Annual Report 2012

體化

Integration

安東石油
Antonoil

Anton Oilfield Services Group

安 東 油 田 服 務 集 團

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3337)


安東石油
Antonoil

CONTENTS

ABOUT ANTONOIL

Anton Oilfield Services Group ("Antonoil" or the "Company" and, together with its subsidiaries, the "Group"), is a leading independent oilfield services provider offering one-stop oil and gas field technical development services to oil companies, with two major segments, namely oil and gas field development technical services and tubular services. Its services and solutions span across the drilling technology, well completion, down-hole operations, and oil production phases in the development cycle. Its fast growth benefits from the accelerating development of natural gas in China and the Group's increased presence in the overseas market. The Group's strategic objective is to become a global oilfield services provider with a solid foothold in China.

Antonoil is committed to continuously strengthening its R&D capabilities and making additions to its talent reserves. As of December 31, 2012, the Group employs 1,613 people. Antonoil is headquartered in Beijing with sales offices and operation bases across China's major onshore oil and natural gas basins. The Group also has an international headquarters in Dubai with an extensive network across the Middle East, Central Asia, Africa, and Americas.

INTEGRATION

Pursue the integrated service strategy, strengthening the construction of regular service capacity and the investment in regular service equipment.

Previously, solely focused on services for high-end markets. Now shift towards integrated services with regular services driven by technical services targeting high-end markets.

BUSINESS

The business of the Group is classified into two major segments, namely oil and gas field development technical services and tubular services. Oil and gas field development technical services refer to the solutions provided to and implemented for oil companies to help them complete oil and gas field development and enhance production and reduce costs against various technical problems in the wellbore during the drilling, completion and production stages of field development; and tubular services refer to the services and products provided to the customers in respect of the use of oil tubular (drilling tools, tubing and casing), including technical services such as testing, repair, coating and leasing, and production and sale of tubular.

The profit centers of the Group are based on the business clusters and the Group reports its results based on four clusters including drilling technology cluster, well completion cluster, down-hole operation cluster and tubular services cluster. The services and products of drilling technology cluster, well completion cluster and down-hole operation cluster belong to oil and gas field development technical services. Each business cluster is detailed as follows:

DRILLING TECHNOLOGY CLUSTER

Drilling technology cluster provides engineering technical services and products during the drilling stage to solve problems encountered in directional drilling, drilling assessment, drilling acceleration, enhanced reservoir contact and integrated drilling. The Group is a leading drilling technical service provider in China and its services include directional drilling, drilling fluids, integrated drilling and rig services.

Directional drilling

It is operated by the engineers who make the drilling tool set drilling wellbores along the pre-set path to enhance the oil and gas recovery rate by reaching the best position in the reserves. The Group is a leading directional drilling service provider in China and its services include directional drilling technology, sidetracking drilling technology and steerable drilling technology which can complete directional wells (which deviate from a certain angle relative to vertical wells) and horizontal wells (which are the sections vertical or almost vertical to the vertical well sections in the boreholes) in various complicated environments such as HTHP and thin payzones and measure the position and direction of the drilling tool set on a real time basis through the attached measure tool to adjust the drilling process and track the borehole path leading to the pre-set target. It also collects the information of interval lithology through the attached measuring tool to identify the strata, and oil, gas or water and interface, judge strata change, estimate the path on the payzone and reduce the drilling cycle. The sidetracking drilling technology of the Group is an effective means to enhancing production and recovery rate, especially for the producing wells with decreasing yield and abandoned wells to resume production. The steerable drilling technology of the Group is a directional drilling technology which can enhance reservoir contact and yield per well. It includes rotary steerable drilling technology and geological steerable drilling technology and can optimise wellbore path, protect oil and gas reserve, enhance reservoir contact and drilling efficiency and reduce operational risks and the drilling costs. It is particularly effective for complicated reserve, thin payzones, long horizontal wells and highly deviated wells.

Drilling fluid

It is circulation medium used in oil and gas wellbores during the drilling process. Drilling fluid is also called mud, whose basic functions include: carry and suspend debris, stabilize borehole wall and balance the formation pressure, cool and lubricate drilling bits and tools, transfer hydrodynamic force, protect reservoir and environment etc. Drilling fluid includes conventional water-based drilling fluid and high-end oil-based drilling fluid. The Group signed strategic cooperation agreement with Magcobar, a world-renowned drilling fluid services company to provide oil-based drilling fluid services to customers. The Group has a team of senior drilling fluid technical experts, oil-based mud station, R&D center and the mud materials plant with first class equipment, providing customers with integrated services including drilling fluid on-site services, drilling fluid technology R&D, technical research and design, and sales services.

Integrated drilling

It is the single well general contracting and block general contracting service for oil companies. The Group has accumulated its technologies for several years and it is equipped with the strength to provide integrated drilling services to oil companies. Its services include project management, project general contracting, project supervision and single drilling technical services. During provision of integrated services, the Group will be responsible for providing oil companies with a series of services and products as necessary for oil and gas field devopment. The Group made a further move with the integrated service strategy as it formed a joint venture company with Schlumberger, known as Tongzhou IPM (TIPM), to provide integrated project management (IPM) services to China's onshore oil and gas fields. The service model has the benefit of achieving production increase and cost savings through end-to-end management of oil and gas exploration and development, from project design, resource allocation to project implementation, and integrating individual services into the entire process. It targets to apply in large-scale integrated projects such as multiple well integrated projects, block integrated projects, as well as ultra complex wells, shale gas wells, sub-contract blocks, etc.

Rig services

Completion of well drilling services with rig operation, includes completion of well drilling services with rigs directly held by the Group and completion of well drilling services by managing the rigs owned by our partners.

WELL COMPLETION CLUSTER

Well completion is the technique which connects wellbores and reserves after drilling, thus completing the preparation works as necessary for wellbore completion and oil production. Whether a well can achieve maximum oil and gas production in an economical way to a large extent depends on the well completion technique used for that well. A successful well completion can optimise oil production efficiency, protect the reservoir and extend the life of the oil and gas production capacity. The Group is a leading well completion technical service and tool provider in China, which provides technical services and products to solve various technical problems experienced by oil companies during well completion stage. It designs well completion solutions and techniques comprised of various well completion tools for different formations and reservoirs, thus completing the preparation works as necessary for wellbore completion and oil production. Its services include well completion integration, screen well completion, gravel packing completion and oil production tools.

Well completion integration

It provides specifically designed well completion solutions and a series of well cementing and completion tools against different formations and reservoirs to solve various technical problems during open hole well completion and casing well completion. The Group is a leading well cementing and completion technical service and tool provider in China and its services and products include integrated well completion solution design and service, well cementing and completion pipe string and ancillary tool technology, well cementing and completion tools such as liner hangers/staged hydraulic cement injection machines/sliding sleeves/float collars/float shoes, and swellable packers/thermostable anti-corrosion packers/ external casing packers.

Screen well completion

It is a sand prevention technique used for wellbores in unconsolidated formations against aggregates in reservoirs during well completion with a view to minimising the effect of piling aggregates, that is, reduction or suspension in production, and enhancing oil and gas well production and extending the life of production. The Group is a leading screen well completion service and tool provider in China and is equipped with the most comprehensive series of screen well completion technologies and tools able to be used in vertical wells and horizontal wells. The screen well completion tools of the Group include composite screens, punched slotted screens, sand screens, pack screens, wire wrapped screens, slotted screens and innovative water control screens.

Gravel packing well completion

Gravel packing is also a sand prevention and production enhancement technique used, during well completion, in unconsolidated formations, the reserves seriously affected by aggregates, and thick but water-resistant reserves, especially effective for sand control and heavy oil production enhancement. The Group is a leading gravel packing well completion service and tool provider in China and owns leading gravel packing well completion technologies and tools able to be used in cased and open holes. The gravel packing well completion services offered by the Group includes fracturing packing well completion service and tool, and cyclic packing well completion service and tool.

Oil production tools

The Group provides oil companies with anti-corrosion and wear-resistant oil production tools such as couplings, sucker rods, pressure-regulating water injection pumps and regular pumps. Compared with the traditional oil production tools, the oil production equipment used by the Group are more adaptable to complicated well conditions and more durable.

DOWN-HOLE OPERATION CLUSTER

Down-hole operation cluster provides oil companies with engineering technical services and products during the well completion and oil production stages. It develops oil and gas fields and optimises production through down-hole operation. The Group is a leading down-hole operation technical service provider in China and its down-hole operation cluster includes production enhancement operation, coiled tubing operation, pressure pumping, tubular helium testing and oil production technologies.

Production enhancement operation

It includes acidizing and fracturing production enhancement technology and various featured production enhancement operation technologies, which are mainly used for the development of low pressure or low permeability reservoirs to enhance their production and recovery rate, especially applicable to the development of tight gas and shale gas. The Group is a leading acidizing and fracturing technical service provider in China and can complete operation with high difficulties. Its services include horizontal well multistage fracturing, HTHP well fracturing, vertical well multi zone fracturing, horizontal well plugging removal, and gas propulsion perforation. The production enhancement operation technologies of the Group have been successfully used in conventional natural gas and tight gas development. As a strong brand has been established, the technology is promoted for shale gas development.

Coiled tubing operation

Coiled tubing refers to jointless piping spooled on a reel to be used for oil and gas well interventions when stretched. Coiled tubing operation is a special operation which continuously inserts small-sized coiled tubing into the wells in order to carry out various well development operations. Compared with the traditional operation, coiled tubing operation can be used in drilling, completion and oil production with many benefits. For example, it is time saving, flexible in pumping, accurate to position fluids and does fewer damage to strata and safe in operation. The Group is a coiled tubing operation technology promoter in China and its services include various new featured operations such as coiled tubing sandblast, gas lift, dripping, acidizing, hydro jet, dewatering gas production, plug milling, casing fracturing and other coiled tubing treaments.

Pressure pumping

It harnesses the hydraulic horsepower (HHP) of the pressure pumping equipment and other related operational capabilities to help clients implement pressure pumping design and solutions of varying scales, with the benefit of expanding the permeability of oil and gas reservoirs and improving production capacity. Pressure pumping has become the necessary measure to developing unconventional oil and gas reservoirs.

Tubular helium testing

It is a technology which uses the mixed gas of helium and nitrogen to test tubing threaded connector against helium leak in the natural gas wells, thus solving the problem of helium connector leak. It is important to guarantee production safety of high pressure wells, sulfur-rich wells and key natural gas wells. The Group is a leading tubular helium testing technology provider in China and also sets the industrial standard. It is promoting the tubular helium testing technology to the surface facilities of natural gas fields and underground gas storage facilities from conventional natural gas wells.

Oil production technology

It provides oil companies with engineering technical services and products during oil production stage. The oil production technical services of the Group include EOR, water shutoff, well flushing and gas lift services. It helps oil companies to solve the technical problems during oil production and enhance production and recovery rate through various operations. The services have been extended to operations and management services, including wellhead management, oil and gas gathering & transport management, central processing facility management.

TUBULAR SERVICE CLUSTER

It provides services and products in respect of tubulars including drilling tools, tubing and casing for oil companies and drilling companies. It includes technical services such as tubular testing, repair, coating and leasing, and production and sale of tubulars.

Tubular technical services

It includes drilling tool multi zone testing and whiting, drilling tool wear-resistant belt welding, drilling tools/ tubulars/ casing tubing repair, drilling pipe/tubing coatings and drilling tool leasing. The Group is a leading tubular technical service provider in China and has extensive and leading tubular testing service capability and a comprehensive tubular repair service capability.

Production and sale of tubular

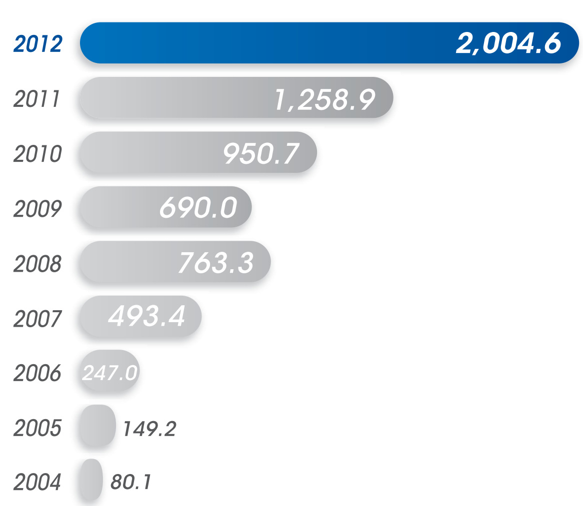
It includes the production and sale of heavy-weight drilling pipes, drilling collars, ordinary drilling pipes and processing and sale of tubing and casing. Such business is operated by Northern Heavy Anton Machiney Manufacturing Co., Ltd, a subsidiary of the Group.

