 is as follows:

	Continuing operations			Discontinued operations		
	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Oilfield project services HK$	Consultancy services HK$	Total HK$
Year ended 31 December 2012						
Total segment revenue	921,756,768	49,646,572	95,677,688	35,000,337	13,939,710	1,116,021,075
Inter-segment revenue	—	—	(9,687,792)	—	—	(9,687,792)
Revenue from external customers	921,756,768	49,646,572	85,989,896	35,000,337	13,939,710	1,106,333,283
Segment results	327,671,329	26,915,300	62,863,929	15,862,273	5,016,771	438,329,602
Net unallocated expenses						(205,427,979)
Profit before income tax						232,901,623
Other information:						
Amortisation	—	—	(11,780,035)	—	—	(11,780,035)
Depreciation	(2,348,486)	—	(2,458,496)	(128,610)	—	(4,935,592)
Share of loss of a jointly controlled entity	—	—	(43,226)	—	—	(43,226)

5 Segment information (Continued)

(b) Segment information (Continued)

The segment information for the year ended 31 December 2011 is as follows:

	Continuing operations			Discontinued operations		
	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Oilfield project services HK$	Consultancy services HK$	Total HK$
Year ended 31 December 2011 (as restated)						
Total segment revenue	114,370,435	15,239,505	37,970,071	356,195,042	38,914,866	562,689,919
Inter-segment revenue	—	—	(3,199,087)	—	—	(3,199,087)
Revenue from external customers	114,370,435	15,239,505	34,770,984	356,195,042	38,914,866	559,490,832
Segment results	44,781,592	8,284,956	10,635,816	131,682,670	15,571,086	210,956,120
Net unallocated expenses						(98,999,733)
Profit before income tax						111,956,387
Other information:						
Amortisation	(2,388,541)	(597,135)	(7,451,715)	—	—	(10,437,391)
Depreciation	(654,320)	—	(372,551)	(2,037,813)	—	(3,064,684)
Share of loss of a jointly controlled entity	—	—	(1,312,861)	—	—	(1,312,861)

5 Segment information (Continued)

(b) Segment information (Continued)

The segment assets as at 31 December 2012 and 2011 are as follows:

	Oilfield project services HK$	Consultancy services HK$	Manufacturing and sales of tools and equipment HK$	Total HK$
As at 31 December 2012				
Segment assets	**1,292,401,114**	**130,771,726**	**243,475,804**	**1,666,648,644**
Unallocated assets				**165,687,165**
Total assets				**1,832,335,809**
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**127,788,920**	**—**	**72,442,516**	**200,231,436**
As at 31 December 2011				
Segment assets	879,796,035	112,933,666	105,716,183	1,098,445,884
Unallocated assets				136,080,334
Total assets				1,234,526,218
Total assets include:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	7,927,632	—	58,866,135	66,793,767

The segment results included the material costs, technical service fee, depreciation, amortisation, distribution expenses, direct labour costs, share of loss of a jointly controlled entity, gain on disposal of a jointly controlled entity and fair value change on financial derivative instrument allocated to each operating segment.

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

Segment assets included property, plant and equipment, intangible assets, investment in a jointly controlled entity, deferred tax assets, inventories, trade and other receivables and prepayments, and pledged bank deposits.

5 Segment information (Continued)

(b) Segment information (Continued)

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

	2012 HK$	2011 HK$
Segment assets for reportable segments	1,666,648,644	1,098,445,884
Unallocated assets		
– Unallocated property, plant and equipment	13,373,649	7,624,221
– Unallocated intangible assets	284,342	385,683
– Investment in an associate	—	1,102,297
– Unallocated other receivables, deposits and prepayments	30,340,622	52,411,675
– Unallocated pledged bank deposits	6,230,557	6,629,131
– Unallocated cash and cash equivalents	115,457,995	67,927,327
	165,687,165	136,080,334
Total assets per consolidated balance sheet	1,832,335,809	1,234,526,218

Operating segments' results are reconciled to profit before income tax as follows:

	2012 HK$	2011 HK$
Segment results	438,329,602	210,956,120
Other income	5,244,813	8,816,593
Material costs	(7,892,055)	(5,826,028)
Depreciation of property, plant and equipment	(3,254,479)	(820,681)
Amortisation of intangible assets	(172,278)	(164,718)
Operating lease rental	(9,797,992)	(3,956,670)
Employee benefit expenses	(65,003,599)	(40,610,670)
Distribution expenses	(21,891,671)	(9,739,588)
Research and development expenses	(5,933,233)	(3,741,460)
Other expenses	(85,144,323)	(39,216,669)
Other losses, net	(2,700,751)	(934,697)
Finance income	126,228	276,627
Finance costs	(7,906,342)	(3,574,063)
Share of (loss)/profit of an associate	(1,102,297)	492,291
Profit before income tax	232,901,623	111,956,387

5 Segment information (Continued)

(c) Geographical information

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

	2012 HK$	2011 HK$
		(As restated)
Continuing operations		
Mainland China	746,870,842	161,203,319
Russia	53,883,848	708,930
Venezuela	209,041,149	—
Turkmenistan	22,552,819	—
Others	25,044,578	2,468,675
	1,057,393,236	164,380,924
Discontinued operations		
Iran	42,860,327	368,556,583
Syria	6,079,720	26,553,325
	48,940,047	395,109,908
	1,106,333,283	559,490,832

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 HK$	2011 HK$
Mainland China	558,640,478	541,177,578
Venezuela	117,785,971	—
Iran	—	2,949,609
Syria	—	3,626,500
Singapore	63,612,003	1,639,730
	740,038,452	549,393,417

6 Property, plant and equipment – Group

	Construction in progress HK$	Building HK$	Leasehold improvements HK$	Plant and machineries HK$	Motor vehicles HK$	Computer equipment HK$	Furniture and fixtures HK$	Total HK$
At 1 January 2011								
Cost	—	—	1,652,584	8,053,276	3,868,637	2,872,250	769,620	17,216,367
Accumulated depreciation	—	—	(1,050,510)	(2,006,940)	(1,694,922)	(1,350,746)	(668,968)	(6,772,086)
Net book amount	—	—	602,074	6,046,336	2,173,715	1,521,504	100,652	10,444,281
Year ended 31 December 2011								
Opening net book amount	—	—	602,074	6,046,336	2,173,715	1,521,504	100,652	10,444,281
Acquisition of a subsidiary (note 36(a))	—	—	—	362,266	—	86,772	125,763	574,801
Additions	—	—	427,152	7,927,632	4,519,958	579,420	19,221	13,473,383
Depreciation	—	—	(325,999)	(2,246,986)	(844,881)	(406,965)	(60,534)	(3,885,365)
Disposals	—	—	—	(35,277)	(227,339)	(14,939)	(11,893)	(289,448)
Exchange differences	—	—	22,400	178,638	75,211	120,691	8,652	405,592
Closing net book amount	—	—	725,627	12,232,609	5,696,664	1,886,483	181,861	20,723,244
At 31 December 2011								
Cost	—	—	2,163,386	16,600,079	7,784,832	3,612,406	916,351	31,077,054
Accumulated depreciation	—	—	(1,437,759)	(4,367,470)	(2,088,168)	(1,725,923)	(734,490)	(10,353,810)
Net book amount	—	—	725,627	12,232,609	5,696,664	1,886,483	181,861	20,723,244
Year ended 31 December 2012								
Opening net book amount	—	—	725,627	12,232,609	5,696,664	1,886,483	181,861	20,723,244
Acquisition of a subsidiary (note 36(b))	—	—	—	7,912,161	358,986	366,172	416,186	9,053,505
Additions	3,406,608	—	253,256	131,663,857	3,120,644	1,584,126	477,552	140,506,043
Depreciation	—	—	(577,153)	(5,020,316)	(1,402,805)	(851,506)	(338,291)	(8,190,071)
Disposals	—	—	—	(30,313)	(57,007)	(173,302)	—	(260,622)
Disposal of a subsidiary (note 28)	—	—	—	(4,728,402)	—	(16,612)	—	(4,745,014)
Transfer	(3,406,608)	3,406,608	—	—	—	—	—	—
Exchange differences	—	(5,237)	(2,831)	177,862	(82,739)	(64,020)	(17,416)	5,619
Closing net book amount	—	3,401,371	398,899	142,207,458	7,633,743	2,731,341	719,892	157,092,704
At 31 December 2012								
Cost	—	3,401,371	2,406,328	150,044,102	10,602,942	5,306,701	1,789,168	173,550,612
Accumulated depreciation	—	—	(2,007,429)	(7,836,644)	(2,969,199)	(2,575,360)	(1,069,276)	(16,457,908)
Net book amount	—	3,401,371	398,899	142,207,458	7,633,743	2,731,341	719,892	157,092,704

The depreciation for the year ended 31 December 2012 comprises HK$7,233,526 (2011: HK$1,190,256) and HK$956,545 (2011: HK$2,695,109) from continuing operations and discontinued operations, respectively.