FINANCIAL SUMMARY

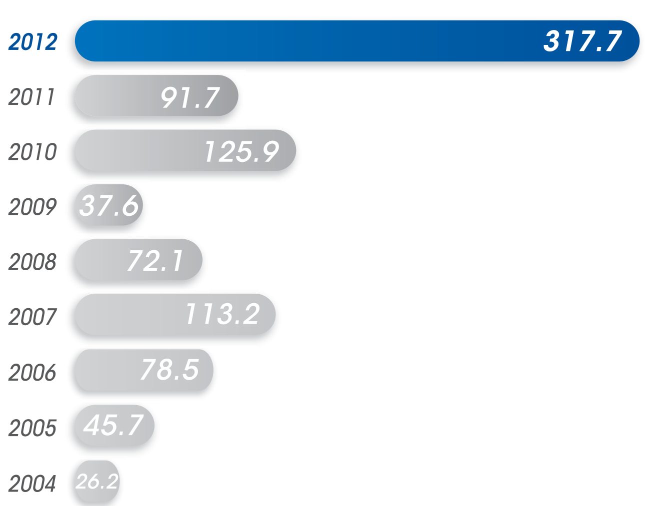
CONDENSED CONSOLIDATED INCOME STATEMENTS

RMB ('000)	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
Revenue	763,266	690,030	950,715	1,258,909	**2,004,583**
Other gains/(losses), net	(14,551)	3,748	575	2,155	**10,646**
Operating costs	(606,965)	(656,287)	(805,874)	(1,086,209)	**(1,617,250)**
Operating profit	141,750	37,491	145,416	174,855	**397,979**
Finance (costs)/income, net	(37,683)	1,801	(2,697)	(16,094)	**(30,610)**
Profit before income tax	105,418	38,331	142,295	112,517	**367,369**
Profit for the year	72,145	37,606	125,926	91,668	**317,705**
Attributable to: Equity holders of the Company	68,463	32,020	116,655	77,344	**302,579**
Non-controlling interests	3,682	5,586	9,271	14,324	**15,126**
Dividends	57,000	18,000	39,400	35,700	**97,600**
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)					
Basic	0.0327	0.0153	0.0557	0.0369	**0.1430**
Diluted	0.0325	0.0153	0.0557	0.0365	**0.1402**

REVENUE *(RMB million)*



PROFIT FOR THE YEAR *(RMB million)*



CONDENSED CONSOLIDATED BALANCE SHEETS

RMB ('000)	As at 31 December 2008	2009	2010	2011	**2012**
Assets					
Non-current assets	617,863	723,685	844,067	956,922	**1,378,551**
Current assets	1,307,459	1,067,795	1,346,847	1,540,698	**2,214,283**
Total Assets	1,925,322	1,791,480	2,190,914	2,497,620	**3,592,834**
Total Equity	1,550,614	1,546,079	1,650,561	1,740,097	**2,080,954**
Liabilities					
Non-current liabilities	5,407	2,479	2,150	15,804	**303,286**
Current liabilities	369,301	242,922	538,203	741,719	**1,208,594**
Total liabilities	374,708	245,401	540,353	757,523	**1,511,880**
Total equity and liabilities	1,925,322	1,791,480	2,190,914	2,497,620	**3,592,834**
Net current assets	938,158	824,873	808,644	798,979	**1,005,689**
Total assets less current liabilities	1,556,021	1,548,558	1,652,711	1,755,901	**2,384,240**

FINANCIAL HIGHLIGHTS

REVENUE BREAKDOWN BY REGION

2012

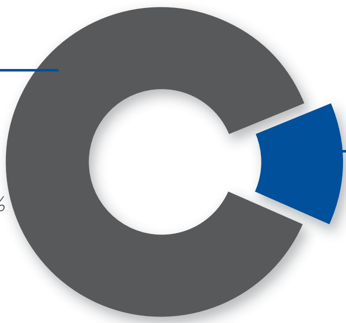
2011

ACCOUNTS RECEIVABLES TURNOVER DAYS

ACCOUNTS PAYABLES TURNOVER DAYS

INVENTORY TURNOVER DAYS

REVENUE BREAKDOWN BY BUSINESS CLUSTERS



87.2%

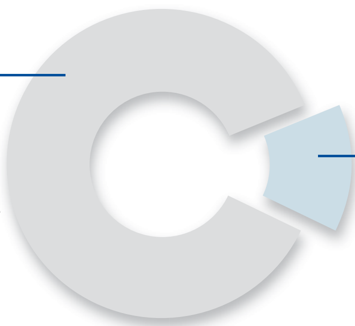
Oil and gas fileld development technical services

- *Down-hole operation 42.7%*
- *Well completion technology 22.9%*
- *Drilling technology 21.6%*

12.8%

Tubular Services

2012



86.4%

Oil and gas fileld development technical services

- *Down-hole operation 45.3%*
- *Well completion technology 25.4%*
- *Drilling technology 15.7%*

13.6%

Tubular Services

2011

CHAIRMAN'S STATEMENT

Dear Shareholders,

As in previous years, Antonoil saw fast growth on all fronts and posted strong financial results in 2012.

Despite an uncertain world economy, global energy demand remained unaffected, and the demand for exploration and development grew robust both at home and abroad. In China, oil companies continued to pursue the natural gas strategy as they intensified investments and pursued more domestic production. Meanwhile, the second tender for shale gas blocks was opened up to all capital for the first time, marking a step forward in liberalizing domestic exploration and development. In the overseas market, Chinese oil companies kick-started a flurry of new projects for investment. Capacity building in overseas oilfields moved ahead with full steam. China's petroleum industry demonstrated all signs of positive development. This presents an ever more compelling environment for the emergence of a leading global oilfield service company based in China.

In 2012, we not only maintained our fast growth, but also successfully implemented our integrated strategy to make sure the Group stayed on course the fast track to growth.

By forming an integrated project management (IPM) joint venture with Schlumberger, we created an IPM platform that combines international and local expertise, experience and talent. This better equipped us to take on IPM projects on larger scales. By firmly investing in pressure pumping equipment, we further strengthened our regular services capacity essential for future development of oil and gas resources and improved our operational readiness for integrated services. These two measures symbolized the successful execution of our integrated strategy which helped drive additional business from our services for the high-end market to regular services and place us in a broader marketplace. With these conditions in place, we are poised more than ever to become a leading global oilfield services company in China.

REVIEW

We maintained strong growth in 2012 with revenue reaching RMB2.0 billion, a significant increase of about 59.2% from 2011. Domestically our strategy revolved around natural gas and our services focused on helping oil companies solve drilling engineering challenges and stimulation challenges in the natural gas space. Our domestic business grew 60.1% year on year and contributed 77.2% of the Group's revenue. In the overseas market, we implemented a "follow up" strategy to offer development services to Chinese investors in overseas oilfields. Our overseas business grew 56.1% year on year and accounted for 22.4% of the Group's revenue.

In terms of the service structure, our core business — oil and gas field development technical services — contributed to a remarkable growth, which was up 60.7% compared to 2011 and represented 87.2% of the Group's revenue. In our supplementary tubular services cluster, growth remained positive with a year-on-year growth of 50.0%, representing 12.8% of the Group's revenue. The Group further solidified its major business anchored on oil and gas field technical services. In this line of business, multistage fracking, coiled tubing, directional drilling services and the two new services launched in 2012, oil-based drilling fluids and pressure pumping services, together made up 49.6% of the Group's revenue. A business deployment with premium services growing in tandem with regular services had taken initial shape. With continued investment in pressure pumping equipment and other regular services capacity, the strategy with services for the high-end market driving synergetic growth of regular services will become more prevailing.

In 2012, net profit attributable to shareholders amounted to RMB 3.0 billion, up 2.9 times year on year. Net profit margin reached 15.8%, up 8.5 percentage points over 2011. Average accounts receivable days registered at 134, a reduction of 44 days compared with 2011. Profitability and capital efficiency both improved substantially. In 2012, the suite of management measures aimed at increasing profitability and asset utilization started to pay off. Rigorous settlement of sales, strategic partnerships with suppliers to save procurement costs, the deployment of proprietary tools and strict individual accountability for financial targets linked to rewards and penalties had become part of the Group's ongoing management processes.

We believe that an oilfield services provider is fundamentally a human resources management company. To become a leading global oilfield services company, we must attend to both customers' service needs and employees' daily needs. Therefore, we intensified efforts to attract and retain industry leaders, experienced professionals and fresh graduates. On the other hand, we worked with a world-renowned HR consulting firm to develop a human resources management system breaking down into job, compensation, performance and training systems. The system is aligned with our mid- to long-term strategies and objectives and reflects the best practices of some world-class oilfield services companies. This can make sure we have sufficient manpower to serve our customers, and that our people have a good life, both being fundamentally important to attaining our strategic objective.

FOCUS ON THE INTEGRATED STRATEGY OF DRIVING REGULAR SERVICES THROUGH PREMIUM SERVICES

OUTLOOK

Looking ahead into 2013, the market is showing positive signs. Stimulation and reliable production in oil and gas fields will be more and more closely hinged on the provision of oilfield services. Domestically, natural gas development will accelerate further. Growth in conventional gas and tight gas is beating expectations. There is more demand for solutions to address engineering challenges and stimulation challenges, and efficiency challenges. The convergence between premium and regular services is likely to become stronger. At the same time, domestic exploration and development will be further opened up to allow access for a more diversified set of investors. In 2013, we remain committed to the strategy of focusing on natural gas development in the home market. We will focus on improving our market position with full-fledged service offerings in the Tarim Basin, scaling up the provision of regular services in the Erdos Basin, and driving regular services through premium technology in the Sichuan Basin. We will form strategic partnerships with state-owned oilfield service companies to gain more sizable orders through strategic marketing. In the overseas market, we persist in the strategy of following up with the Chinese investors with the Middle East being our key market while continuing to pursue South America as a strategic market through the introduction of our full range of services.

In 2013, we will maintain a steadfast focus on the integrated strategy of driving regular services through premium services. We will invest more to build on our regular service capacity, including drilling rig service capacity, pressure pumping service capacity and the production capacity of proprietary tools and materials. We will roll out in full swing the IPM approach. We will use the joint venture with Schlumberger as a vehicle for undertaking large-scale IPM projects. Meanwhile, we will strengthen capacity building in oil reservoir evaluation and reservoir management and engage customers in earlier stages to encourage the development of service integration in reservoir project management. We will also leverage our research arm to forge strategic partnerships with shale gas investors and become their trusted advisor on early stage evaluation of shale gas reservoir to help them understand and invest in shale gas.

Talent remains our key interest. We have intensified campus recruitment efforts and increased the headcount for new recruits from 300 each year in the past to 600 this year. We target the best crop of fresh graduates and give them the platform and training they need to grow even better so as to provide unparalleled service to our customers. As our market footprint grows, the size of our business is likely to expand further and we have to respond better to customer demands. Therefore, we must improve efficiency. Informatization can be an important part of the solution. In 2013, we will fully implement our informatization strategy to fully incorporate the IT platform into our operations, administration and management processes so as to prepare us for the next phase of growth.

APPRECIATION

On behalf of the Board, I would like to express my heartfelt thanks to our shareholders, customers and business partners who have trusted and supported us all along. My deepest appreciation also goes to all our employees for their hard work and contribution throughout the year. We are well prepared to seize the exceptional opportunities in an industry ready to take off. Antonoil will march forward with full confidence towards the vision of becoming a leading global oilfield services company.

Chairman
LUO Lin

March 15th, 2013

CORPORATE MILESTONES

1 JANUARY
Established the drilling fluid service department and entered into a strategic partnership agreement with Magcobar for the provision of oil-based drilling fluid

7 JULY
Schlumberger entered as minority shareholder

8 AUGUST
The onboarding of hundreds of graduates to the Group, marking the fifth consecutive year of massive hiring campaign of young talents

9 September
The first frac fleet arrived and pressure pumping services officially launched

9 September
Signed joint venture contract with Schlumberger to offer integrated project management services

10 OCTOBER
Fully kicked off the establishment of international human resources system, and introduced the advisory of world-renowned HR consulting firm

11 NOVEMBER
Sponsored the construction of "Anton Complex Building" in Nongli Primary School in the Lingyun county of Guangxi

12 DECEMBER
Won "The Asset Corporate Award 2012" Gold Award (Excellence in Management and Corporate Governance) by *The Asset*, and the "100 Best Human Resource Award of 2012" by *51job.com.*

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LUO Lin
Mr. WU Di
Mr. LIU Enlong

Non-executive Director

Mr. Jean Francois POUPEAU

Independent Non-executive Directors

Mr. ZHANG Yongyi
Mr. ZHU Xiaoping
Mr. WANG Mingcai

AUDIT COMMITTEE

Mr. ZHU Xiaoping *(Chairman)*
Mr. ZHANG Yongyi
Mr. WANG Mingcai

REMUNERATION COMMITTEE

Mr. WANG Mingcai *(Chairman)*
Mr. ZHU Xiaoping
Mr. LUO Lin

NOMINATION COMMITTEE

Mr. ZHANG Yongyi *(Chairman)*
Mr. WANG Mingcai
Mr. LUO Lin

QHSE ("QUALITY, HEALTH, SAFETY AND ENVIRONMENT") COMMITTEE

Mr. Jean Francois POUPEAU *(Chairman)*
Mr. LUO Lin
Mr. LIU Enlong

AUTHORIZED REPRESENTATIVES

Mr. LUO Lin
Dr. NGAI Wai Fung

COMPANY SECRETARY

Dr. NGAI Wai Fung (FCIS, FCS (PE), CPA, FCCA)

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

as to Hong Kong and U.S. law:

Sidley Austin

as to PRC law:

Tian Yuan Law Firm

as to Cayman Islands law:

Maples and Calder

PRINCIPAL BANKS

China Merchants Bank
Bank of Beijing

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

3337

DATE OF LISTING

14 December 2007

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

Market Environment

China's Natural Gas Market Witnesses Accelerated Growth

In 2012, China's economy showed signs of further stabilization towards a recovery, and amid the continuous increase in energy demand and growing concerns over environmental issues, developing natural gas has become a necessary approach to achieving China's energy security strategy. Against this backdrop, China issued a series of "12th Five-Year Plans" for various gas-related industries to encourage the use of natural gas in extended industries, prioritize natural gas in China's integrated energy strategy and strengthen the government supports for the development of natural gas in the full value chain covering exploration, production, transportation and consumption. The country's natural gas pricing reforms also witnessed due progress in some regions, providing a policy stimulus to sustain the accelerated growth in natural gas development going forward.

Faced with China's pressing target of increasing natural gas output, domestic oil and gas companies have further intensified exploration and development ("E&P") activities in the major domestic natural gas basins, driving the demand for regular and high-end oil and gas field services to a new height. It is worth mentioning that low-permeability reserves have grown increasingly critical in the future oil and gas development. According to the public data released by China National Petroleum Corporation ("CNPC") in April 2011, low-permeability oil and gas account for over 80% of the proven reserves added over recent years, meaning that the incremental production capacity relies mainly on fracking stimulation techniques. Consequently, there will be a tremendous demand for the development of low-permeability gas reserves, such as tight gas and shale gas, in the future. In addition, following decades of extraction, the future oil and gas exploration and development will be challenged by complex geological features and higher marginal costs, placing increasingly strict requirements on technical services. In the Tarim Basin in particular, the ultra-deep, ultra-high-temperature and ultra-high-pressure wells remain as a key issue faced by major oil and gas companies in the region in the course of achieving their urgent production targets. The challenging exploration and development conditions as such would inevitably lead to a sharp increase in the demand for high-end and integrated oil and gas field services.

In 2012 the Group further accelerated the pace of growth

China's second round of shale gas block auction held in 2012 was opened to all investment entities including privately-owned companies, re-affirming the government's drive and decisiveness in implementing systematic reforms and speeding up the development of key markets in the energy sector. Different from China's traditional national oil companies, the new participants in E&P activities lack their in-house service capacity, creating an earnest demand for integrated oilfield services. At the same time, overseas oil and gas field service providers are actively seeking partnership with domestic peers to complement their services capacities in China so as to meet the huge demand for regular and high-end services from their clients. Those new industry development trends provide unprecedented opportunities for domestic independent oilfield service providers with local experience and established service capacity.

Consistently committed to serving the domestic natural gas market, the Group initiated its integrated service strategy in 2010 and consequently built up its integrated service department. Following two years of preparation, it made intensified efforts in 2012 to push ahead with the integrated service strategy and scale up the service capacity targeting the regular market through increased investment into the regular-service equipment. The initiative was aimed at shifting towards the integrated-services model with regular services driven by technical services targeting the high-end markets from a sole focus on services for high-end markets, so as to provide a full range of solutions addressing stimulation and engineering challenges in natural gas development. As of now, the Group's technologies have been extensively applied in the exploration and development of conventional natural gas and low-permeability tight gas and along with the rapid development of the natural gas industry, the Group foresees vast room for extended growth.

Chinese Investors Keep Intensifying Investment Efforts in Overseas Oil and Gas Fields

The sustained growth in China's long-term energy demand has inspired Chinese investors to go abroad, resulting in diversified investment entities from China in overseas oil and gas resources with extended reach in both the service range and geographical locations. In 2012, Chinese investors became the major driving force behind the surge of M&A activities in the global oil and gas industry as they forged partnerships with the local national oil companies and international oil companies in regions including the Middle East, Central Asia, South America and North America to actively participate in the global oilfield E&P activities through either direct investment or acquisitions.

With the expanded scale of project investments made by Chinese companies globally, particularly in the Middle East, Central Asia and South America, there is a trend of accelerated growth in the demand for oilfield technical services. The Middle East region, in particular, faces a dire need of post-war recovery in oilfield production, and there are demands for not only investment capital, but also the supply of technology, equipment, materials and technical personnel required to facilitate rapid output recovery, making the Middle East the primary overseas investment destination for Chinese investors. And given the Chinese investors' particular needs, China's service providers remain as those clients' first choice for oilfield services as a result of their long-term mutual trust nurtured over years in the domestic projects and the relatively lower costs and shortened construction lead time than their international peers.

When the Group started to enter the overseas market in 2008, it formulated the "follow-up" strategy in the first phase of expansion, providing the Chinese investors with technology, materials, equipment and personnel resources aligned with their specific market demands. Pursuant to the strategy, the Group closely follows the investors and construct on-site service bases to provide them with timely, reliable and competitive technical services. This approach made the Group its clients' indispensable technical partner through the strategic cooperation that both established. In 2012, the Group further strengthened its position in the existing markets and expanded the service offerings while vigorously exploring new opportunities. The remarkable achievements confirmed the success of the Group's overseas strategy and laid a concrete foundation for its strategic growth in extended markets.

Business Performance

In 2012, the Group further accelerated the pace of growth. The Group's total revenue amounted to RMB2,004.6 million, representing an increase of RMB745.7 million, or 59.2%, from RMB1,258.9 million in 2011. The high growth was attributable to the Company's well-prepared planning and the robust market demand in the Year.

In 2012, the Group's operating profit reached RMB398.0 million, an increase of RMB223.1 million, or 127.6%, from RMB174.9 million in 2011. Net profit stood at RMB317.7 million, an increase of RMB226.0 million, or 246.5% from RMB91.7 million in 2011. Profit attributable to equity holders of the Company amounted to RMB302.6 million, an increase of RMB225.3 million, or 291.5%, from RMB77.3 million in 2011. Net profit margin rose to 15.8% from 7.3% in the previous year, representing a growth of 8.5 percentage points. This was because the proportion of cost of sales in total revenue was further reduced due to the Group's increased use of in-house products and services, and lower procurement costs attained from strategic suppliers through merchandizing in a larger volume from these suppliers.

In 2012, the Group's capital efficiency was fully enhanced. As at 31 December 2012, the number of average trade receivable turnover days stood at 134, a significant decline of 44 days from that in the previous year; the number of average inventory turnover days reached 124, a drop of 7 days from that in 2011; and the average trade payable turnover days was 149, an increase of 47 days from that in the previous year. The capital efficiency was further enhanced because the Group strengthened the management of settlement in the sales process, while the Group also incorporated the trade receivables day target as a key performance indicator and it is aligned with a corresponding reward and penalty system to motivate the fulfillment of such target. In the meantime, the Group strengthened the inventory management with specific measures to manage overdue inventory. In the management of trade payables, the Group established strategic suppliers to achieve better payment terms.

In 2012, market demands exceeded expectation. The Group promoted its growth through forging strategic partnership with its clients to ensure a substainable relationship. In China, as oil companies stepped up E&P activities in conventional and tight gas to commit more production capacity in natural gas, the Group seized the market opportunities and, targeting natural gas development, established strategic partnerships with clients in the Erdos Basin, Tarim Basin, Sichuan Basin and Songliao Basin. Overseas, in view of the needs of the Chinese investors, the Group forged long-term partnership in the Al-Ahdab project and the Halfaya project in Iraq.

In the Year, the contribution from the core business — oil and gas field development technical services (including drilling technology, well completion and down hole operations clusters) — continued to post a significant growth, up by 60.1%, while the supplementary business — tubular services — also saw a strong growth, up by 50.0%. The original three signature services — multistage fracking, coiled tubing and directional drilling services — led the growth with an aggregate revenue amounted to RMB830.9 million, up by 36.7% compared to last year, accounting for 41.4% of the Group's total revenue for the Year. In particular, as a result of the accelerated development of tight gas, the revenue of the multistage fracking service registered a remarkable revenue growth of 51.9%, reaching RMB163.1 million, with 139 jobs completed in the Year. In the meantime, the new services made a successful entry in the market, generating a revenue of RMB163.1 million, accounting for 8.1% of the Group's total revenue. As a new service, the oil-based drilling fluid had established a sustainable and stable market for the high-end use in the Tarim Basin while the pressure pumping service also opened up the market upon the completion of its service capacity for the massive use in the Erdos Basin.

In retrospect over the Year, the Group's stellar performance detailed above was attributable to the successful implementation of its business strategy. In market development, the Group increased presence in strategic regional markets and launched technical services with competitive value propositions, strengthened its influence in the market through the forging of strategic partnership, so as to effectively seize the opportunities arising from the development of China's domestic natural gas business and expanded investments made by Chinese companies overseas. In product development, the Group started the process of a strategic transition towards an integrated service model. Over the last two years, it established its integrated-service department, consolidated service competences in drilling technology, well completion, down-hole operation as well as oil production services and bolstered such regular services as pressure pumping, making the successful shift towards the integrated-services model with regular services driven by technical services targeting the high-end markets from a sole focus on services for high-end markets and unlocking the vast market potential. In human resources, the Group consistently adhered to its "Talents First" philosophy. It started the campus recruitments as early as in 2007 to attract, develop and retain young professionals so as to diversify the Group's talent pool, besides hiring industry-leading talents with international experience to drive development of the new businesses. As the enormous potential of the industry began to unfold, the Group was able to leverage its human resources capital to capture market opportunities. In general management, the Group places a primary focus on performing the operation and management based on its strategic priorities to align various strategic resource allocation with business operations. In the meantime, a corresponding performance-based evaluation mechanism was adopted to ensure that strategic targets are delivered. The success of these strategies contributed not only to the Group's outstanding performance in 2012, but also well positioned the Group for its sustainability and continued creation of value for its shareholders.

Geographical Market Analysis

In 2012, the Group's revenue from the domestic market was RMB1,556.0 million, representing an increase of RMB584.4 million or 60.1% from last year's RMB971.6 million, and the domestic market accounted for 77.6% of the Group's total revenue. Revenue from the overseas markets reached RMB448.6 million, representing an increase of RMB161.3 million or 56.1% from RMB287.3 million in the previous year, and accounted for 22.4% of the Group's total revenue. During the reporting period, the Group completed a total of 1,756 jobs domestically and 368 jobs overseas.

Revenue Breakdown of Domestic and Overseas Markets

	2012 (RMB' million)	2011 (RMB' million)	Change (%)	**Revenue from the respective market as a percentage of total revenue** **2012**	2011
Domestic	1,556.0	971.6	60.1%	77.6%	77.2%
Overseas	448.6	287.3	56.1%	22.4%	22.8%
Total	**2,004.6**	**1,258.9**	**59.2%**	**100.0%**	**100.0%**

Revenue Analysis for Domestic Market

	2012 (RMB million)	2011 (RMB million)	Change (%)	**Revenue from the respective region as a percentage of domestic revenue**	
				2012	2011
Northwest China	557.4	321.2	73.5%	35.8%	33.1%
North China	528.6	205.5	157.2%	34.0%	21.1%
Northeast China	264.6	307.9	-14.1%	17.0%	31.7%
Southwest China	205.4	137.0	49.9%	13.2%	14.1%
Total	**1,556.0**	**971.6**	**60.1%**	**100.0%**	**100.0%**

Revenue Analysis for Overseas Market

	2012 (RMB million)	2011 (RMB million)	Change (%)	**Revenue from the respective region as a percentage of overseas revenue**	
				2012	2011
The Middle East	340.9	227.5	49.8%	76.0%	79.2%
Central Asia	85.2	40.3	111.4%	19.0%	14.0%
Africa	12.5	18.9	-33.9%	2.8%	6.6%
Americas	10.0	0.6	N/A*	2.2%	0.2%
Total	**448.6**	**287.3**	**56.1%**	**100.0%**	**100.0%**

* The Americas market was in the market development phase with no material revenue booked in the previous year, so the percentage change is not applicable for this item.

Domestic Market: Seized Opportunities Arising from Significant Service Demands in Strategic Natural Gas Basins

In 2012, the domestic natural gas business witnessed a sustainable growth. In particular, in the three strategic natural gas basins where the Group seeks to prioritize business expansions — namely the Tarim Basin, Erdos Basin and Sichuan Basin, the Group kept rolling out new products and strengthening the service capacity, making full efforts to meet the significant demands for regular and high-end services prompted by the clients' pressing production goals. Through strengthening long-term strategic partnership, the Group further consolidated its market position and successfully extended growth in the weight of its business in the Northwest, North China and Southwest regions covered by the three basins, booking combined revenue that accounted for 83.0% of the total domestic revenue, an increase of 14.7 percentage points from 68.3% in 2011.

Major Business Development in the Domestic Market

- The Tarim Basin was one of the major focus areas of the Group for the Year, and the contribution in revenue from the region witnessed an extended increase. This basin is a strategic base for the secure and effective energy supplies in China, and the country's major energy developers have stepped up investments into the region. The geological conditions for resource development in the Tarim Basin area are extremely complex, and its ultra-high pressure and ultra-high temperature wells pose as a world challenge in drilling engineering. Confronted with the pressing production target, clients in this region have pressing needs for drilling technologies that facilitates cost reduction and efficiency enhancement. Targeting the clients' strategic needs in this basin, the Group quickly built up the oil-based drilling fluid service ability and actively pushed the application of directional drilling technique, successfully aiding the clients to shorten their drilling lead time and enhance the drilling success rate while providing a strong support to sustain the Group's business growth in the Year. In particular, the Group introduced the oil-based drilling fluid service during the Year which has so far obtained two consecutive batch orders and the jobs completed were well received by its customer with satisfying feedback for the noticeable acceleration in drilling speed and proven evidence of shortening the customer's drilling lead time and reducing costs that help ensure the clients' production targets are met.