7 Intangible assets – Group

	Goodwill HK$	Contractual customer relationships HK$	Incomplete sales contracts HK$	Contractual agreements on non-competition HK$	Computer software HK$	Total HK$
At 1 January 2011						
Cost	481,082,488	24,867,304	—	11,947,474	823,590	518,720,856
Accumulated amortisation and impairment	(3,803,436)	(24,867,304)	—	(8,961,798)	(273,189)	(37,905,727)
Net book amount	477,279,052	—	—	2,985,676	550,401	480,815,129
Year ended 31 December 2011						
Opening net book amount	477,279,052	—	—	2,985,676	550,401	480,815,129
Acquisition of a subsidiary (note 36(a))	40,117,422	9,584,691	4,816,410	—	—	54,518,523
Amortisation	—	(2,635,706)	(4,816,009)	(2,985,676)	(164,718)	(10,602,109)
Exchange differences	1,039,542	157,462	(401)	—	—	1,196,603
Closing net book amount	518,436,016	7,106,447	—	—	385,683	525,928,146
At 31 December 2011						
Cost	521,199,910	34,451,995	4,816,410	11,947,474	823,590	573,239,379
Accumulated amortisation and impairment	(2,763,894)	(27,345,548)	(4,816,410)	(11,947,474)	(437,907)	(47,311,233)
Net book amount	518,436,016	7,106,447	—	—	385,683	525,928,146
Year ended 31 December 2012						
Opening net book amount	518,436,016	7,106,447	—	—	385,683	525,928,146
Additions	—	—	—	—	64,586	64,586
Acquisition of a subsidiary (note 36(b))	44,722,264	10,380,100	1,722,171	—	6,351	56,830,886
Amortisation	—	(10,034,791)	(1,745,244)	—	(172,278)	(11,952,313)
Exchange differences	698,377	27,237	23,073	—	—	748,687
Closing net book amount	563,856,657	7,478,993	—	—	284,342	571,619,992
At 31 December 2012						
Cost	566,620,551	44,832,095	6,538,581	11,947,474	894,527	630,833,228
Accumulated amortisation and impairment	(2,763,894)	(37,353,102)	(6,538,581)	(11,947,474)	(610,185)	(59,213,236)
Net book amount	563,856,657	7,478,993	—	—	284,342	571,619,992

7 Intangible assets – Group (Continued)

Impairment test of goodwill

Management reviews the business performance on segment basis. The goodwill is monitored by management at the reportable segment level. The following is a summary of goodwill allocation for each reportable segment:

	Opening HK$	Acquisition of a subsidiary HK$	Exchange difference HK$	Closing HK$
Year ended 31 December 2011				
Oilfield project services	381,823,242	—	—	381,823,242
Consultancy services	95,455,810	—	—	95,455,810
Manufacturing and sales of tools and equipment	—	40,117,422	1,039,542	41,156,964
	477,279,052	40,117,422	1,039,542	518,436,016
Year ended 31 December 2012				
Oilfield project services	**381,823,242**	**—**	**—**	**381,823,242**
Consultancy services	**95,455,810**	**—**	**—**	**95,455,810**
Manufacturing and sales of tools and equipment	**41,156,964**	**44,722,264**	**698,377**	**86,577,605**
	518,436,016	**44,722,264**	**698,377**	**563,856,657**

The recoverable amount of a CGU is calculated using pre-tax cash flow projections based on financial budgets approved by management covering a ten-year period. Cash flows beyond the ten-year period are extrapolated using the estimated growth rates stated below.

Management consider their experience and expertise knowledge in the oilfield industry to be of an optimal standard, and provided also its relatively stable position compared with other industries, a cash flow period of ten years is reasonable.

7 Intangible assets – Group (Continued)

Impairment test of goodwill (Continued)

The key assumptions used for the calculation in 2012 are as follows:

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment
Average annual growth rate	11.6%	8.6%	10.1%
Discount rate	22.1%	21.9%	19.6%

The key assumptions used for the calculation in 2011 are as follows:

	Oilfield project services	Consultancy services	Manufacturing and sales of tools and equipment
Average annual growth rate	16.7%	10.6%	16.0%
Discount rate	18.6%	18.6%	17.8%

Management determined budgeted gross margin based on past performance and its expectations of the market development. The average annual growth rate used is consistent with the forecasts of the market. The discount rate used is pre-tax and reflects specific risks relating to the segment. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

8 Investment in an associate – Group

	2012 HK$	2011 HK$
At 1 January	1,102,297	610,006
Share of (loss)/profit	(1,102,297)	492,291
At 31 December	—	1,102,297

On 9 November 2012, Iranian Refinement Development Premier Co., Ltd. was sold to an independent third party pursuant to the sale and purchase agreement for the disposal of Top Select Holdings Limited, its immediate holding company.

The particulars of the associate of the Group, which is unlisted, and the Group's share of its results and aggregated assets and liabilities in 2011, are set at as follows:

	Country of incorporation	Assets HK$ (unaudited)	Liabilities HK$ (unaudited)	Revenues HK$ (unaudited)	Profit/(loss) HK$ (unaudited)	Interest held
Iranian Refinement Development Premier Co., Ltd.	Iran					
Year ended 31 December 2011		6,411,351	6,376,557	2,807,083	492,291	49%

9 Investment in a jointly controlled entity – Group

	2012	2011
	HK$	HK$
At 1 January	**1,639,730**	—
Acquisition cost (including goodwill)	**—**	2,952,591
Share of (loss)/profit	**(43,226)**	1,600,006
Amortisation of intangible assets identified from acquisition	**—**	(2,912,867)
Disposal (note 36(b))	**(1,596,504)**	—
At 31 December	**—**	1,639,730

Pursuant to the agreement in relation to the subscription and sale and purchase of shares of Sheraton Investment Worldwide Ltd. ("**Sheraton**") dated 24 January 2011, the Company agreed to purchase and subscribe for up to 55% interest in Sheraton from Natural Peak Overseas Limited ("**Natural Peak**") in 4 tranches. Pursuant to the agreement, Hero Gain Investments Limited ("**Hero Gain**"), a wholly-owned subsidiary of the Company, acquired 40% interest in Sheraton on 11 February 2011 and will further acquire an additional 15% interest in Sheraton in 3 tranches. The considerations for each tranche is calculated with reference to the net profit of both Sheraton and the Group for the years ended 31 December 2010, 2011 and 2012, and will be settled in the Company's shares. On 30 April 2011, the Group acquired further 5.5% equity interest in Sheraton at a consideration of HK$1, as Sheraton incurred a loss for the year ended 31 December 2010.

On 21 June 2012, the Group has further acquired 5.5% equity interest in Sheraton in consideration of the issuance of 102 shares of the Company to Natural Peak. Upon completion of the second tranche, Hero Gain holds 51% interest in Sheraton and Sheraton became the subsidiary of the Group (note 36(b)).

The jointly controlled entity belongs to manufacturing and sales of tools and equipment segment.

9 Investment in a jointly controlled entity – Group (Continued)

The particulars of the jointly controlled entity of the Group incorporated in the British Virgin Islands, which is unlisted, and share of its results and aggregated assets and liabilities in 2011, are set out as follows:

	As at 31 December 2011 HK$
Interest held	45.5%
Assets	
– Non-current assets	3,122,028
– Current assets	7,225,162
Liabilities	
– Non-current liabilities	(175,423)
– Current liabilities	(8,075,821)
Net assets	2,095,946

	Year ended 31 December 2011 HK$
– Income	28,425,374
– Expenses	(26,825,368)
Profit after income tax	1,600,006

10 Financial instruments by category – Group and Company

The accounting policies for financial instruments have been applied to the line items below:

(a) Group

	2012 HK$	2011 HK$
Assets as per consolidated balance sheet		
Loans and receivables		
Trade and other receivables	659,622,761	391,409,105
Pledged bank deposits (note 13)	34,832,005	48,756,417
Cash and cash equivalents (note 14)	136,810,868	72,633,116
Total	831,265,634	512,798,638
Liabilities as per consolidated balance sheet		
Other financial liabilities at amortised costs		
Trade and other payables	447,082,120	65,093,649
Bank borrowings (note 19)	198,689,503	103,328,522
Total	645,771,623	168,422,171
Liability at fair value through the profit and loss		
Derivative financial instrument (note 3.3)	1,335,185	—

(b) Company

	2012 HK$	2011 HK$
Assets as per balance sheet		
Loans and receivables		
Advances to subsidiaries (note 12)	367,748,540	386,809,981
Dividend receivable (note 12)	150,000,000	—
	517,748,540	386,809,981
Liabilities as per balance sheet		
Other financial liabilities at amortised costs		
Other payables and accruals (note 18)	126,812,923	600,000

11 Inventories – Group

	2012 HK$	2011 HK$
Raw materials	11,112,532	6,918,572
Assembling materials	137,480,352	73,425,281
Work in progress	9,630,747	3,226,606
Finished goods	5,046,284	8,356,579
	163,269,915	91,927,038

The cost of inventories recognised as expense and included in 'material costs' amounted to HK$507,776,146 (2011: HK$52,865,412) and HK$7,008,229 (2011: HK$181,972,997) for the year ended 31 December 2012, from continuing operations and discontinued operations, respectively.