- The Erdos Basin remained as a key market for the Group and its revenue contribution for the Year remarkably increased. The growth was mainly attributable to the robust demand for oilfield stimulation services like multistage fracking and pressure pumping as well as the oil and gas field integrated services, coupled with the Group's industry-leading technology and brand in such technical areas. The Erdos Basin is known to the world as a huge tight gas basin and a typical reservoir with low permeability, low pressure and low output, thereby requiring effective technical solutions for stimulation so as to achieve rapid output increments. According to "the 12th Five-Year Plan on Natural Gas Development" announced by the National Development and Reform Commission in December 2012, natural gas output comprising conventional gas and tight gas in the Erdos Basin is expected to grow substantially by 2015. As technical services including multistage fracking and pressure pumping have been proven as a key solution to the issue, the demands for such services are strong in this basin. In order to facilitate efficient development of resources, the basin adopted a liberalized competition mechanism and an increasing number of investors participated in resource development in the region, expanding the Group's client base. The Group is the market leader of horizontal well multistage fracking and has accumulated experience from operations in more than 274 jobs over the years. The Group added Sinopec and Yanchang Petroleum to its clientele in the first half of the Year, from whom it secured several batch orders, further consolidating the Group's market position. The pressure pumping service that the Group introduced during the Year also made an impressive start, becoming an effective supplement to the clients in regular service areas and cementing a reliable base for the future strategic partnerships. In the meantime, the integrated service jobs the Group completed for Yanchang Petroleum in this basin were also highly regarded and laid the foundation for the sustainable developing in the future.

- The Sichuan Basin is of great significance to China's natural gas development plans for the vast conventional and unconventional gas potential it holds, and has remained as a strategic area positioned by major oil and gas companies like PetroChina and Sinopec to support China's energy supplies, thereby resulting in particularly intense exploration and development activities. According to "the 12th Five-Year Plan on Natural Gas Development" mentioned above, natural gas output including conventional gas and tight gas in the Sichuan Basin is expected to post a significant growth by 2015. In addition, the Sichuan Basin has become the forefront in the exploration and development of unconventional natural gas in China due to its remarkable reserve potential. From the aspect of investment entities, besides PetroChina and Sinopec as mentioned above, international oil companies and the domestic medium- and small-sized enterprises including the privately-owned firms have also actively participated in the preparation for developing unconventional sources like shale gas. Due to low permeability, low porosity and fractured reservoir associated with the resources buried in the Sichuan Basin and other complex geological conditions, successful E&P in this basin required a slew of technologies that effectively address the stimulation and engineering challenges. In light of the reasoning above, the demand for the Group's technical services including integrated drilling, coiled tubing, directional drilling and multistage fracking in this basin during the Year witnessed a further increase. The Group expects an extended acceleration in unconventional resource development activities in this basin, therefore lending a strong boost to the demand for the Group's services mentioned above and other integrated services covering pressure pumping and turnkey project service propelled by the introduction of drilling rigs.

- The Songliao Basin has changed in recent years from a traditional main supply base of crude oil into an energy base involved in the development of both natural gas and oil, with natural gas being the main driver of production growth. Owing to the growing need for standard technologies driven by such structural change, the Group's business in the basin experienced remarkable growth during the Year, especially in the provision of standard technical services such as standard directional drilling technology and well completion tools.

- The large-scale construction of underground gas storage facilities has fully taken off in China. Thanks to its early market deployment and technical preparation, the Group safeguarded its dominating market position in the underground gas storage market. The Group not only rendered exclusive tubular helium testing services to five underground gas storage facilities in the country, helping clients to prevent natural gas pipe strings from leaking, but also offered products and services to facilitate well cementing and completion technologies, ensuring favorable injection and storage conditions for the underground gas storage facilities. Currently, the country's construction of gas storage facilities has reached completion milestones on a phased basis.

Overseas Market: Expanded Client Base with Satisfactory Growth

In 2012, as the continued growth in China's domestic energy consumption drove Chinese investors to speed up overseas project development, the Group's revenue generated overseas also saw a significant increase. Revenue from the overseas market amounted to RMB448.6 million, an increase of 56.1% from the previous year. In the Middle East, the Group has established its technology capability and service brand highly regarded by the market and benefited from the intensified development efforts by its clients, and the two major projects that the Group provides services for have entered a stage of intense development, leading to stable revenue sources for the Group and high visibility of its future growth. During the reporting period, revenue from the Middle East market reached RMB340.9 million, an increase of 49.8% from RMB227.5 million in the previous year. The Middle East market accounted for 76.0% of the total overseas market revenue, and remained as the Group's biggest overseas market. In the Americas market, as the Chinese investors expanded spending and the Group's technical services match their project development needs, this region has become one of the Group's strategic markets overseas where key breakthroughs were made. During the reporting period, revenue from the Americas market accounted for 2.2% of the Group's total revenues booked overseas. In addition, benefiting from the continued growth in development efforts in Central Asia, revenue generated from this market also posted a stable increase. During the reporting period, revenue from the Central Asia market rose 111.4% from the previous year and accounted for 19.0% of the Group's total revenue booked overseas.

Major Business Development in the Overseas Market

- Iraq constitutes a strategic overseas market for investors from China and project development activities continued the growth momentum in full speed. The Group witnessed a stable growth and further consolidated its position in the Al-Ahdab Project, as reflected by the good feedback from its client on the jobs completed. The Halfaya Project that the Group added as a new client during the Year is the largest investment project made by PetroChina as an operator, leading to a strong demand for various technical services; based on the Group's competitive technology ability and service quality, its oil production service made a successful entry into this project and its contribution to the Halfaya Project was highly regarded by the client. From a broader perspective, leveraging from the success experience accumulated previously, the Group implemented its market development strategy in Iraq by starting with the coiled tubing acidizing service suitable for the local geological conditions to help the client with rapid production recovery, and upon recognition by the market, strategically expanded its service line to comprehensively supplement the client's regional service needs.

  To date the Group has effectively achieved expansion of its service line in the Al-Ahdab and Halfaya projects by focusing on the coiled tubing services while introducing services in drilling technology, well completion and down hole operations. Based on the service capability and service brand highly regarded by its clients in the region, the Group expects further breakthroughs in the coming year with opportunities to provide services for additional strategic clients and in extended market segments.

- The Americas region attracted active E&P participation from investors during the Year and became one of the focal areas in the overseas market for Chinese investors. Targeting the market trend, the Group rapidly started resource deployment in the region, assigning marketing personnel to explore opportunities in the South America region in particular, and successfully made business breakthroughs in segments like well completion and tubular services. In view of accelerated growth in demand driven by Chinese investors' development activities in South America, the Group made its market entry with well completion and tubular services that fit with the local geological conditions partly characterized by the generally higher sand content in wells and relatively larger heavy oil reservoirs, before quickly unfolding into other technical services. The Group expects a remarkable business increase in this region in the future.

- Central Asia has become a key market to support the overseas production volume of the Group's clients and demand for oil field services posted a stable increase as E&P activities extended expansion. In order to accommodate growing demands for drilling brought about by the accelerating development of oilfields in the region, the Group actively promoted vertical drilling and directional drilling service to improve drilling speed, and offered various well completion tools and services, enabling the Group to achieve business growth faster than expected. In consideration of the sustained future growth, the Group will further extend its service line according to its client's particular requirements.

Business Cluster Analysis

In 2012, the Group's core business, oil and gas field development technical services (including drilling technology, well completion and down-hole operation), continued to contribute to the Group's revenue growth. Revenue booked under the core business reached RMB1,747.7 million, representing an increase of RMB660.1 million, or 60.7%, from RMB1,087.6 million of the previous year. Its contribution to the Group's total revenue rose further to 87.2%, up 0.8 percentage points from 86.4% of the previous year.

In the area of oil and gas field development technical services, the Group's signature services extended to cover multistage fracking, coiled tubing, directional drilling and drilling fluid services, the last of which was launched earlier during the Year and has since formed a scale and proved to have strong growth potential. The revenues from the four services totaled RMB966.8 million, up from RMB608.0 million by RMB358.8 million or 59.0%. The combined share contribution from the four technical services to the Group revenue leveled with the 48.3% of 2011, showing the Group's consistent commitment to innovation and extended diversification of its revenue sources.

The tubular services, the Group's supplementary business cluster, also saw a robust growth. During the reporting period, revenue from this service cluster reached RMB256.9 million, an increase of RMB85.6 million, or 50.0%, from the RMB171.3 million in the previous year. Its share contribution to the Group's revenue further declined, dropping from 13.6% in 2011 to 12.8% in 2012.

Revenue Breakdown by Cluster

	2012 (million RMB)	2011 (million RMB)	Change (%)	**As a percentage of total revenue 2012**	2011
Oil and gas field development technical services	**1,747.7**	**1,087.6**	**60.7%**	**87.2%**	**86.4%**
Down-hole operation cluster	856.5	570.3	50.2%	42.7%	45.3%
Well completion cluster	458.2	319.8	43.3%	22.9%	25.4%
Drilling technology cluster	433.0	197.5	119.2%	21.6%	15.7%
Tubular services	**256.9**	**171.3**	**50.0%**	**12.8%**	**13.6%**
Total	**2,004.6**	**1,258.9**	**59.2%**	**100.0%**	**100.0%**

Oil and gas field development technical services

Revenue analysis for the four signature services

	Business cluster	**2012 (million RMB)**	2011 (million RMB)	Change (%)	**As a percentage of total revenue 2012**	2011
Multistage fracking	Down-hole operation	413.2	272.1	51.9%	20.6%	21.6%
Coiled tubing	Down-hole operation	239.7	193.3	24.0%	12.0%	15.4%
Directional drilling	Drilling technology	178.0	142.6	24.8%	8.9%	11.3%
Drilling fluid	Drilling technology	135.9	—	N/A*	6.8%	—
Total		**966.8**	**608.0**	**50.9%**	**48.3%**	**48.3%**

* Drilling fluid is a new service launched in 2012 with no historical data available, the percentage change is not applicable.

Down-hole Operation Cluster

The down-hole operation cluster posted stellar results in 2012 with revenue of RMB856.5 million, an increase of 50.2% from RMB570.3 million in 2011. Services associated with this cluster employ various stimulation techniques and solutions to address output constraints in low-permeability or low-yield wells in China and overseas projects with a pressing need for output recovery. The Group made further progress in diversifying the product offerings in down-hole operations during the reporting period and grew its regular service capacity in pressure pumping. As the demand for the development of low-permeability reserves such as tight gas and shale gas keeps rising in China and there is a pressing need for rapid production recovery in some overseas projects, the Group's service offerings gain increased popularity among its clients.

The down-hole operation cluster consists of four business departments, namely 1) the well stimulation department with multistage fracking as its core competency, which recorded RMB413.2 million in revenue in 2012, up 51.9% from RMB272.1 million of 2011; 2) the down-hole operation department offering such services as coiled tubing and tubular helium testing, which posted RMB344.5 million in revenue in 2012, representing an increase of 41.7% from RMB243.1 million in the previous year; 3) the pressure pumping services, a newly-added department that booked RMB27.2 million in revenue with a few months of market operations since the service equipment arrived in the third quarter of 2012; and 4) oil production department offering such services as chemical EOR (enhanced oil recovery), well flushing and gas lift, which recorded a revenue of RMB71.6 million in 2012, an increase of 29.9% from RMB55.1 million in 2011. EBITDA for the down-hole operation cluster increased by as much as 82.0% from RMB258.7 million in 2011 to RMB470.8 million in 2012. EBITDA margin for the Year was 55.0%, up 9.6 percentage points from 45.4% of 2011, thanks to lower unit purchasing costs enabled by large-volume purchases from strategic suppliers and reduced procurement costs resulting from increased use of in-house tools.

Major Development of Down-hole Operation Cluster

- Multistage fracking service remained as a growth engine for the Group during the Year. It posted RMB413.2 million in revenue during the reporting period, a 51.9% increase from RMB272.1 million in the previous year. The Group completed 139 multistage fracking jobs in 2012, an increase of 75.9%, or 60 jobs, from 79 in 2011. The Group introduced open-hole multistage fracking to China's domestic market as early as in 2007, and the service features shortened operation lead time, enhanced efficiency and improved success rate compared with other fracking techniques. Since the large-scale promotion of this technology in 2010, the Group has completed more than 274 horizontal well multistage fracking jobs and established its market leadership in the area of multistage fracking stimulation operations. During the Year, the Group made several progress in this service: 1) successfully performed 19-stage fracking service for a horizontal well operated by Sinopec in North China, hitting the record in terms of the number of completed sections for a horizontal well operated by this client in 2012; 2) successfully employed in-house tools on project sites with good performance; 3) successfully implemented the vertical well volume fracturing technology in the Erdos Basin, consolidating its experience accumulation for new technology dissemination; 4) apart from cementing its partnership with PetroChina, secured new batch orders from Yanchang Petroleum and Sinopec. In particular, since Sinopec started its campaign in developing tight gas oil and gas reserves in the Erdos Basin in December 2011, it has widely promoted the use of the two critical technologies including horizontal well and multistage fracking in order to achieve output expansion, and has made multiple tenders for horizontal well multi-stage fracking service. The Group received three consecutive batch orders for multistage fracking services from Sinopec in 2012, translating into 120 jobs awarded in multistage fracking for the full Year — 68 of which were completed in 2012 and the remaining jobs on hand scheduled for completion in 2013. Although this service has become a well-established technique widely adopted in natural gas development following several yeas of massive promotion, the Group still remains in an absolute market leadership position and a preferred service supplier for horizontal well multi-stage fracking service thanks to its ongoing technology innovation and premium service brand proven by the market.

- Revenue from coiled tubing services was RMB239.7 million in 2012, representing an increase of RMB46.4 million or 24.0% from RMB193.3 million in 2011. The Group completed 222 jobs in China and 206 overseas. In China's domestic market, the Group as a pioneer promoting new techniques in coiled tubing continued to strengthen advanced techniques combining coiled tubing with the use of various down-hole tools, seeking to introduce the added value and technical diversity of coiled tubing services in down-hole operations. The approach was aimed at expanding the application of coiled tubing services in the domestic market, therefore helping the clients achieve their targets in output increases and efficiency enhancement. In 2012, while maintaining investments in its conventional techniques, the Group also set new technical priorities such as coiled tubing solutions for shale gas, casing coiled tubing staged fracturing technology, and coiled tubing milling ball seat technology. In particular, the Group offered coiled tubing plug milling for various shale gas wells in the Sichuan Basin, making it the first domestic service provider with self-sufficient capacity to independently perform such technique which marked a breakthrough in well stimulation for unconventional resources. In the overseas market, Chinese operators in Iraq have a brisk demand for production recovery but the local oilfields feature thick layers and carbonate rocks, making production gains more difficult. The Group introduced coiled tubing acidizing services in Iraq which pump acidizing chemicals and fluids through coiled tubing into the formations, gaining quick access to the oil reservoir and materializing production. With a proven track record of service quality and performance enhancement, the Group was able to build a strong partnership in the Al-Ahdab oilfield project where a stable growth was recorded through 2012. In the newly added Halfaya project in the Group's clientele, the Group garnered rave review and received a special letter of recognition from the client for its successful implementation of coiled tubing acidizing service and the delivery of substantially improved yield, making the Group a preferred service provider. The new contract volume brought about from the new partnership boosted the Group's business growth. Backed by the success of these two projects, the Group has enhanced its reputation and attracted interest from other Chinese investors and foreign national oil companies, laying the foundation for future market expansions.

- Revenue from tubular helium testing services reached a record RMB104.8 million in 2012, a significant increase of 110.0% from RMB49.9 million in the previous year. As the number of natural gas wells keep rising and the construction of underground gas storage facilities gathered pace, prompting an increase in the clients' safety requirements associated with the development process which further boosted the demand for the tubular helium testing services. The Group is the industry pioneer and leads promotion of the technology and during the reporting period the Group made a breakthrough in research and development of large casing gas leakage detection tools as an extension to its existing oil tubing gas leakage detection technology, further extending the scope of service application. The Group saw a remarkable business growth after being awarded the annual contract in the Tarim Basin, regional batch orders in Northeast China and annual contracts in several underground gas storage facilities across China. To date, the Group remains the exclusive supplier of tubular helium testing services in China and completed 249 jobs in 2012.

- Pressure pumping is a new service launched in the second half of 2012. The service harnesses the hydraulic horsepower (HHP) of the pumping equipment and other related operational capabilities to help clients implement pressure pumping design and solutions of varying scales. Pressure pumping is the world's second largest oilfield service by type. As China steps up its efforts to develop the low-permeability wells, the clients need to add massive HHP capacity currently in short supply to enhance the production of low-permeability wells, promising escalated demands for pressure pumping services in the domestic market. Foreseeing the huge demand potential of this service, the Group ordered a set of 2,000-model pressure pumping equipment as early as in August 2011 and, as at 31 December 2012, the Group had completed the build-up of 24,000 HHP service capacity as the first phase construction. Formally starting market operations in the fourth quarter, the new service department posted RMB27.2 million in revenue during the period, reflecting the business' huge development potential. As a supplementary addition to the regular-service capacity of state-owned oil companies' oilfield service subsidiaries, the Group's pressure pumping service completed 56 jobs in the domestic market, cementing a solid foundation for the long-term strategic partnerships in the future. The Group started the 2nd phase construction of its pressure pumping capacity, having ordered sets of equipment totaling 38,000 HHP in capacity to be delivered on a phased basis throughout 2013. The Group's strategy of developing pressure pumping marks a crucial step to its ambition to step up its regular service capacity. It is aimed at delivering an integrated service offering with a core value proposition of providing effective stimulation solutions by combining pressure pumping with the Group's fracturing technology, materials and tools.

- In 2012, revenue from the Group's oil production services amounted to RMB71.6 million, a 29.9% increase from RMB55.1 million in 2011. The Group used to focus its oil production services on mature oil fields in Northeast China, but such regions often contributed low revenue per well yet required a large commitment of people. Amid more intense competition, they presented limited profit and growth potential. In 2012, the Group quickly shifted its focus from such regions towards emerging overseas markets by providing production management service for new oilfields, which had much higher returns. During the reporting period, the Group was awarded a contract in the Iraqi Halfaya project under the term of "one firm plus one optional year" to provide operational management service for its oil gathering and transportation station where it helps maintain and manage the equipment linking 23 wells with the station to coordinate oil production. The contract award opened up a whole new market for the Group. Building on this initial success of market expansion into Iraq and as other local oilfields scale up production, this service is likely to witness extended growth in contract volume.

Well Completion Cluster

In 2012, the well completion cluster registered a robust growth and contributed RMB458.2 million in revenue, a 43.3% increase from RMB319.8 million in 2011. The rise was largely attributable to the strong growth in overseas markets and the application of more tools as a result of increased technical partnership and in-house R&D efforts. The cluster's service mainly addresses challenges in well bore construction against particular geological conditions after drilling, offering such services during both construction and production phases. The Group's service is widely used in high-temperature wells, complex wells, wells with high sand content, and heavy oil wells.

The well completion cluster currently comprises two business departments: 1) well completion integration, including products and technical services associated with well cementing and well completion, production well completion, sandscreen completion and oil production tools/services, which recorded a revenue of RMB285.3 million in 2012, an increase of 54.9% from RMB184.2 million in the previous year; 2) Shandong Precede, a subsidiary acquired by the Group in 2008 that provided gravel packing well completion products and services, which recorded a revenue of RMB172.9 million in 2012, an increase of 27.5% from RMB135.6 million in 2011. EBITDA of the well completion cluster rose by as much as 32.8% from RMB109.8 million in 2011 to RMB145.8 million in 2012. EBITDA margin fell by 2.5 percentage points from 34.3% in 2011 to 31.8% in 2012, mainly attributable to the provision for impairment of its aged inventory.

Major Development of Well Completion Cluster

- In 2012, revenue from selling products and technical services in well cementing and completion and production completion reached RMB206.6 million, an increase of RMB92.2 million or 80.6% from RMB114.4 million in 2011. The number of jobs completed was 118 in China and 121 overseas. In China, as domestic oil companies invest aggressively in exploration and development, the increasing number of new wells drilled and the complexity of formation conditions fueled the increased demand for well completion technology and services. This is particularly true given that clients are increasingly involved in the development of low-permeability oil and gas reservoirs, which requires a greater amount of alternation work, demanding the development and application of innovative well completion techniques. In view of such demand, the Group consolidated its well completion technologies by promoting the use of advanced well completion tools for multistage completion through technology alliances with world-class service providers such as Schlumberger. It also successfully promoted the full bore multistage completion in the Erdos Basin, contributing to the Group's business growth with expanded scale of applications. Meanwhile, the nationwide construction of underground gas storage facilities also presents tremendous opportunities for the Group's well completion tools and services as evidenced by strong business growth in the underground gas storage space in 2012. In production completion, the Group in 2012 further penetrated the Tarim Basin with its well completion tools and allowed for safe production of conventional gas in difficult wells by applying well bore and wellhead treatment technologies. In the overseas markets, the Group saw broad-based demand for its well completion tools. The overseas growth in 2012 mainly came from business expansion in the Al-Ahdab project and Halfaya project in Iraq and new business in Turkmenistan in Central Asia after successful market development initiatives.

- In 2012, revenue from sandscreen well completion and oil production tools was RMB78.7 million, representing an increase of RMB8.9 million or 12.8% from RMB69.8 million in 2011. Specifically in sandscreen well completion, the Group further solidified its position in Northwest China and extended its reach to South America and Canada. Verified by the development progress, Canada has been identified as a strategic and high-growth market for the Group. The use of sandscreen during the Year amounted to 33,910 meters, representing an increase of 3.0% from 32,920 meters in 2011.

- Shangdong Precede, a self-operated subsidiary of the Group, continued to show strong growth. In 2012, it provided 470 jobs of gravel packing services, generating RMB172.9 million in revenue, an increase of 27.5% from RMB135.6 million of 2011. Domestically, the company further penetrated the Xinjiang market. On top of its existing business portfolio with Shengli and Henan, the Group drove further business servicing horizontal wells in Xinjiang and made market breakthroughs in heavy oil blocks in Xinjiang, which became another important market for the Group's gravel packing services. Overseas, the Group focused on meeting demand for gravel packing services in major heavy oil regions such as South America where it has stricken market breakthroughs with vast potential ahead.

Drilling Technology Cluster

In 2012, the drilling technology cluster witnessed remarkable growth, posting RMB433.0 million in revenue, a phenomenal increase of 119.2% from RMB197.5 million in 2011. After years of business deployment, the cluster now offers professional drilling solutions to help its clients address the most difficult engineering challenges by increasing efficiency, enhancing the success rate and reducing overall construction costs.

The drilling technology cluster comprises three business departments: 1) directional drilling, which mainly provides Measurements While Drilling ("MWD"), Logging While Drilling ("LWD"), rotary steerable drilling and geological steerable drilling services. Revenue booked under this department reached RMB178.0 million during the reporting period, an increase of 24.8% from RMB142.6 million of 2011; 2) integrated drilling, which is engaged in turnkey contracts for single well and block drilling, cementing and completion. The revenue of this department reached RMB119.1 million in 2012, a phenomenal increase of 116.9% from RMB54.9 million in 2011; and 3) the newly created drilling fluid service department, which provides high-end drilling fluid materials, technology and operational expertise for high-temperature and high-pressure wells. This department contributed RMB135.9 million in revenue in 2012. EBITDA of the drilling technology cluster increased from RMB45.4 million in 2011 to RMB107.9 million in 2012, an increase of as much as 137.7%. EBITDA margin for 2012 amounted to 24.9%, up 1.9 percentage points from 23.0% in 2011, mainly because the Group generated more revenue and the synergy effect arising from the implementation of the integrated-service strategy along with increased in-house capacity led to further cost reductions.

Major Development of Drilling Technology Cluster

- In 2012, the directional drilling business benefited from abundant contract orders thanks to the increasing number of horizontal well drilling activities both in China and overseas, having completed 68 jobs in China and 39 jobs overseas. During the reporting period, the department posted RMB178.0 million in revenue, an increase of 24.8% from RMB142.6 million in 2011. During the Year, this business managed to shift towards the integrated-services model with regular services driven by technical services targeting the high-end markets from a sole focus on services for high-end markets. In regular service capacity construction, the business increased the use of proprietary technology and domestically made apparatus, therefore expanding the markets of MWD and LWD. In the high-end service market, the Group tapped the technology resources from broader international partners, achieving integration of high-end service techniques such as rotary steerable systems (RSS) and geological steerable systems (GSS) with the regular service capacity, enabling access to new market potentials. In China's domestic market, the Group entered the new market of Northeastern China by obtaining contracts for its regular services from an oilfield block; entered the Southwest market, breaking into competitive landscape; and gained access to the Northwest market with superior service quality and three letters of compliments from its customers. Overseas, in Iraq, the Group significantly increased contract volume in the Al-Ahdab Oilfield and actively pushed ahead with its plans of securing additional contracts from the Halfaya Oilfield for 2013. Meanwhile, the Group also succeeded in obtaining a large volume of contract orders for vertical drilling in Kazakhstan against the customers' rapid growth in demands in Central Asia.

- The integrated drilling department registered a revenue of RMB119.1 million in 2012, representing an increase of 116.9% from 54.9 million in 2011. The Group established this department to meet the customers' increasing demand for integrated services. The Group introduced the service with immediate success, bagging the carbon capture and storage (CCS) contract of Shenhua Group and turnkey contracts servicing coal bed methane customers in China. In 2012, the Group opened up the new markets in Xinjiang and Yanchang. In particular, the Group provided drilling turnkey services for three single wells in the Yanchang oilfield, and its good performance and outstanding drilling engineering quality was well regarded by the client. The Group also started the projects in underground gas storage well cementing service and new drilling technology service. In 2012, the Group worked closely with Schlumberger in cement slurry technologies to build a leading brand of underground gas storage well cementing services. It also explored new drilling technologies such as hole opening and drill bit technologies to nurture new markets. During the reporting period, the integrated drilling department completed 13 jobs in China. The Group's integrated service model achieved initial success.

Building on the initial success, the Group made a further move with the integrated service strategy by signing a contract with the leading global oilfield service company Schlumberger to establish a joint venture which is 40% held by the Group and 60% by Schlumberger. The joint venture targets to offer integrated project management (IPM) services to China's onshore oil and gas fields. On a global scale, the IPM service model is very popular among large international oil companies. It is applied in large-scale projects that require stringent cost control and higher production by end-to-end management of oil and gas exploration and development, from project design to resource allocation to project implementation, and integrating individual services into the entire process to achieve production increase and cost savings. The joint venture is committed to creating equally superior values to China's onshore customers with a focus on varying sizable projects, including large-scale integrated projects such as multiple well integrated projects, block integrated projects, as well as highly complex wells, shale gas wells and sub-contract blocks. The joint venture provides an effective platform to combine Schlumberger's international experience, advanced technology and outstanding operating standards with the Group's local resources, specialized market knowledge, professional service capabilities and strong engineering team to provide customers with IPM services. The Group believes that the joint venture will face enormous opportunities and thereby create huge demands for the Group's regular and high-end services to drive the Group's future revenue growth. As at 31 December, 2012, the JV had been incorporated as Tongzhou IPM Oilfield Technology Company Limited ("TIPM"). The joint venture will actively expand staffing in 2013 and prepare for entering the market.