12 Trade and other receivables, deposits and prepayments – Group and Company

(a) Trade receivables – Group

	2012 HK$	2011 HK$
Trade receivables	649,550,014	350,290,543

Ageing analysis of gross trade receivables by services completion and delivery date at the respective balance sheet dates is as follows:

	2012 HK$	2011 HK$
Up to 3 months	507,777,922	153,547,439
3 to 6 months	41,524,254	133,925,718
6 to 12 months	46,135,477	14,913,743
Over 12 months	54,112,361	47,903,643
	649,550,014	350,290,543

12 Trade and other receivables, deposits and prepayments – Group and Company (Continued)

(a) Trade receivables – Group (Continued)

As at 31 December 2012, trade receivables of HK$255,311,125 (2011: HK$160,569,722) were past due but not impaired. The ageing analysis of these trade receivables by due date is as follows:

	2012 HK$	2011 HK$
Up to 3 months	157,103,011	99,252,422
3 to 6 months	43,439,185	4,723,486
6 to 12 months	18,050,479	39,619,639
Over 12 months	36,718,450	16,974,175
	255,311,125	160,569,722

Long aged receivables that were past due but not impaired relate to customers that have good trade records without default history. Based on past experience and the credit quality of the counterparties, there is no evidence of impairment in respect of these balances and the balances are considered fully recoverable.

Before accepting any new customers, the Group entities apply an internal credit assessment policy to assess the potential customer's credit quality. Management closely monitors the credit quality of trade receivables and considers that the trade receivables to be of good credit quality since most counterparties are leaders in the oilfield industry with strong financial position and no history of defaults. The Group generally allows a credit period ranged from 30 to 180 days after invoice date to its customers.

As at 31 December 2012, bank borrowings are secured by certain trade receivables with an aggregate carrying value of approximately HK$104,336,000 (2011: HK$6,849,000) (note 19).

The fair values of trade receivables approximate to their carrying values.

The carrying amounts of trade receivables are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	287,951,489	167,267,618
RMB	361,598,525	183,022,925
	649,550,014	350,290,543

12 Trade and other receivables, deposits and prepayments – Group and Company (Continued)

(b) Other receivables, deposits and prepayments – Group

	2012 HK$	2011 HK$
Other receivables		
- Third parties	8,781,476	2,917,239
- Related party (note 38(d))	2,000	86,199
Value-added tax recoverables	24,448,560	334,610
Advance to		
- Third party (note (i))	—	24,292,103
- Associate (note 38(d))	—	5,478,030
- Jointly controlled entity (note 38(d) and note (ii))	—	7,767,400
Rental deposits	1,289,271	577,591
Cash advances to staff	14,863,145	10,423,476
Prepayments for materials and technical service fee		
- Third parties	49,104,970	65,804,875
- Jointly controlled entity (note 38(d))	—	3,844,164
Prepayments for rents	1,784,026	—
Prepayment for land use right (note (iii))	11,325,756	—
Deferred expenses	5,970,324	—
	117,569,528	121,525,687
Less: Non-current prepayment for land use right (note (iii))	(11,325,756)	—
	106,243,772	121,525,687

Note (i):

Loan advance to a third party represents a loan to the vendor of the newly acquired subsidiary, Shenzhen Fluid Science & Technology Co., Ltd. for facilitating the cashflow of the vendor. The balance was interest-free and unsecured, settled in August 2012 and approximates to its fair value.

Note (ii):

Pursuant to the loan agreement dated 12 September 2011 (the "**Loan Agreement**") entered into between Petro-king Holding Limited (as lender) and Sheraton (as borrower), a loan amount of US$1,000,000 (equivalent to HK$7,767,400) (the "**Loan**") at an interest rate of 6% per annum was provided to the borrower, where Mr. Albert Wong, a indirect shareholder of Sheraton, secured 49% of the payment obligation. The Loan shall be repayable on 26 August 2013.

Note (iii):

The non-current prepayment as at 31 December 2012 represented HK$11,325,756 paid in respect of the proposed acquisition of land use right in Huizhou.

12 Trade and other receivables, deposits and prepayments – Group and Company (Continued)

(b) Other receivables, deposits and prepayments – Group (Continued)

The fair values of other receivables, deposits and prepayments approximate to their carrying values.

The carrying amounts of other receivables, deposits and prepayments are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	13,905,807	94,128,190
HKD	5,979,011	178,880
RMB	94,259,103	26,522,904
EURO	1,073,288	695,713
GBP	616,331	—
SGD	1,511,643	—
Others	224,345	—
	117,569,528	121,525,687

The trade and other receivables and deposits do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

(c) Other receivables and prepayments – Company

	2012 HK$	2011 HK$
Advances to subsidiaries	367,748,540	386,809,981
Dividend receivable	150,000,000	—
Deferred expenses	5,970,324	—
	523,718,864	386,809,981

The carrying amounts of other receivables and prepayments are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	81,606,383	100,563,765
HKD	441,241,466	286,246,216
Others	871,015	—
	523,718,864	386,809,981

13 Pledged bank deposits – Group

Pledged bank deposits are pledged as securities for the Group's borrowings, bidding and performance bonds.

	2012 HK$	2011 HK$
Pledged bank deposits		
– Borrowings	34,570,468	11,306,731
– Bidding	261,537	173,956
– Performance bonds	—	37,275,730
	34,832,005	48,756,417

The carrying amounts of the Group's pledged bank deposits are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	6,385,591	43,623,066
RMB	28,446,414	5,037,069
EURO	—	96,282
	34,832,005	48,756,417

Pledged bank deposits, which comprise short-term deposits, carry interest at effective interest rates ranging from 0.02% to 0.4% (2011: 0.03% to 0.4%) for the year per annum; these deposits have an average maturity of 1 – 5 months (2011: 3 - 12 months) for the year.

14 Cash and cash equivalents – Group

	2012 HK$	2011 HK$
Cash at bank	136,248,972	71,700,487
Cash on hand	561,896	932,629
	136,810,868	72,633,116

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	40,754,856	46,345,839
HKD	11,054,286	1,064,424
RMB	82,649,454	19,945,338
EURO	3,892	5,055,217
SGD	2,348,380	86,447
Others	—	135,851
	136,810,868	72,633,116

As at 31 December 2012, Group has cash at bank and cash on hand amounting to HK$95,378,128 (2011: HK$26,695,794) which are denominated in RMB and US$ and held in the Mainland China. These cash and bank balances are subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

15 Discontinued operations – Group

In order to protect the Group from the exposure to risks of unexpected changes in the relevant sanctions, laws and regulations in relation to the operations in Iran and Syria, one of the major geographical areas of the operations in the past, the Group has refrained from these operations, which are considered as discontinued operations, started in November 2012.

The presentation of comparative information in respect of the year ended 31 December 2011 has been restated to show the discontinued operations separately from continuing operations.

15 Discontinued operations – Group (Continued)

(a) Analysis of the result of the discontinued operations is as follows:

	2012 HK$	2011 HK$
Revenue	48,940,047	395,109,908
Expenses	(34,354,894)	(315,515,825)
Share of (loss)/profit of an associate	(1,102,297)	492,291
Loss on disposal of a subsidiary (note 28)	(777,732)	—
Profit before tax of discontinued operations	12,705,124	80,086,374
Income tax	(2,096,345)	(16,670,289)
Profit for the year from discontinued operations	10,608,779	63,416,085
Other comprehensive income/(loss)		
Currency translation difference	17,779	(5,333)
Total comprehensive income for the year from discontinued operations	10,626,558	63,410,752

(b) Cash flows from discontinued operations are as follows:

	2012 HK$	2011 HK$
Operating cash flows	(10,620,910)	18,648,824
Investing cash flows	(562,809)	(7,761,792)
Total cash flows	(11,183,719)	10,887,032

16 Share capital – Group and Company

	No. of shares	Total HK$
Issued and fully paid:		
At 31 December 2011	10,000	662,644,041
Issuance of shares (note (i))	102	9,247,760
At 31 December 2012	**10,102**	**671,891,801**

As at 31 December 2012, the total authorised number of ordinary share of the Company is 42,000 (2011: 42,000) voting shares and 8,000 (2011: 8,000) non-voting shares with no par value.

Note (i):

On 21 June 2012, the Company issued 102 shares in exchange for the 5.5% interest in Sheraton with Natural Peak with regards of the second tranche of the acquisition of Sheraton (note 36(b)).