As a result, the integrated drilling department will be composed of TIPM and the drilling new technology service department. The latter is mainly engaged in providing comprehensive drilling technology services.

- In order to meet the strong demand for drill rigs driven by the integrated business, the Group has established a drilling company to support the

development of integrated service projects. On the one hand, the new entity will make appropriate investments in drill rigs and build up drilling teams to provide drilling service for integrated projects. On the other hand, it will also work with other drilling companies or rig manufacturers to help them manage their drilling rigs and teams, so as to enhance the Group's drilling service capabilities.

- Drilling fluid technology service is the Group's new service provision. Drilling fluid technology is a critical part of oil and gas field service and the Group believes that oil-based drilling fluid is a good solution to the drilling challenges in the Tarim Basin. The geological conditions for resource development in the Tarim Basin region are extremely complicated, and the ultra-high pressure and ultra-high temperature wells in the block pose as a world challenge in drilling engineering, hampering the customers' ability to rapidly ramp up production for the prolonged drilling lead time and complex engineering work associated with the projects. The oil-based drilling fluid service is widely used in other countries with proven advantages in resistance to high temperature and contamination, noticeably shortening the drilling lead time. Given the market potential, the Group developed a long-term strategy for drilling fluid services by establishing the drilling fluid department at the beginning of 2012 and forming a strategic partnership with Magcobar, a drilling fluid joint venture of Schlumberger's M-I SWACO in China, to develop oil-based drilling fluid service in the Tarim area. In addition, the Group implemented measures to recycle oil-based drilling fluids by building a mud plant to provide drilling fluid recovery, storage, treatment and re-processing services, providing indispensible support to the oil-based drilling fluid services. In 2012, the Group completed 7 drilling fluid jobs with excellent engineering quality and satisfactory enhancement in drilling speed, lending a strong support to helping the clients achieve production targets and cost reductions. The Group therefore managed to achieve mass-scale application of its technology to support the client with timely delivery of production goals. In less than a year, the Group rapidly built up its drilling fluid service capabilities and made a successful entry into the high-end market in Tarim domestically, achieving large-scale operation by winning two consecutive contracts in a row. The business contributed RMB135.9 million in revenue in 2012 and became a star service of the Group.

In May 2012, the Group acquired a 55% stake in a water-based drilling fluid technology service provider - the Bazhou Companies. The Bazhou Companies had an experienced engineering team, which was consolidated into the Group's drilling fluid department after the acquisition. When the Group acquired the Bazhou Companies in May 2012, respective parties set a limit on the maximum amount of liabilities undertaken by the Bazhou Companies. However, the contingent liabilities at that time have been confirmed and exceeded the pre-defined level, resulting in a tight cash position and operational losses incurred by the Bazhou Companies to satisfy the profitability requirements set by the Group, presenting noticeable operational risks. The Group thus on 7 February 2013 decided to proceed with the disposal of the stake triggered by the risk mitigation mechanism specified in the acquisition and cooperation agreement signed in May 2012 in relation to the acquisition of the Bazhou Companies' stake, so as to protect the Group from the potential impact of such risks. The consideration for the Disposal is a sum of RMB56,496,948, including the original investment and a premium made by the Group in 2012 to acquire the stake in Bazhou Companies. Since the Bazhou Companies are involved in the provision of water-based drilling fluid material and services and one of the Group's new key services in 2012 was the high-end oil-based drilling fluid service which witnessed robust order backlogs over the past year with a growth momentum in the future and targets a different market as compared with the water-based drilling fluid service provided by the Bazhou Companies, the disposal will not have any impact on the Group's oil-based drilling fluid business. The disposal excludes the transfer of employees, any employee at the Bazhou Companies is entitled to continuing work for the Group upon mutual agreement. Upon completion of the disposal, the Group will accelerate its talent acquisition and other investment to further enhance the drilling fluid services and consolidate the development of the drilling fluid business on both oil-based and water-based fronts, growing it as one of the Group's core businesses.

Tubular Services Cluster

In 2012, the tubular services cluster maintained a stable growth, posting RMB256.9 million in revenue, representing an increase of RMB85.6 million, or 50.0%, from RMB171.3 million of FY2011. The growth stemmed from the effective Group strategy of reducing product sales while pushing integrated solutions revolving around tubular services. The one-stop third-party tubular service idea received more votes of confidence from the clients. The one-stop service offering, which includes tubular inspection and evaluation, tubular repair, leasing and operational management, has won clients over for its great convenience and cost benefits. EBITDA of this cluster was up by as much as 161.5% from RMB40.3 million in 2011 to RMB105.4 million in 2012. EBITDA margin grew by 17.5 percentage points from 23.5% in 2011 to 41.0% in 2012. The increase was mainly due to higher revenue contribution from the more service-based offerings and lower unit purchasing cost enabled by large-volume purchasing orders from strategic suppliers.

Major development in the tubular service cluster

- In China, the cluster saw steady growth in tubular testing and evaluation service. In maintenance and repair, the cluster signed an annual contract for services such as drill pipe wear-resistant belt welding in the Tarim market. The new premium connector repair service received positive market reaction and helped drive growth. In light of the growing leasing demand in regional markets, the cluster increased the large-volume purchases of drill pipes from strategic suppliers, which came with competitive costs and longer credit period. This helps the Group further promote its tubular-centered integrated service solutions. In the second half of 2012, the Group was awarded a master tubular service contract in the Tarim area, which further stimulated revenue growth for this cluster. In overseas markets, this cluster has entered major markets with stable growth recorded in Central Asia, market penetration achieved in Colombia and service started at the Halfaya project in Iraq. Overseas markets showed unprecedented market potential.
- Northern Heavy Anton Machinery Manufacturing Co., Ltd ("Northern Heavy Anton") is a joint venture under the tubular service cluster. Adopting a prudent accounting approach, the Group made a considerable loss provision of RMB31.9 million at the end of 2011 for its investment in this joint venture. At the end of 2011, the joint venture had a book value of RMB4.0 million. In 2012, Northern Heavy Anton's turnaround plan to grow revenues and cut expenses showed initial results. On the one hand, the joint venture adopted austerity measures to cut expenditure. On the other hand, it explored new revenue streams by bringing new products to the market. For 2012 as a whole, the joint venture was in a better shape than in 2011. Therefore the Group considers no further impairment was needed for this investment during the Year. As of the end of 2012, the joint venture's book value remained at RMB4.0 million.

Strategic Resource Alignment

The Group continued to align its core business with the strategic objective of offering integrated technical solutions for oil and gas field development based on the wellbore technology. Guided by this strategic objective and its medium and long-term growth priorities, the Group proactively built and deployed all-round strategic capabilities to support the rapid and sustainable growth of its various business lines. Such efforts including investment, research and development and human resources will provide a solid support to achieving the Group's strategic goals. In 2012, the Group's capital expenditure reached RMB278.4 million, an increase of 40.2% from RMB198.6 million in the previous year. Specifically, fixed-asset investment was about RMB 230.0 million, up 45.0% from the previous year; the balance payment for equity investments of prior years was approximately RMB5.0 million, an increase of 24.2% from 2011; investment on intangible assets (including land use rights) reached about RMB43.4 million, an increase of 20.3% from 2011.

Alignment of Investment Projects

Throughout 2012, the Group made investment in equipment, facilities and industrial bases for its main business lines and new business priorities to support rapid business expansion. It also actively explored merger and acquisition opportunities both domestically and overseas and made continued improvements in its integrated service offerings and service capabilities in various industry clusters.

Main Investment Projects

- On drilling fluid, the Group aims at the huge market potential of drilling fluid service in China, particularly for the technically challenging operations in the Tarim Basin. It had developed a long-term strategy for drilling fluid service and quickly built up a service presence. In 2012, the Group forged a strategic alliance with MI-SWACO, a global leader in drilling fluid technology, to provide world-class drilling fluid service for its clients. At the same time, the Group moved swiftly to create a lab and a mud plant in the Tarim Basin to enable R&D and production as well as provide drilling fluid express recovery, storage and processing services, aiming to offer its clients the most effective, convenient and economical sets of solutions. In addition, through the Bazhou project, the Group assembled a strong team of experienced drilling fluid engineers to support rapid expansion in the high-end segment of drilling fluid service.
- On directional drilling, the Group in 2012 broadened its international supplier base and signed strategic partnership agreements with domestic suppliers on the purchase of directional drilling apparatus. Through more comprehensive comparisons, product performance was optimized, delivery cycle shortened and purchasing cost reduced. Meanwhile, the Group started the in-house manufacturing of quick-wear parts to bring down the total cost. During the reporting period, it invested in the addition of 10 directional drilling operation units. As at 31 December 2012, the Group had completed construction of 20 operation units, 15 of which were deployed in China and 2 in the Middle East and 3 in Central Asia.
- On coiled tubing, the Group in 2012 added 1 coiled tubing operation unit which was formed in October in 2012 and was then put into service in the domestic market. As at 31 December 2012, the Group had 5 active coiled tubing operation units, of which 3 were deployed in China and 2 in the Middle East. An additional 2 units are being built and will likely become complete during the first half of 2013, by which time, the Group will have had total service capacity comprising 7 coiled tubing operation units.
- On tubular helium testing, the Group in 2012 created 2 additional tubular helium testing operation units. As of 31 December 2012, the Group had 11 such units. 1 additional unit is being built and will likely be made ready during the first quarter of 2013.
- On pressure pumping — which is a new business priority identified for 2012, the Group made active investment to consolidate its competencies around the equipment and materials needed for pressure pumping. As of 31 December 2012, the set of twelve 2,000-model pressure pumping equipment purchased as the first phase construction had been delivered and passed the acceptance check, which generated a combined service capacity of 24,000 HHP. The Group quickly unlocked the domestic market to service tight gas projects in China and in order to meet the growing demand in overseas markets, the Group had shipped out two trucks. In light of the robust momentum in this segment, the Group had signed strategic partnership agreements with leading Chinese fracturing equipment manufacturers to minimize purchasing costs, shorten the delivery lead time and secure equipment supply. In late 2012, the Group commenced investments into the second phase construction under which the newly purchased equipment will arrive on a phased basis throughout 2013, bringing the Group's combined service capacity to a total of 62,000 HHP upon completion. Meanwhile, the Group is investing in materials service capacity in pressure pumping, which will, together with the equipment, contribute to an integrated pressure pumping solution.
- On tubular services, the Group responded to the growing demand for drilling tools leasing by contracting strategic suppliers with large-volume orders for drill pipes. This approach resulted in lower purchasing costs and extended payment cycles, supporting the growth of the tubular leasing business and making a further move ahead in formulating the one-stop tubular services.

- On industrial bases, the Group in 2012 successfully executed the construction plans both in China and abroad. In the domestic market, the Group diversified its strategic partnerships on infrastructure construction, seeking to reduce the Group's investment in non-core assets. Overseas, the first phase construction of on-site service bases for both Al-Ahdab oilfield and Halfaya oilfield in Iraq had been completed, providing an effective support to the frontline operations abroad.

R&D Resource Alignment

Based on its strategic needs, the Group made research investments in key technologies required for the development of all business clusters with emphases on the research of self-developed products with an objective of increasing the number of self-developed products, enhancing operating efficiency, and reducing development costs for customers. During the reporting period, the Group formulated and launched a research incentive program which granted awards for outstanding contributions in research projects. The program successfully incentivized its scientific research and technical staff to excel in technological reform and R&D. Throughout the year, the Group made investments of RMB 88.5 million on R&D, an increase of 25.9% as compared to RMB70.3 million in the corresponding period last year, RMB22.2 million of which was accounted for intangible assets and RMB66.3 million accounted for R&D expenses. During the reporting period, the Group obtained in aggregate 46 patent rights, increasing the total number of the Group's patent rights to 371.

Major R&D Projects

- Research on sidetracking slim hole technologies for horizontal well drilling and well completion. The Group successfully completed the integrated drilling projects of sidetracking window opening, sidetracking horizontal well drilling and completion technologies for 4 inch slim hole, the first case in China, demonstrating an established technical leadership with on-site service capacity in China.

- Research on segregated completion and selective steam injection technologies for horizontal wells. The Group has worked out advanced segregated completion and selective segregated steam injection technologies. It successfully developed high-temperature resistant (≥ 270 ℃) external casing packers and steam injection tools, high-temperature resistant liquid expansion packers, which were successfully applied to four heavy oil wells. The selective steam injection technology was the first case in China and attained a leading domestic standard with promising market prospects.

- After over 100 experiments, Anton PBL intelligent well completion technology has now completed both oil and water experiments, high pressure filling experiments and high density media filling experiments, satisfying the technical requirements of well filling operations under different geological conditions, with indoor successful rate reaching 80%.

- Research on coiled tubing water drainage and gas production technology. The Group conducted proprietary research on some equipment and tools and has mastered the key technologies for coiled tubing water drainage and gas production. We now possess the ability to pull out velocity strings and implement large-scale promotion and application.

- Research and production of large-size tubular helium testing tools for underground gas storage facilities. The Group successfully completed the research and production of 13 3/8 inch casing and 10 3/4 inch casing which were put into use in well testing. This is an safe and reliable advanced technology, and is now in the on-site promotion stage. It provided further technical support to the Group in rapidly expanding integrated projects for the underground gas storage facility market.