17 Other reserves – Group and Company

(a) Group

	Translation reserve HK$	Statutory reserve (note (i)) HK$	Share-based payment reserve HK$	Total HK$
Balance at 1 January 2011	6,571,362	11,375,000	21,057,323	39,003,685
Other comprehensive income				
Currency translation differences	7,407,008	—	—	7,407,008
Total other comprehensive income for the year	7,407,008	—	—	7,407,008
Total contributions by and distributions to owners of the Company recognised directly in equity				
Recognition of share-based payment (note 22)	—	—	288,242	288,242
Transfer from retained earnings to statutory reserve	—	990,618	—	990,618
Total contributions by and distributions to owners of the Company	—	990,618	288,242	1,278,860
Balance at 31 December 2011	13,978,370	12,365,618	21,345,565	47,689,553

17 Other reserves – Group and Company (Continued)

(a) Group (Continued)

	Translation reserve HK$	Statutory reserve (note (i)) HK$	Share-based payment reserve HK$	Total HK$
Balance at 1 January 2012	13,978,370	12,365,618	21,345,565	47,689,553
Other comprehensive income				
Currency translation differences	1,552,585	—	—	1,552,585
Currency translation differences released upon disposal of a subsidiary (note 28)	21,894	—	—	21,894
Total other comprehensive income for the year	1,574,479	—	—	1,574,479
Total contributions by and distributions to owners of the Company recognised directly in equity				
Transfer from retained earnings to statutory reserve	—	1,232,900	—	1,232,900
Total contributions by and distributions to owners of the Company	—	1,232,900	—	1,232,900
Balance at 31 December 2012	15,552,849	13,598,518	21,345,565	50,496,932

Note (i): Statutory reserve

In accordance with the relevant laws and regulations in the People's Republic of China ("**the PRC**") and Articles of Association of the companies incorporated in the Mainland China now comprising the Group, it is required to allocate at least 10% of their after-tax profit according to PRC accounting standard and regulations to the statutory reserve until such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the respective board of directors of the subsidiaries. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into registered capital in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

17 Other reserves – Group and Company (Continued)

(b) Company

	Share-based payment reserve HK$
Balance at 1 January 2011	**21,057,323**
Total contributions by and distributions to owners of the Company recognised directly in equity	
Recognition of share-based payment (note 22)	**288,242**
Total contributions by and distributions to owners of the Company	**288,242**
Balance at 31 December 2011 and 2012	**21,345,565**

18 Trade and other payables – Group and Company

(a) Trade payables – Group

	2012 HK$	2011 HK$
Trade payables	298,241,083	10,213,515

Ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date at the respective balance sheet dates is as follows:

	2012 HK$	2011 HK$
Up to 1 month	97,412,937	8,725,896
1 to 2 months	157,960,040	66,447
2 to 3 months	21,994,546	21,074
Over 3 months	20,873,560	1,400,098
	298,241,083	10,213,515

The carrying amounts of trade payables are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	54,842,679	6,334,485
RMB	239,878,442	3,879,030
SGD	3,519,962	—
	298,241,083	10,213,515

18 Trade and other payables – Group and Company (Continued)

(b) Other payables and accruals – Group

	2012 HK$	2011 HK$
Consideration payable for acquisition of a subsidiary	—	49,809,160
Dividend payable	120,000,000	—
Other payables		
- Third parties	21,527,155	4,470,974
- Related party (note 38)	27,080	—
Receipt in advance	5,212,737	1,751,409
Accrued expenses		
- Payroll and welfare	17,818,099	18,046,709
- Others	7,286,802	600,000
Value-added tax payable	18,641,049	8,664,455
Other tax and surcharge payables	8,448,840	7,371,147
	198,961,762	90,713,854

The carrying amounts of other payables and accruals are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	13,496,350	6,187,276
HKD	138,396,496	12,842,628
RMB	43,736,863	71,683,950
SGD	2,483,852	—
Others	848,201	—
	198,961,762	90,713,854

18 Trade and other payables – Group and Company (Continued)

(c) Other payables and accruals – Company

	2012 HK$	2011 HK$
Accrued expenses	**12,170,818**	5,562,567
Dividend payable	**120,000,000**	—
	132,170,818	5,562,567

The carrying amounts of other payables are denominated in the following currencies:

	2012 HK$	2011 HK$
USD	**5,357,895**	4,962,567
HKD	**124,991,677**	600,000
Others	**1,821,246**	—
	132,170,818	5,562,567

19 Bank borrowings – Group

	2012 HK$	2011 HK$
Current		
Bank borrowings	**196,489,503**	99,928,522
Portion of term loans due for repayment within one year	**1,200,000**	1,200,000
Portion of term loans due for repayment after one year which contain a repayment on demand clause	**1,000,000**	2,200,000
	198,689,503	103,328,522

19 Bank borrowings – Group (Continued)

Bank borrowings bear average coupon rate of 4.4% (2011: 5.2%) as at 31 December 2012.

	2012 HK$	2011 HK$
Bank borrowings due for wholly repayment within one year	196,489,503	99,928,522
Portion of term loans due for wholly repayment within one year	1,200,000	1,200,000
Portion of term loans due for wholly repayment after one year		
– After 1 year but within 2 years	1,000,000	1,200,000
– After 2 years but within 5 years	—	1,000,000
Total bank borrowings (note (i))	198,689,503	103,328,522

Note (i):

The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of a repayment on demand clause.

The Group's bank borrowings were under fixed and floating interest rates as follows:

	2012 HK$	2011 HK$
Floating interest rates	198,689,503	103,328,522

The Group's bank borrowings were secured as follows:

	2012 HK$	2011 HK$
Secured	197,457,103	60,177,022
Unsecured	1,232,400	43,151,500
	198,689,503	103,328,522

As at 31 December 2012, secured bank borrowings are secured by certain trade receivables (note 12) and pledged bank deposits (note 13) and guaranteed by a director, major shareholders and certain group companies.

Subsequent to 31 December 2012 and on or before 6 March 2013, all guarantees provided by a director and major shareholders were released and the relevant bank borrowings would be guaranteed by either trade receivables or certain group companies.

19 Bank borrowings – Group (Continued)

The exposure of the Group's bank borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2012 HK$	2011 HK$
6 months or less	116,176,206	75,870,522
6 - 12 months	81,513,297	25,258,000
1 - 5 years	1,000,000	2,200,000
	198,689,503	103,328,522

The carrying amounts of short-term borrowings approximate to their fair values.

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

	2012 HK$	2011 HK$
HKD	63,091,292	3,400,000
USD	45,425,714	28,284,975
RMB	90,172,497	71,643,547
	198,689,503	103,328,522

The Group has the following undrawn borrowing facilities:

	2012 HK$	2011 HK$
Floating rate		
– Expiring within one year	168,007,047	140,755,610

20 Deferred income tax – Group

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

	2012 HK$	2011 HK$
Deferred tax assets:		
– Deferred tax assets to be recovered within 12 months	(1,590,783)	—
	(1,590,783)	—
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	10,498,147	10,127,698
– Deferred tax liabilites to be recovered within 12 months	1,323,257	2,745,922
	11,821,404	12,873,620
Deferred tax liabilities, net	10,230,621	12,873,620

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

	2012 HK$	2011 HK$
At 1 January	12,873,620	9,745,956
Acquisition of a subsidiary (note 36)	2,032,788	4,709,317
Exchange difference	61,317	88,870
Credited to consolidated statement of comprehensive income (note 29)	(4,737,104)	(1,670,523)
At 31 December	10,230,621	12,873,620

20 Deferred income tax – Group (Continued)

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

	Deferred tax liabilities			Deferred tax assets		
	Undistributed profits of a subsidiary established in the PRC (Note (i)) HK$	Intangible assets HK$	Fair value gains on acquirees' assets upon business combination HK$	Tax losses (Note (ii)) HK$	Unrealised profit on inventory HK$	Total HK$
At 1 January 2011	9,602,727	642,256	—	(499,027)	—	9,745,956
Acquisition of a subsidiary (note 36(a))	—	3,600,275	1,109,042	—	—	4,709,317
Exchange difference	—	88,870	—	—	—	88,870
Charged/(credited) to consolidated statement of comprehensive income	352,860	(2,522,410)	—	499,027	—	(1,670,523)
At 31 December 2011	9,955,587	1,808,991	1,109,042	—	—	12,873,620
Acquisition of a subsidiary (note 36(b))	—	1,694,318	817,888	(479,418)	—	2,032,788
Exchange difference	—	33,299	34,802	(6,784)	—	61,317
(Credited)/charged to consolidated statement of comprehensive income	—	(2,494,999)	(1,150,805)	344,312	(1,435,612)	(4,737,104)
At 31 December 2012	**9,955,587**	**1,041,609**	**810,927**	**(141,890)**	**(1,435,612)**	**10,230,621**

Notes:

(i) According to the new Enterprise income tax ("**EIT**") Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding company established out of the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding company.

During the year ended 31 December 2012, deferred income tax liabilities of HK$10,197,992 have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries in the PRC based on the profits in 2012. The unremitted earnings are to be used for long-term future development. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax liabilities on temporary differences associated with 10% of undistributed profits of a subsidiary established in the PRC derived on or after 1 January 2008 as at 31 December 2012 amounting to HK$9,955,587 (2011: HK$9,955,587).

20 Deferred income tax – Group (Continued)

Notes: (Continued)

(ii) No deferred tax assets had been recognised in respect of the unused tax losses of certain Group companies, as it was uncertain whether sufficient taxable profits would be available to allow utilisation of the carried forward tax losses, the amounts of the unused tax losses and the relevant unrecognised of deferred tax assets not recognised are as follows:

	2012 HK$	2011 HK$
Unused tax losses	13,619,923	10,437,011
Deferred income tax assets not recognised	3,164,624	2,609,260

The expiry date for the unused tax losses is as follows:

	2012 HK$	2011 HK$
Within 1 year	401,237	15,212
Within 2 years	8,464,472	401,237
Within 3 years	668,447	8,464,472
Within 4 years	887,643	668,447
Within 5 years	193,668	887,643
	10,615,467	10,437,011

The unused tax losses with no expiry date as at 31 December 2012 are HK$3,004,456 (2011: HK$nil).

Unrecognised tax losses of approximately HK$7,064,000 in relation to Top Select Holdings Limited, which was disposed on 6 November 2012, has been excluded.

21 Other income – Group

	2012 HK$	2011 HK$
Agency fee income (note (i))	4,313,630	7,974,531
Others	931,183	842,062
	5,244,813	8,816,593

Note (i):

This amount represents commission received from other oilfield services providers for introducing product suppliers to them and commission received from suppliers for introduction of their products to the customers.

22 Employee benefit expenses (including directors' emoluments) – Group

	2012 HK$	2011 HK$
		(As restated)
Continuing operations		
Wages, salaries and bonus	75,273,371	19,349,678
Pension costs	4,500,018	840,350
Other staff benefits	6,404,684	1,769,300
Share-based payments (note 26)	—	80,814
Less: employee benefit expenses attributable for research and development	(5,670,769)	(1,099,258)
	80,507,304	20,940,884
Discontinued operations		
Wages, salaries and bonus	12,389,095	49,665,886
Pension costs	740,649	2,156,974
Other staff benefits	1,054,134	4,541,360
Share-based payments (note 26)	—	207,428
Less: employee benefit expenses attributable for research and development	(262,464)	(2,642,202)
	13,921,414	53,929,446
	94,428,718	74,870,330

23 Other expenses – Group

	2012 HK$	2011 HK$
		(As restated)
Continuing operations		
Auditor's remuneration	967,821	308,672
Communications	1,254,239	268,063
Professional service fees, including listing costs	17,257,960	958,976
Entertainment	14,984,508	1,717,020
Marketing expenses	2,295,736	662,714
Motor vehicle expenses	4,308,224	532,071
Travelling	19,276,640	2,713,523
Insurance	1,482,514	255,046
Office utilities	7,929,675	1,094,012
Other tax-related expenses and custom duties (note (i))	13,490,761	2,916,892
Others	5,659,170	1,048,277
	88,907,248	12,475,266
Discontinued operations		
Auditor's remuneration	114,612	822,060
Communications	148,530	713,909
Professional service fees	2,043,728	2,553,956
Entertainment	1,774,501	4,572,786
Marketing expenses	271,866	1,764,949
Motor vehicle expenses	510,190	1,417,018
Travelling	2,282,785	7,226,685
Insurance	175,563	679,243
Office utilities	939,051	2,913,587
Other tax-related expenses and custom duties (note (ii))	1,597,607	7,768,301
Others	297,438	2,791,778
	10,155,871	33,224,272
	99,063,119	45,699,538

Notes:

(i) Other tax-related expenses comprise mainly stamp duty and business tax.

(ii) Other tax-related expenses comprise mainly stamp duty, business tax and tax paid to Social Security Organisation in Iran.

24 Other losses, net – Group

	2012 HK$	2011 HK$
		(As restated)
Continuing operations		
Foreign exchange losses (note 30)	(904,063)	(240,784)
Loss on disposals of property, plant and equipment	(18,323)	(29,695)
Fair value change on financial derivative instrument	(5,811,663)	—
Others	(133,665)	(4,139)
	(6,867,714)	(274,618)
Discontinued operations		
Foreign exchange losses (note 30)	(63,999)	(578,754)
Loss on disposals of property, plant and equipment	(1,297)	(71,375)
Loss on disposal of a subsidiary (note 28)	(777,732)	—
Others	—	(9,950)
	(843,028)	(660,079)
	(7,710,742)	(934,697)

25 Directors' and chief executive's emoluments – Group

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2012 is set out below:

Name	Fee HK$	Salary HK$	Bonus HK$	Other benefit HK$	Employer's contribution to pension scheme HK$	Total HK$
Executive director and chief executive						
Wang JinLong	—	1,278,472	—	—	30,424	1,308,896
Executive director						
Zhao Jindong (note (iv))	—	34,830	—	—	1,203	36,033
Non-executive directors						
Lee Tommy	—	—	—	—	—	—
Ma Hua (note (iii))	—	—	—	—	—	—
Other directors						
Sun JinXia (note (i))	—	801,093	—	—	27,676	828,769
Lee Lap	—	—	—	—	—	—
Leung James (note (ii))	—	—	—	—	—	—

Notes:

(i) Resigned on 24 December 2012

(ii) Resigned on 12 June 2012

(iii) Appointed on 12 June 2012

(iv) Appointed on 24 December 2012

25 Directors' and chief executive's emoluments – Group (Continued)

(a) Directors' and chief executive's emoluments (Continued)

The remuneration of every director and the chief executive for the year ended 31 December 2011 is set out below:

Name	Fee HK$	Salary HK$	Bonus HK$	Other benefit HK$	Employer's contribution to pension scheme HK$	Total HK$
Executive director and chief executive						
Wang JinLong	—	1,443,349	—	—	25,594	1,468,943
Non-executive director						
Lee Tommy	—	—	—	—	—	—
Other directors						
Sun JinXia	—	817,898	—	—	25,594	843,492
Lee Lap	—	—	—	—	—	—
Leung James	—	—	—	—	—	—

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2011: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2011: four) individuals during the year are as follows:

	2012 HK$	2011 HK$
Basic salaries, pension costs, housing allowance, share-based payments, other allowances and benefit-in-kind	**4,112,515**	3,873,969
Bonuses	**—**	132,307
	4,112,515	4,006,276

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emoluments band		
Nil to HK$1,000,000	**3**	1
HK$1,000,001 - HK$1,500,000	**1**	3
	4	4

26 Share-based payments – Group

On 20 December 2010, the Company adopted a Pre-IPO Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as indentures or rewards for their service rendered to the Group and any entity in which any member of the Group holds any equity interest. Share options are granted to all directors and selected employees. The options have a contractual option term of five years. Except for 80 shares options granted to a senior management, all the past options are non-conditional which are exercisable from the grant date. For this senior management, half of the 80 share options are conditional on the employee completing two years' and three years' service (the vesting period), respectively. The Company does not have a legal or constructive obligation to repurchase or settle the options in cash.

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

	Average exercise price per share HK$	Number of share options
As at 1 January 2011	65,960	749
Forfeited	58,370	(180)
As at 31 December 2011 and 2012	68,362	569

Out of the 569 (2011: 569) outstanding options, 569 (2011: 569) options were exercisable at 31 December 2012. All of the share options outstanding will be expired in 2015.

In accordance with the Pre-IPO Share Option Scheme dated 20 December 2010, the Company shall issue the relevant number of ordinary shares instead of non-voting shares at the revised exercise price on or after the listing of the Company. Subsequent to the listing of the Company, the outstanding options and average exercise price per share would be 42,244,108 and HK$0.92, respectively in accordance with the addendum to the Pre-IPO Share Option Scheme dated 25 September 2012. All the outstanding options are exercisable and will be expired in 2015.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of services received is measured based on the Binomial model. The contractual life of the option is used as input into this model.

Assumption used in the fair value of the share options

The fair value of each option granted as at 20 December 2010 as determined by using the Binomial model ranges from HK$24,411 to HK$34,141, average exercise price of HK$65,649, volatility of 47%, expected option life of 5 years, dividend yield of 1% and annual risk-free interest rate of 3.497%. Expected volatility is assumed to be based on historical volatility of the comparable companies. The total expense recognised in the consolidated statement of comprehensive income for share options granted to directors and employees was set out in note 22.

27 Finance income and costs – Group

	2012 HK$	2011 HK$ (As restated)
Continuing operations		
Interest expenses:		
– Bank borrowings wholly repayable within five years	(7,539,453)	(1,031,640)
– Net foreign exchange gains/(losses) on financing activities (note 30)	35,860	(18,436)
Finance costs	(7,503,593)	(1,050,076)
Finance income:		
– Interest income on short-term bank deposits	120,644	81,274
Finance income	120,644	81,274
Net finance costs from continuing operations	(7,382,949)	(968,802)
Discontinued operations		
Interest expenses:		
– Bank borrowings wholly repayable within five years	(404,674)	(2,479,673)
– Net foreign exchange gains/(losses) on financing activities (note 30)	1,925	(44,314)
Finance costs	(402,749)	(2,523,987)
Finance income:		
– Interest income on short-term bank deposits	5,584	195,353
Finance income	5,584	195,353
Net finance costs from discontinued operations	(397,165)	(2,328,634)
Net finance costs	(7,780,114)	(3,297,436)

28 Loss on disposal of a subsidiary – Group

On 9 November 2012, the Group entered into a sales and purchase agreement to dispose all its equity interests in Top Select Holdings Limited, a wholly owned subsidiary of the Group, and Iranian Refinement Development Premier Co., Ltd, an associate of the Group, to an Independent Third Party ("**Buyer**") at a consideration of HK$4,280,000.

Top Select Holdings Limited and Iranian Refinement Development Premier Co., Ltd are part of the segments of oilfield project services and consultancy services. Both of these two companies are operated in the Middle East.