- Research on oilfield acidizing etchant. Through scientific and technological research, the Group developed corrosion inhibitor series products which are well compatible with strata ion, heat-resistance and with good performance. This will help improve the Group s technical services capacity in the oilfield chemicals sector.

Human Resource Alignment

The development of human resources is of critical importance in supporting the development of an oilfield technical service company, and the Group's fast business growth demands even stricter requirements on the build-up of a systematic human resource structure. In 2012, adhering to the philosophy of "Talents First" and placing a focus on supporting the international business development strategy, the Group developed as well as improved the systemic mechanism in human resource management, continued the efforts to strengthen talent acquisition and further optimized measures in training, attaining and incentivizing talents, so as to provide the Group with prospective human resource reserves of strategic significance and lend an effective talent support to its rapid business expansion and long-term development. As of 31 December 2012, the Group had 1,613 permanent staff in total, an increase of 27.8% as compared with 1,262 at the end of last year. Among those employees, 701 were engineers (end-2011: 514), 504 on-site technical staff (end-2011: 447), 203 marketing personnel (end-2011: 178) and 205 management personnel (end-2011: 123). The number of senior engineers and management personnel of mid- and senior-level or above accounted for about 25.6% of the total staff headcounts.

Major Development in Human Resources

- In 2012, the Group further enriched its human resource pool and kicked off implementation of its strategy in talent acquisition and development in a comprehensive manner. During the reporting period the Group hired senior international personnel to lead its human resources management, paving the way for introducing international management practice to support the Group's global expansion strategy. More importantly, large batches of industry-leading talents were introduced in every new service area and continuous efforts were made to attract and recruit people with leadership potential and established international sector experience. That development in human resources was extended to the departments of new drilling technology, directional drilling, drilling fluid, pressure pumping and new materials, promoting the diversity of its talent development. During the reporting period, the Group hired 226 talents with established experience, comprising seasoned professionals and on-site engineers with rich work experience. In the meantime, 225 university graduates were recruited from both domestic and overseas campuses, and through the Group's internal training program those young talents also rapidly became a strong support to the Group's business growth.

- The Group worked with Hewitt Associates, a renowned global business consulting firm, to design the Group's organizational structure, position hierarchy, compensation system linked with individual performance and the training system for the following three to five years, which is aligned with the Group's strategy and the best practices of world-leading oil service companies. It also built up a system to develop onsite engineers and increased efforts to identify potential managers in preparation for future acquisition and training of talents.

- The Group further improved the incentive system to motivate the achievement of performance targets. In 2012, the Group introduced a remuneration system based on performance review, where performance assessment is measured against various strategic indicators and aligned with the reward and penalty in the employee remuneration so as to motivate the employees to meet and exceed the indicators. During the reporting period, most employees have outperformed their targets, leading to noticeable improvement in direct cost savings and enhanced capital efficiency.

- The Group made a system-wide improvement in developing a culture conducive to growing onsite engineers. Onsite engineers are often the interface of oilfield technology service companies to directly serve clients, and their quantity and quality have a direct effect on the speed of response and quality of services delivered to the clients. On top of that, onsite engineers serve as a talent pool supplying an oilfield technology service's human resource needs as a large number of senior talents grew from onsite engineers. Therefore, building a system and corporate culture that facilitates the development of onsite engineers constitutes the core part of the Group's HR strategy. In 2012, the Group reviewed the job descriptions, performance targets and relevant remuneration structure, ranking, leave days and day-to-day management of on-site engineers across the Group and incorporated the nurturing, mentoring and motivation of onsite engineers as a key component of the Group's HR strategy. It introduced formalized processes to feature onsite engineers prominently in the Group culture and brand them as a core competitive advantage.

- In 2012, the Group granted a total of 61,949,076 ordinary share options of the Company to over 170 high-performing talents and core staff. Among the total share options awarded, 40,000,000 are exercisable at a price of HKD 1.072 per share, 6,000,000 at HKD 1.24 per share, 7,100,000 at HKD 1.16 per share, 8,720,276 at HKD 2.61 per share and 128,800 at HKD 3.82 per share.

Outlook

Looking ahead into 2013, the Group expects accelerated growth in demand in the major markets under its current service coverage. In China, the Chinese government has re-affirmed its commitment to promoting natural gas development through the official release of the 12th Five-Year Plan for the gas industry and 2013 will prove critical in achieving the specific goals formulated by the authorities. To realize the defined target, the government is believed to make escalated efforts in speeding up various reforms in the natural gas industry and introduce additional opening-up initiatives allowing more investment entities to participate in the development. Aside from the continued drive in tapping conventional resources, a particular focus will be placed on exploring and developing the unconventional natural gas, signaling a remarkable increase in the E&P activities made by major oil and gas companies in the country's key onshore basins including the Tarim, Erdos and Sichuan Basins. Overseas, the Group foresees an accelerated move by Chinese investors to deploy strategic resources on a global scale, and as a number of their projects acquired previously entered into the phase of production commencement or capacity extensions, there will be a robust growth in demand for oilfield services. The Middle East and South America, in particular, will remain as an attractive destination for Chinese investors to develop energy resources.

In view of the market development trends, the Group will stay committed to serving the natural gas market in China while placing a particular emphasis on providing services for projects associated with the development of unconventional resources, including shale gas. At the same time, it would seek to establish strategic partnerships with state-owned oilfield service companies to which the Group's service offerings are a strong addition, so as to effectively explore the full market potential and facilitate the Group's drive in further consolidating its market leadership in the Tarim Basin, Erdos Basin and Sichuan Basin. In the overseas market, the Group will stick to the "follow-up" strategy, strengthen its foothold in the existing markets, expand service offerings based on clients' requirements and further increase the business volume in the Middle East. In consideration of the active investment up-trend in South America, the Group will seek to make a further stride in expanding its business in South America where it has gained a breakthrough. In addition, the Group will look to start cooperation with national oil companies based abroad to further expand its client base.

In 2013, the Group will maintain its product strategy that emphasized on growing the oil and gas field development technical services while independently developing the tubular services. In oil and gas field development, the Group will ramp up and further enhance its regular-service capacity according to the market demand characteristics, and comprehensively push ahead with the shift towards the integrated-service model with regular services driven by technical services targeting high-end markets from a sole focus on services for high-end markets. This strategy in particular involves providing stimulation services to address client's challenges when facing output constraints, and providing integrated services to address clients' challenges in drilling engineering and efficiency enhancement. More specifically, in the drilling technology cluster, the Group will grow the turnkey drilling business through the addition of land rigs, the Group will also view the IPM joint venture company with Schlumberger as a marketing platform to acquire more large amount integrated service contracts to promote its integrated turnkey business, while broadening the application of oil-based drilling fluid service in extended regions and markets and apply directional drilling to the regular service market; in the well completion cluster, strengthen the buildup of in-house capacity in well-completion tools in an all-round manner; in the downhole operation cluster, continue to invest in pressure pumping and coiled tubing capacity and promote the self-developed new materials and chemical products. In the meantime, the Group will invest in the leasing resources and vigorously develop the leasing business in the tubular services cluster. On top of that, the oil and gas development department will also actively participate in the evaluation of low-yield blocks, aiming to propel the development of its integrated services. The Group has put more resources in Anton Research Institute to emphasize its role to promote business development from a technology-driven point of view. The new institute will interface with investors in shale gas and, from a geological and reservoir analysis perspective, provide professional support and services with regard to the reservoir evaluation issues in the early E&P stage of shale gas and advise them on the development strategy in a bid to promote the development of shale gas.

In human resources development, the Group will actively acquire industry-leading talents with international experience in core areas as well as strengthen talent identification and training for the management pipeline; and at the same time recruit graduates on a massive scale and turn them into onsite engineers after short-term trainings so as to provide a solid backup for the Group's site operations, and establish a long-term human resources strategic framework to support its sustainable business growth.

In general management, the Group continues to be committed to acheiving better corporate governance. In this regard, the Group announced the addition of the executive vice-president of Schlumberger as a non-executive director of the Board to make a step forward with its corporate governance pratice. In the meantime, as a commitment to strengthening its QHSE management, the Group has formed a QHSE committee in the Board with the newly-joined non-executive director from Schlumberger to be the chairman of the committee, serving to bring the world's leading standards in QHSE to the Group. In informatization, the Group is making full efforts to build up the informatization system through working with an IT service provider, Atos Origin, with good knowledge of the international oilfield service companies' best practice, to support its long-term growth.

In terms of financial strategy, the Group aims to maintain a fast growth in revenue and stable profitability, while sustaining the enhancement of capital efficiency. The Group will realize such objectives through developing new products and services, exploring new markets and making intensified efforts in cost controls and efficiency enhancement. At the same time, the Group will utilize different debt financing channels including MTN issuance, supply chain financing and financial leasing to provide adequate sources of capital for the Group's business development.

In conclusion, in anticipation of robust demands from both the domestic and overseas markets, the Group will precisely position clients' needs and subsequently make timely addition of its service offerings as guided by its long-term strategy, so as to provide one-stop technical service solutions that effectively suit the clients' demand. In the meantime, the Group will further enhance its soft power by prioritizing the talent pool buildup, corporate culture and informatization, to cement a concrete foundation towards becoming a leading global oilfield service company with a strong foothold in China.

FINANCIAL REVIEW

In order to provide investors with a more direct analysis of the Group's cost structure, the Group has since 2012 adopted an accounting format consistent with its internal management, which classifies costs and expenses by function instead of classification by nature as in previous disclosures. The new format helps investors to better analyze direct cost of sales and major expenses.

Revenue

The Group's revenue in 2012 amounted to RMB2,004.6 million, representing an increase of RMB745.7 million or 59.2% as compared to RMB1,258.9 million in 2011. The increase of the Group's revenue was mainly attributable to the rapid growth in demand from domestic natural gas market and overseas market and a surge in overall business driven by the Group's successful market and product strategies.

Cost of Sales

The operating costs of sales in 2012 increased to RMB1,103.3 million, representing an increase of 49.9%, from RMB736.0 million 2011. The increase was mainly attributable to the increase in revenue.

Other Gains

Other gains in 2012 increased to RMB10.6 million from RMB2.2 million in 2011. The increase was mainly attributable to the increase in government subsidies.

Selling Expenses

The selling expenses in 2012 amounted to RMB154.5 million, representing an increase of RMB50.4 million or 48.4% as compared to RMB104.1 million in 2011. This was mainly attributable to the Group's expanded business operations.

Administrative Expenses

The administrative expenses in 2012 amounted to RMB260.0 million, representing an increase of RMB95.2 million or 57.8% as compared to RMB164.8 million in 2011. This was mainly attributable to the Group's expanded business operations.

R&D Expenses

The R&D expenses in 2012 amounted to RMB66.3 million, representing an increase of RMB13.0 million or 24.4% as compared to RMB53.3 million in 2011. This was mainly attributable to the Group's increased investment in research and development.

Sales Tax and Surcharges fees

The sales tax and surcharge fees in 2012 amounted to RMB33.1 million, representing an increase of RMB5.1 million or 18.2% as compared to RMB28.0 million in 2011. The increase was mainly due to an increase in sales tax taxable income of the Group.

Operating Profit

As a result of the foregoing, the operating profit of the Group in 2012 amounted to RMB398.0 million, representing an increase of RMB223.1 million or 127.6% as compared to RMB174.9 million in 2011. The operating profit margin for the Year was 19.9%, representing an increase of 6.0 percentage points from 13.9% in 2011.

Finance Costs (Net)

Net finance costs in 2012 was RMB30.6 million, an increase of approximately RMB14.5 million as compared to 2011. The increase was mainly due to the increased liabilities used for the Group's strategic resource alignment including the fixed-asset investment.

Share of Loss or Profit of a Jointly Controlled Entity

The share of loss or profit of a jointly controlled entity was nil in 2012.

Impairment Loss of Long-term Investment in Jointly Controlled Entity

This item was nil in 2012.

Income Tax Expense

Income tax expense in 2012 amounted to RMB49.7 million, representing an increase of approximately RMB28.9 million from 2011, mainly due to an increase of operating profit as a result of business growth.

Profit for the Year

As a result of the foregoing, the Group's profit for 2012 was RMB317.7 million, representing an increase of RMB226.0 million, or 246.5%, from 2011.

Profit Attributable to Equity Holders of the Company

The Group's profit attributable to equity holders of the Company in 2012 amounted to approximately RMB302.6 million, representing an increase of approximately RMB225.3 million, or 291.5%, from 2011.

Trade and Notes Receivables

As at 31 December 2012, the Group's net trade and notes receivables were approximately RMB948.3 million, representing an increase of RMB277.3 million as compared to 31 December of 2011. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in 2012 were 134 days, representing a decrease of 44 days as compared to 2011. This was mainly attributable to the Group's strengthened management of receivables collection.

Inventory

As at 31 December 2012, the Group's inventory was RMB487.0 million, representing an increase of RMB215.6 million as compared to 31 December 2011, mainly due to the Group's expanded business operations.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2012, the Group's cash and bank deposits amounted to approximately RMB539.0 million (including: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing an increase of RMB61.5 million as compared to 31 December 2011.

As at 31 December 2012, the Group's outstanding short-term bank loans amounted to RMB191.6 million and the Group's outstanding long-term bank loans due within one year amounted to RMB20.0 million. Credit facilities granted to the Group by domestic banks in China amounted to RMB530.0 million, of which approximately RMB434.0 million were not used. The aggregate principal amount of Medium-term Notes registered at the National Association of Financial Market Institutional Investors totals RMB 500.0 million, of which RMB 300.0 million has been issued and RMB 200.0 million remains unused.