	As at 9 November 2012 HK$
Property, plant and equipment (note 6)	4,745,014
Inventories	9,791,703
Trade and other receivables, and prepayments	84,591,299
Cash and cash equivalents	3,364,424
Trade and other payables	(97,434,708)
Net assets disposed of	5,057,732
Sale proceeds	(4,280,000)
Loss on disposal before recycling of foreign exchange	777,732
Currency translation difference released upon disposal of a subsidiary	(21,894)
Loss on disposal	755,838

	HK$
Sale proceeds	4,280,000
Cash and cash equivalents disposed of	(3,364,424)
Net cash inflow on disposal	915,576

29 Income tax expense – Group

	2012 HK$	2011 HK$
		(As restated)
Continuing operations		
Current tax		
– Hong Kong profits tax	11,918,682	4,087,742
– PRC enterprise income tax	39,151,494	1,243,502
– Singapore corporate tax	265,031	—
	51,335,207	5,331,244
Over provision in prior years		
– Hong Kong profits tax	(483,803)	(467,159)
Deferred tax (note 20)	(4,737,104)	(1,670,523)
Income tax expense from continuing operations	46,114,300	3,193,562
Discontinued operations		
Current tax		
– Hong Kong profits tax	2,096,345	13,214,252
– PRC enterprise income tax	—	3,456,037
Income tax expense from discontinued operations	2,096,345	16,670,289
Income tax expense	48,210,645	19,863,851

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5% (2011: 16.5%) during the year.

29 Income tax expense – Group (Continued)

(ii) PRC Enterprise income tax ("EIT")

Petro-king Oilfield Technology Limited used to enjoy the preferential EIT rate of 15% applicable to the domestic enterprises established in Shenzhen Special Economic Zone. According to the "**Enterprise Income Tax Law of PRC**" and "**the Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies**" (Guofa 2007 No.29), the applicable EIT rate for the subsidiary abovementioned is 25% (2011: 24%) during the year.

Shenzhen Fluid Science & Technology Co., Limited was approved by relevant local tax bureau authorities as the High-technological Enterprise, and was entitled to a preferential EIT rate of 15% (2011: 15%) during the year.

Dezhou Jiacheng Oil Tools Co., Limited has applied for the registration of Small and Low-profit Enterprise through regulatory tax bureau in 2011, and it enjoyed the EIT preferential treatment for Small and Low-profit Enterprise in 2011 and 2012.

(iii) Singapore corporate tax

Subsidiaries established in Singapore are subject to Singapore corporate tax at a rate of 17% for the year ended 31 December 2012.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profits of the Group entities as follows:

	2012 HK$	2011 HK$
Profit before income tax	232,901,623	111,956,387
Tax calculated at domestic tax rates applicable to profits in the respective entities	45,243,195	18,629,378
– Over provision of taxation for prior years	(483,803)	(467,159)
– Income not subject to tax	(433,807)	(183)
– Expenses not deductible for tax purposes	2,361,791	1,127,045
– Withholding tax on undistributed profits of a subsidiary established in the PRC	—	352,860
– Tax losses for which no deferred tax assets was recognised	1,724,732	221,910
– Utilisation of capital allowance	(201,463)	—
Income tax expense	48,210,645	19,863,851

The weighted average applicable tax rate was 19% (2011: 17%). The change is caused by the change in the profitability of the Group's subsidiaries in the respective countries and areas.

30 Net foreign exchange (losses)/gains

	2012 HK$	2011 HK$
		(As restated)
Continuing operations		
Net foreign exchange losses taken to:		
Other losses, net (note 24)	**(904,063)**	(240,784)
Finance costs, net (note 27)	**35,860**	(18,436)
	(868,203)	(259,220)
Discontinued operations		
Net foreign exchange losses taken to:		
Other losses, net (note 24)	**(63,999)**	(578,754)
Finance costs, net (note 27)	**1,925**	(44,314)
	(62,074)	(623,068)
	(930,277)	(882,288)

31 Earnings per share for the profit attributable to owners of the Company

(a) Basic

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

	2012	2011
		(As restated)
Profit from continuing operations attributable to owners of the Company (HK$)	**167,737,974**	23,431,522
Profit from discontinued operations attributable to owners of the Company (HK$)	**10,608,779**	63,416,085
Weighted average number of ordinary shares in issue (number of shares)	**746,441,218**	742,427,242
Basic earnings per share from continuing operations (HK$ cents)	**22**	3
Basic earnings per share from discontinued operations (HK$ cents)	**1**	9

31 Earnings per share for the profit attributable to owners of the Company (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined using discounted cash flow model) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2012	2011
		(As restated)
Profit from continuing operations attributable to owners of the Company (HK$)	167,737,974	23,431,522
Profit from discontinued operations attributable to owners of the Company (HK$)	10,608,779	63,416,085
Weighted average number of ordinary shares in issue (number of shares)	746,441,218	742,427,242
Adjustment for:		
– Share options	20,842,596	26,386,665
Weighted average number of ordinary shares for diluted earnings per share	767,283,814	768,813,907
Diluted earnings per share from continuing operations (HK$ cents)	22	3
Diluted earnings per share from discontinued operations (HK$ cents)	1	8

The basic and diluted earnings per share have been restated to take into account the share capitalisation issue which took place upon the completion of the Global Offering. The weighted average number of shares outstanding was retrospectively increased to reflect the proportionate ratio between the number of shares before and after the capitalisation issue. In addition, subsequent to 31 December 2012, the number of ordinary shares and potential ordinary shares have been impacted by transactions which do not require retrospective adjustment. Refer to note 40 for details.

32 Dividends

Pursuant to a meeting of the then shareholders of the Company held on 19 June 2012, the payment of a dividend of HK$120,000,000 in respect of years ended 31 December 2009 and 2010 payable to the shareholders of the Company whose names were registered in the Company's register of members as at 30 June 2010 on a pro rata basis was approved. The payment of such dividend was fully settled in March 2013.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012.

33 Notes to the consolidated statement of cash flows – Group

(a) Cash generated from operations

	2012 HK$	2011 HK$
Profit before income tax	232,901,623	111,956,387
Adjustments for:		
– Depreciation (note 6)	8,190,071	3,885,365
– Amortisation (note 7)	11,952,313	10,602,109
– Share of results of an associate (note 8)	1,102,297	(492,291)
– Share of results of a jointly controlled entity (note 9)	43,226	1,312,861
– Loss on disposal of property, plant and equipment (note b)	19,620	101,070
– Share-based payment (note 22)	—	288,242
– Net finance costs (note 27)	7,780,114	3,297,436
– Foreign exchange gains	(1,374,429)	(599,194)
– Fair value change on financial derivative instrument (note 24)	5,811,663	—
– Gain on disposal of a jointly controlled entity (note 36(b))	(47,742,893)	—
– Loss on disposal of a subsidiary	777,732	—
	219,461,337	130,351,985
Changes in working capital:		
Inventories	(71,887,929)	(34,480,586)
Trade and other receivables, deposit and prepayments	(390,883,117)	110,893,865
Trade and other payables	416,498,833	(159,456,717)
Cash generated from operations	173,189,124	47,308,547

33 Notes to the consolidated statement of cash flows – Group (Continued)

(b) Proceeds from disposal of property, plant and equipment

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

	2012 HK$	2011 HK$
Net book amount (note 6)	260,622	289,448
Loss on disposal of plant and equipment (note 24)	(19,620)	(101,070)
Proceeds from disposal of property, plant and equipment	241,002	188,378

(c) Financing activities

	2012 HK$	2011 HK$
Borrowings at beginning of year	103,328,522	76,674,150
Proceeds from borrowings	422,754,560	180,405,126
Repayments of borrowings	(327,648,871)	(155,657,531)
Interest expense	7,944,127	3,511,313
Interest paid	(7,944,127)	(3,511,313)
Exchange differences	255,292	1,906,777
Borrowings at end of year	198,689,503	103,328,522

(d) Non-cash transactions

During year ended 31 December 2012, the principal non-cash transaction is the issuance of 102 shares as the consideration of step acquisition of Sheraton for the second tranche completion (note 36(b)).

34 Contingencies

	2012 HK$	2011 HK$
Performance bonds	—	37,275,730

Performance bonds related to the guarantees provided by the banks to the Group's customers in respect of the oilfield project services or consultancy services in certain overseas projects. In the event of non-performance, the customers may call upon the performance bonds and the Group would be liable to the banks in respect of the performance bonds provided.

35 Commitments – Group

(a) Capital commitments

Capital commitments outstanding at the balance sheet date are as follows:

	2012 HK$	2011 HK$
Land use right		
– Authorised but not contracted for	**24,700,000**	—

(b) Operating lease commitments – group companies as lessees

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012 HK$	2011 HK$
No later than 1 year	**12,359,358**	3,998,988
Later than 1 year and no later than 5 years	**13,335,707**	1,022,231
	25,695,065	5,021,219

36 Business combinations

(a) Acquisition of Shenzhen Fluid Science & Technology Co., Ltd.

Pursuant to an agreement entered into between Petro-king Oilfield Technology Ltd., an indirectly wholly owned subsidiary of the Company, and third parties on 24 January 2011, Petro-king Oilfield Technology Ltd. acquired 60% equity interest of Shenzhen Fluid Science & Technology Co., Ltd., ("**Shenzhen FST**"), a company engaging in designing, manufacturing, installing and trading pressure test systems and high pressure hydraulic control systems, at a total consideration of RMB50,400,000 (equivalent to HK$60,641,280). The acquisition was completed in June 2011.

As a result of the acquisition, the Group is expected to increase its presence in manufacturing and sales of tools and equipment markets. The goodwill of HK$40,117,422 arising from the acquisition is attributable to economies of scale expected and operational synergies from combining the operations of the Group and Shenzhen FST. Due to the high end technology required for its products, the Group was able to strengthen its technology capabilities and knowledge base for development of new oilfield related products. The Group could also benefit from the acquired entity workforce in the manufacturing and sales of tools and equipment segment. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarised the consideration paid for Shenzhen FST, the fair value of assets acquired, liabilities assumed, and the non-controlling interest as at 30 June 2011, and the goodwill arising from the acquisition:

	HK$
Purchase consideration:	
– Cash	12,122,803
– Consideration payable, to be settled by cash	48,518,477
Total purchase consideration	60,641,280

36 Business combinations (Continued)

(a) Acquisition of Shenzhen Fluid Science & Technology Co., Ltd. (Continued)

	Fair value HK$	Acquiree's carrying amount HK$
Property, plant and equipment (note 6)	574,801	574,801
Inventories	9,739,850	5,303,685
Trade and other receivables, and prepayments	23,864,909	23,864,909
Cash and cash equivalents	704,342	704,342
Trade and other payables	(7,000,177)	(7,000,177)
Current income tax liabilities	(3,369,080)	(3,369,080)
Incomplete sales contracts (note 7)	4,816,410	—
Contractual customer relationships (note 7)	9,584,691	—
Deferred tax liabilities (note 20)	(4,709,317)	—
Total identifiable net assets	34,206,429	20,078,480
Non-controlling interest	(13,682,571)	
Goodwill (note 7)	40,117,422	
Total purchase consideration	60,641,280	

The goodwill is attributable to acquired customer base from combining the operations of the Group.

	HK$
Purchase consideration settled in cash	12,122,803
Cash and cash equivalents acquired	(704,342)
Net cash outflow on acquisition	11,418,461

Acquisition-related cost of HK$200,000 has been charged to expenses in the consolidated statement of comprehensive income for the year ended 31 December 2011.

The contingent consideration arrangement requires the Group to pay in cash the former owners of Shenzhen FST up to a maximum undiscounted amount of HK$25,151,160, under the condition that the profit target for both fiscal years 2010 and 2011 are met by Shenzhen FST.

In the directors' view, the fair value of the contingent consideration arrangement amounting to HK$25,151,160 approximates to its carrying value which has been included in the total purchase consideration.

36 Business combinations (Continued)

(a) Acquisition of Shenzhen Fluid Science & Technology Co., Ltd. (Continued)

The fair value of the non-controlling interest in Shenzhen FST, an unlisted company, was estimated by using the fair value of net assets acquired, based on the proportional method, of 40% stake in Shenzhen FST.

The revenue included in the consolidated statement of comprehensive income from 1 July 2011 to 31 December 2011 contributed by Shenzhen FST was HK$29,231,657. Shenzhen FST also contributed profit of HK$7,104,338 over the same period.

Had Shenzhen FST been consolidated from 1 January 2011, the revenue and net profit for both continuing and discontinued operations of the Group for the year ended 31 December 2011 would be HK$574,174,607 and HK$96,512,314 respectively.

(b) Acquisition of Sheraton Investment Worldwide Ltd.

Pursuant to the agreement in relation to the subscription and sale and purchase of shares of Sheraton entered into among Sheraton, Natural Peak and Hero Gain dated 24 January 2011, the Company agreed to purchase and subscribe for up to 55% interest in Sheraton from Natural Peak. As at 30 April 2011, the Group has already acquired a total of 45.5% equity interest in Sheraton and Sheraton was accounted for as a jointly controlled entity (note 9).

Pursuant to the agreement (as amended by a supplemental agreement dated 21 June 2012 between the above mentioned same parties), Hero Gain further acquired 5.5% equity interest in Sheraton on 21 June 2012 in consideration of the issuance of 102 shares of the Company to Natural Peak. As a result, the Group reached ownership of 51% equity interest in Sheraton and gained the power to govern the financial and operating policies in Sheraton, thus Sheraton has turned from being a jointly controlled entity into a subsidiary since 21 June 2012.

As a result of its further acquisition, the Group is expected to further expand its know-how in manufacturing and sales of oilfield project tools and equipment. The goodwill of HK$44,722,264 arising from the acquisition is attributable to economies of scale expected and operational synergies from combining the operations of the Group and Sheraton. In view of its overseas operation, the Group is also expected to increase its presence in oilfield market. None of the goodwill recognised is expected to be deductible for income tax purposes.

36 Business combinations (Continued)

(b) Acquisition of Sheraton Investment Worldwide Ltd. (Continued)

The following table summarised the consideration paid for Sheraton, the fair value of assets acquired, liabilities assumed, the non-controlling interest as at 21 June 2012, and the goodwill arising from the acquisition:

	HK$
Purchase consideration:	
– Share issued in exchange (note 16)	9,247,760
– Fair value of previous interest in the acquiree	49,339,397
– Forward contract for acquisition of additional equity interest (note (i))	(4,476,478)
Total purchase consideration	54,110,679

Note (i):

The forward contract was initially recognised for the Company's obligation to acquire the further 15% ownership in Sheraton in 3 tranches. The amount of HK$ 4,476,478 represents the fair value of the forward contract related to the agreement to increase the ownership from 45.5% to 51% (from jointly controlled entity to subsidiary) at the date of acquisition and is thus included in the purchase consideration. The remaining balance of HK$ 1,335,185 in the balance sheet as at 31 December 2012 represents the fair value of the forward contract related to the obligation to acquire the remaining 4% ownership in Sheraton which will be completed at a later stage. For details on the forward contracts and fair value measurement refer to note 3.3.

36 Business combinations (Continued)

(b) Acquisition of Sheraton Investment Worldwide Ltd. (Continued)

	Fair value HK$	Acquiree's carrying amount HK$
Property, plant and equipment (note 6)	9,053,505	8,111,562
Intangible assets (note 7)	6,351	6,351
Deferred tax assets (note 20)	479,418	479,418
Inventories	8,944,733	5,888,068
Trade and other receivables, and prepayments	7,217,910	7,217,910
Cash and cash equivalents	2,885,164	2,885,164
Trade and other payables	(19,768,489)	(19,768,489)
Deferred tax liabilities (note 20)	(258,083)	(258,083)
Incomplete sales contracts (note 7)	1,722,171	—
Contractual customer relationships (note 7)	10,380,100	—
Deferred tax liabilities from identification of intangible assets (note 20)	(2,254,123)	—
Total identifiable net assets	18,408,657	4,561,901
Non-controlling interest	(9,020,242)	
Goodwill (note 7)	44,722,264	
Total purchase consideration	54,110,679	

Gain on revaluation of previously held ownership interest in entities acquired in step acquisition:

	HK$
Carrying amount of previously held ownership	(1,596,504)
Fair value of previously held ownership interest	49,339,397
Gain	47,742,893

The fair value of the 102 ordinary shares issued as part of the consideration paid for Sheraton amounting to HK$9,247,760 was based on the valuation prepared by an independence valuer of the Group on 30 June 2012.

The fair value of the non-controlling interest in Sheraton, an unlisted company, was estimated by using the fair value of net assets acquired, based on the proportional method, of 49% stake in Sheraton.

36 Business combinations (Continued)

(b) Acquisition of Sheraton Investment Worldwide Ltd. (Continued)

The Group recognised a gain of HK$47,742,893 as a result of measuring at fair value its 45.5% equity interest in Sheraton held before the business combination. The gain is included in the Group's consolidated statement of comprehensive income for the year ended 31 December 2012.

Had Sheraton been consolidated from 1 January 2012, the revenue and net profit for both continuing and discontinued operations of the Group for the year ended 31 December 2012 would have been HK$1,125,924,791 and HK$184,684,861, respectively.

37 Accumulated losses – Company

	2012 HK$	2011 HK$
At beginning of year	(27,688,959)	(23,061,252)
Profit/(loss) for the year	130,300,632	(4,627,707)
Dividend (note 32)	(120,000,000)	—
At end of year	(17,388,327)	(27,688,959)

38 Related party transactions – Group and Company

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2012 and 2011, up to the date when it ceased to be a related party of the Group and balances arising from related party transactions as at 31 December 2012 and 2011.

Name	Relationships
Mr. Wang JinLong	Key management
Termbray Natural Resources Company Limited	Equity holder of the Company
King Shine Group Limited	Equity holder of the Company
Termbray Electronics (B.V.I.) Limited	Controlled by equity holders of the Company
Sheraton Investment Worldwide Ltd.	Jointly controlled entity (turned into a subsidiary since 21 June 2012)
Iranian Refinement Development Premier Co., Ltd.	Associate (Disposed in November 2012)

38 Related party transactions – Group and Company (Continued)

(a) Sales of goods

	2012 HK$	2011 HK$
Sales of goods:		
– Jointly controlled entity	92,866	—

Goods are sold based on the price lists in force and terms that would be available to third parties.

(b) Purchases of goods

	2012 HK$	2011 HK$
Purchases of goods:		
– Jointly controlled entity	11,035,222	56,213,379

Goods are purchased on normal commercial terms and conditions.

(c) Key management compensation

Key management personnel are deemed to be the members of the board of directors and top management of the Company who have the responsibility for the planning and controlling the activities of the Group.

	2012 HK$	2011 HK$
Salaries and other short-term employee benefits	5,859,683	5,903,550

38 Related party transactions – Group and Company (Continued)

(d) Amounts due from/(to) related parties

Group

	2012 HK$	2011 HK$
Amounts due (to)/from related parties (note (i)):		
At 1 January	86,199	(518,565)
Advance from a related party during the year	(2,622,624)	(3,917,748)
Repayment to a related party	2,511,345	4,522,512
At 31 December	(25,080)	86,199
Advance to an associate:		
At 1 January	5,478,030	3,612,779
Advance to an associate during the year	2,840,391	1,865,251
Repayment received	(2,859,936)	—
Balance being reclassified to other receivable upon disposal of a subsidiary	(5,458,485)	—
At 31 December	—	5,478,030
Amount due to shareholders:		
At 1 January	—	—
Dividend payable (note 32)	(120,000,000)	—
At 31 December	(120,000,000)	—
Advance to a jointly controlled entity:		
At 1 January	7,767,400	—
Advance to a jointly controlled entity	—	7,767,400
Elimination upon step acquisition	(7,767,400)	—
At 31 December	—	7,767,400
Prepayment to a jointly controlled entity for purchases of inventories:		
At 1 January	3,844,164	—
Prepayment for purchases of inventories	—	3,844,164
Utilisation of the prepayment	(3,844,164)	—
At 31 December	—	3,844,164

38 Related party transactions – Group and Company (Continued)

(d) Amounts due from/(to) related parties (Continued)

Group (Continued)

As at 31 December 2012 and 2011, the balances are interest-free, unsecured, receivable/repayable on demand and approximate to their fair values, except for the advance to a jointly controlled entity (subsequently become a subsidiary upon the step acquisition), which has an interest of 6% per annum.

Note (i): The balances primarily represent cash advance from and expenses paid on behalf by the Director, Wang JinLong.

Company

	2012 HK$	2011 HK$
Amounts due from subsidiaries		
At 1 January	386,809,981	388,150,521
Dividend receivable	150,000,000	—
Repayment received	(19,061,441)	(1,340,540)
At 31 December	517,748,540	386,809,981
Amounts due to shareholders		
At 1 January	—	—
Dividend payable (note 32)	(120,000,000)	—
At 31 December	(120,000,000)	—

As at 31 December 2012 and 2011, the balances are interest-free, unsecured, receivable/repayable on demand and approximate their fair values.

The carrying amount of the amounts due from subsidiaries is denominated in the following currencies:

	2012 HK$	2011 HK$
USD	81,502,324	100,563,765
HKD	436,246,216	286,246,216
	517,748,540	386,809,981

The carrying amount of the amounts due to shareholders is denominated in HKD.

39 Investments in subsidiaries – Company

	2012 HK$	2011 HK$
Unlisted shares, at cost	284,300,993	275,053,233

As at 31 December 2012, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation and kind of legal entity/ date of incorporation	Particulars of issued share capital/registered capital
Petro-king Holding Limited	100%	—	Investment holding in Hong Kong	Hong Kong, Limited liability company 13 September 2007	10,000 ordinary shares of 1 HKD each
Petro-king International Company Limited	—	100%	Provisions of oilfield project services and constancy services in Venezuela, Russia and Turkmanistan	Hong Kong, Limited liability company 14 July 2003	5,000,000 ordinary shares of 1 HKD each
深圳市百勤石油技術有限公司 (Petro-king Oilfield Technology Limited)	—	100%	Provision of oilfield project services and consultancy services in the PRC and Russia	The PRC, Limited liability company (wholly foreign owned enterprise) 26 April 2002	Registered capital of RMB20,000,000
德州嘉誠石油裝備有限公司 (Dezhou Jiacheng Oil Tools Co., Limited)	—	100%	Trading of tools and equipment and provision for consultancy service in the PRC	The PRC, Limited liability company 3 April 2007	Registered capital of RMB10,000,000
Wellsharp Group Limited	—	100%	Dormant in BVI	BVI, Limited liability company 11 April 2008	100 ordinary shares at no par value for 1 USD each
Expert Oil Services Kish Ltd	—	98%	Dormant in Kish Island	Kish Island, Limited liability company 5 August 2008	150,000,000 ordinary shares of 1 rial each
深圳市弗賽特檢測設備有限公司 (Shenzhen Fluid Science & Technology Co., Limited) (note (a))	—	60%	Manufacturing and trading of tools and equipment in the PRC	The PRC, Limited liability company 20 January 2006	Registered capital of RMB10,000,000
Hero Gain Investment Limited	—	100%	Investment holding in BVI	BVI, Limited liability company 1 July 2010	1 ordinary share at no par value for 1 USD each
Turbodrill Technology Pte. Limited	—	100%	Manufacturing and repairing of oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 1 September 2011	1 ordinary share of 1 USD each
Petro-king Oilfield Technology (South America) Holdings Limited	—	100%	Provision of oilfield technology and services in Venezuela	BVI, Limited liability company 16 March 2012	1,000,000 ordinary shares of 1 USD each
Sheraton Investment Worldwide Ltd	—	51%	Investment holding in BVI	BVI, Limited liability company 9 June 2010	1,000 ordinary shares at no par value for 1 SGD each
星油能源科技(深圳)有限公司 (Sun Oil Technology Co., Ltd)	—	51%	Manufacturing and trading of oilfield tools and equipment in the PRC	The PRC, Limited liability company (wholly foreign owned enterprise) 8 April 2011	Registered capital of USD1,000,000

39 Investments in subsidiaries – Company (Continued)

Name	Interest held Directly	Interest held Indirectly	Principal activities and place of operation	Country of incorporation and kind of legal entity/ date of incorporation	Particulars of issued share capital/registered capital
H-Star Petrotech Company Limited	—	51%	Investment holding in Hong Kong	Hong Kong, Limited liability company 10 December 2010	10,000 ordinary shares of 1 HKD each
Star Petrotech Pte Ltd.	—	51%	Manufacturing and repairing of other oilfield and gasfield machinery and equipment in Singapore	Singapore, Limited liability company 4 February 2009	400,000 ordinary shares at no par value for 1 SGD each
惠州市弗賽特石油設備有限公司	—	60%	Sales and lease of equipment and provision of drilling and well completion services in the PRC	The PRC, Limited liability company 14 August 2012	Registered capital of RMB 10,000,000
Petro-king Oilfield Technology Holdings Limited De Venezuela, C.A.	—	100%	Provision of oilfield technology and services in Venezuela	Venezuela, Limited liability company 17 September 2012	1,000,000 ordinary share of Bs 4.3 each
百勤石油技(惠州)有限公司	—	100%	Provision of oilfield tools and equipment technology services and research and development in the PRC	The PRC, Limited liability company (wholly foreign owned enterprise) 21 September 2012	Registered capital of USD5,000,000

Note:

(a) On 20 April 2012, the registered capital of Shenzhen FST increased from RMB3,500,000 (equivalent to approximately HK$4,211,000) to RMB10,000,000 (equivalent to approximately HK$12,258,000), where the additional capital was contributed by the Group and the non-controlling interests on a pro-rata basis. The equity interest of the Group and non-controlling interests remained unchanged after the capital increase.

40 Events after the balance sheet date

(i) Pursuant to the written resolution passed by the shareholders on 18 February 2013, the authorised shares of the Company was increased from 50,000 no par value shares (comprising 42,000 voting shares with no par value and 8,000 non-voting shares with no par value) to 10,000,000,000 no par value shares by creation of additional 9,999,950,000 shares; and

(ii) Subsequent to the Hong Kong Public Offering and the International Placing took place on 6 March 2013, the Company capitalised an amount of HK$100 from the amount standing to the credit of any reserve accounts of the Company and that the said sum be applied in paying up in full 749,989,898 shares, such shares to be allotted and issued, credited as fully paid to holders of shares appearing on the register of members of the Company on 22 February 2013 in proportion to their respective shareholdings.

(iii) On 6 March 2013, the shares of the Company became listed on the Main Board of the Stock Exchange, pursuant to which 250,000,000 new shares of HK$3.28 each were issued by the Company. In addition, the share capital of the Company has increased by HK$820,000,000 by issuance of 250,000,000 new shares at HK$3.28 each on 6 March 2013.

(iv) Pursuant to full exercise of the over-allotment option granted by the Company in the Global Offering on 25 March 2013, a total of 37,500,000 new shares of the Company were allotted and issued by the Company on 28 March 2013. As a result, the number of total issued shares of the Company was increased to 1,037,500,000 shares.