As at 31 December 2012, the gearing ratio of the Group was 37.4%, representing an increase of 12.5 percentage points from the gearing ratio of 24.9% as at 31 December 2011. This was mainly due to the increase in bank loans, trade payables and notes payables and net debt including borrowings and trade and notes payables. It is also because total capital was calculated as equity plus net debt.

The equity attributable to equity holders of the Company increased from RMB1,666.1 million in 2011 to RMB1,971.9 million as at 31 December 2012. The increase was mainly due to the increase in profit for the year.

EXCHANGE RISK

The Group mainly conducts its business in RMB. Some imported and exported goods require to be settled in foreign currencies. The Group believes that the exchange risk involved in the settlement amounts being denominated in foreign currencies is insignificant. The exchange risk of the Group mainly arises from its foreign currency deposits and trade receivables denominated in foreign currencies. Any fluctuations in RMB exchange rate against US dollars may have a negative impact on the Group's operating results and financial position.

CASH FLOW FROM OPERATING ACTIVITIES

As at 31 December 2012, net cash inflow from operating activities of the Group in 2012 amounted to RMB349.6 million, representing an increase of RMB129.2 million compared to 2011. This was mainly because of such factors as the enhanced capital efficiency and the further reduction of trade receivables turnover days.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for 2012 was RMB278.4 million, of which, investments in fixed assets were RMB230.0 million, investments in intangible assets (including land use rights) were RMB43.4 million and the balance payment for the equity investments of prior years was RMB5.0 million.

The Group has budgeted approximately RMB400.0 million for capital expenditure in 2013, which will be used in investments in stimulation equipment, equipment to facilitate the integrated services, and for the purpose of strengthening in-house capacity.

CONTRACTUAL LIABILITY

The Group's contractual commitments mainly consist of payment obligations under the Group's operating lease arrangements and capital commitments. The Group leases offices and certain equipment and machinery through operating leases. As at 31 December 2012, the Group's operating lease commitments amounted to approximately RMB4.8 million. As at the balance sheet date (31 December 2012), the Group had capital commitments of approximately RMB289.4 million, which was not provided for in the balance sheet.

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 arrangement.

DIRECTORS' REPORT

The Board of the Company is pleased to present the Directors' Report together with the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group provides oil and gas field development technical services, and tubular services covering the entire life cycle of oil and gas field development, including drilling, well completion and oil production.

RESULTS OF OPERATIONS

The financial results of the Company for 2012 are set out on pages 79 to 144 of this Annual Report.

FIVE YEAR FINANCIAL SUMMARY

The five year financial summary of the Company is set out on pages 8 to 9 in the section "Financial Summary" of this Annual Report.

DIVIDENDS

At the Board meeting held on 15 March 2013, the Board recommended a payment of a final dividend for the year ended 31 December 2012 of RMB0.0456 per share, totaling RMB97.6 million (2011: RMB0.0170 per share, totaling RMB35.7 million).

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 9 to the financial statements of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Company accounted for approximately 16.9% and 46.6% respectively of the Company's revenues for the year ended 31 December 2012.

For the year ended 31 December 2012, the total amount of purchases made by the Company from its five largest suppliers amounted to RMB419.6 million, and accounted for 35.8% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB122.0 million, and accounted for 10.4% of the total purchases for the year. One of the five largest suppliers of the Group is an affiliate of Schlumberger NV, a substantial shareholder of the Group. Save as disclosed, as far as the Company is aware, none of the Directors, their associates and shareholders who are interested in more than 5% of the share capital of the Company has any interest in the five largest suppliers and customers.

PROPERTY, PLANT AND EQUIPMENT

Additions to the property, plant and equipment of the Company for the year ended 31 December 2012 totaled RMB431.2 million. Details of movements are shown under Note 6 to the financial statements of this Annual Report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 15 to the financial statements of this Annual Report.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive right under the Articles of Association of the Company and the Cayman Islands laws, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

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

RESERVES

Details of movements in the reserves of the Company during the year ended 31 December 2012 are set out in Note 16 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the aggregate amount of reserves which is available for distribution to the equity shareholders of the Company was RMB804.1 million.

DIRECTORS

The Board of the Company during the year and up to the date of this Annual Report are:

Executive Directors	
Mr. Luo Lin	(appointed on 3 August 2007)
Mr. Wu Di	(appointed on 22 March 2010)
Mr. Liu Enlong	(appointed on 16 May 2011)
Non-executive Directors	
Mr. Jean Francois Poupeau	(appointed on 21 January 2013)
Independent Non-executive Directors	
Mr. Zhang Yongyi	(appointed on 17 November 2007)
Mr. Zhu Xiaoping	(appointed on 17 November 2007)
Mr. Wang Mingcai	(appointed on 17 November 2007)

The biographical details of the Directors and senior management are set out under the section "Profiles of Directors and Senior Management" of this Annual Report.

In accordance with Article 130 of the Articles of Association, Mr. Wu Di, an executive Director, being eligible, has offered himself for re-election at the forthcoming Annual General Meeting.

In accordance with the letters of appointment for all independent non-executive Directors of the Company, Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai, independent non-executive Directors, being eligible, have offered themselves for re-election at the forthcoming Annual General Meeting.

In accordance with Article 114 of the Articles of Association, the non-executive Director, Mr. Jean Francois Poupeau, being eligible, has offered himself for re-election at the forthcoming Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Mr. Luo Lin, being the Executive Director, has entered into a service contract with the Company for a term of three years commencing from 17 November 2010, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Wu Di, being the Executive Director, has entered into a service contract with the Company for a term of three years commencing from 4 March 2010, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Liu Enlong, being the Executive Director, has entered into a service contract with the Company for a term of three years commencing from 16 May 2011, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Jean Francois Poupeau, being the Non-executive Director, has entered into the letter of appointment with the Company for a period of 3 years commencing from 21 January 2013, subject to retirement by rotation at the AGM of the Company in accordance with the Company's Articles of Association.

The letter of appointment of each of Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai, being the Independent Non-executive Directors, has been renewed by the Company for a term commencing from 16 May 2011 up to the date of the next AGM, which may be terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, no Director for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

DIRECTORS' INTEREST IN MATERIAL CONTRACTS

There was no contract of significance connected to the business of the Group to which the Company, its subsidiaries, or its holding company or any of its fellow subsidiaries was a party and in which any director of the Company had a direct or indirect material interest, subsisting at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Jean Francois Poupeau is an Executive Vice President of Schlumberger Limited, the world's leading oilfield services company, which is engaged in similar business nature as the Company.

Save as disclosed above, none of the Directors and their respective associates (as defined in the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the 'Listing Rules')) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Pro Development Holdings Corp., which is beneficially controlled by Mr. Luo Lin, the Executive Director, and Mr. Luo Lin is the controlling shareholder of the Company.

The controlling shareholder and the Executive Directors have provided an annual confirmations in respect of the compliance with non-competition undertaking given by them.

The Independent Non-executive Directors have also reviewed the compliance by the controlling shareholder and the Executive Directors with the Non-competition Undertaking during the year. The Independent Non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of the controlling shareholders and the Executive Directors of the Non-competition Undertaking given by them.

REMUNERATION OF DIRECTORS

In compliance with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules, the Company has established a remuneration committee to formulate remuneration policies. Directors' remuneration are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties and responsibilities, the recommendations of the remuneration committee and the performance and results of the Group. Details of the remuneration of the Company's Directors are set out in Note 27 to the financial statements of this Annual Report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and the Company considers that Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai to be independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATAED CORPORATION

As at 31 December 2012, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers of the Listing Rules (the "Model Code") were as follows:

(i) Long positions in ordinary shares of HK$0.10 each:

Name of director	Note	Capacity	Number of ordinary shares	Approximate percentage of shareholdings
Luo Lin	1	Founder of a discretionary trust and beneficial owner	705,334,150	33.04%

Notes:

1. Mr. Luo Lin is the founder of the Loles Trust, which is indirectly interested in the entire issued share capital of Pro Development Holdings Corp., which in turn is interested in 696,946,150 shares of the Company. Mr. Luo Lin and his family members are the beneficiaries of the Loles Trust. Mr. Luo Lin also holds 8,388,000 shares in the capacity of a beneficial owner.

(ii) Long positions in underlying shares of share options:

The Directors of the Company have been granted options under the Company's share option scheme, details of which are set out in "Share Option Scheme" below.

Save as disclosed above, at no time during the year ended 31 December 2012, the Directors and chief executive (including their spouses and children under 18 years of age) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, so far as is known to any Director or the chief executive, the shareholders, other than the Directors or the chief executive of the Company, who had an interest or short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the shares or underlying shares of the Company:

Name	Note	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Credit Suisse Trust Limited	1	Trustee	696,946,150	32.65%
Seletar Limited	1	Trustee	696,946,150	32.65%
Serangoon Limited	1	Trustee	696,946,150	32.65%
Avalon Assets Limited	1	Trustee	696,946,150	32.65%
Pro Development Holdings Corp.	1	Beneficial owner	696,946,150	32.65%
Schlumberger NV	2	Interest of controlled corporation	423,361,944	19.83%

Notes:

1. The 696,946,150 shares referred to the same batch of shares.

2. Schlumberger Far East, Inc. directly holds 423,361,944 shares of the Company. Schlumberger Far East, Inc. is a wholly-owned subsidiary of Schlumberger Holding Limited. Schlumberger Holding Limited is a wholly-owned subsidiary of Schlumberger Oilfield Holding Limited. Schlumberger Oilfield Holding Limited is a wholly-owned subsidiary of Schlumberger NV.

Save as disclosed above, as at 31 December 2012, so far was known to the Directors, no other persons (other than the Directors or chief executives) had an interest or short position in the shares and underlying shares of the 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 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company conditionally adopted its share option scheme on 17 November 2007 and amended its terms on 27 May 2010 (the "Share Option Scheme"). The share option scheme shall be valid and effective for a period of 10 years from 17 November 2007, subject to early termination by the Company in a general meeting or by the Board. The purpose of the Share Option Scheme is to grant option to the eligible participants in recognition and acknowledgement of their contributions made or to be made to the Group. Under the Share Option Scheme, the Board may offer to grant an option to any director or employee, or any advisor, consultant, suppliers, customers or agents.

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

The maximum number of shares available for issue under options which may be granted under the Share Option Scheme or other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares in issue as at the date of approval of the Scheme limit (i.e., 27 May 2010), being 209,305,400 shares.

As at the date of this Annual Report, the total number of shares available for issue which includes share options available to be granted and outstanding options under the share option scheme was 163,088,415 shares (2011: 165,010,067shares) representing 7.62% (2011: 7.85%) of the issued share capital of the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue as at the date of grant unless approved by the shareholders in general meeting.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be determined by the Board provided that it shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, (ii) the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

As at 31 December 2012, the Directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company under the Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company of HK$0.10 each.

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share HK$	Note	Number of share options as at 1 January 2012	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options lapsed during the year	Number of share options as at 31 December 2012
Directors										
Zhang Yongyi	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	1,400,000				1,400,000	0
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2, 9	500,000					500,000
	19 Jan 2012	19 Jan 2013 to 18 Jan 2015	1.072	2, 11		500,000				500,000
				Sub total:	1,900,000	500,000			1,400,000	1,000,000
Zhu Xiaoping	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	1,200,000				1,200,000	0
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 6	300,000		300,000			0
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2, 9	500,000					500,000
	19 Jan 2012	19 Jan 2013 to 18 Jan 2015	1.072	2, 11		500,000				500,000
				Sub total:	2,000,000	500,000	300,000		1,200,000	1,000,000
Wang Mingcai	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	1,000,000				1,000,000	0
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 6	600,000		600,000			0
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2, 9	500,000					500,000
	19 Jan 2012	19 Jan 2013 to 18 Jan 2015	1.072	2, 11		500,000				500,000
				Sub total:	2,100,000	500,000	600,000		1,000,000	1,000,000
Luo Lin	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 6	2,000,000					2,000,000
	9 Apr 2010	9 Apr 2011 to 8 Apr 2014	0.750	1, 7	80,000					80,000
	20 May 2011	20 May 2012 to 19 May 2015	1.450	1, 9	2,000,000					2,000,000
	19 Jan 2012	19 Jan 2013 to 18 Jan 2016	1.072	1, 11		100,000				100,000
	18 Jun 2012	18 Jun 2013 to 17 Jun 2016	1.160	1, 13		1,900,000				1,900,000
				Sub total:	4,080,000	2,000,000				6,080,000

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share HK$	Note	Number of share options as at 1 January 2012	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options lapsed during the year	Number of share options as at 31 December 2012
Wu Di	20 May 2011	20 May 2012 to 19 May 2015	1.450	1, 9	1,100,000					1,100,000
	19 Jan 2012	19 Jan 2013 to 18 Jan 2016	1.072	1, 11		900,000				900,000
	18 Jun 2012	18 Jun 2013 to 17Jun 2016	1.160	1, 13		100,000				100,000
				Sub total:	1,100,000	1,000,000				2,100,000
Liu Enlong	20 May 2011	20 May 2012 to 19 May 2015	1.450	1, 9	1,100,000		366,000			734,000
	19 Jan 2012	19 Jan 2013 to 18 Jan 2016	1.072	1, 11		900,000				900,000
	18 Jun 2012	18 Jun 2013 to 17 Jun 2016	1.160	1, 13		100,000				100,000
				Sub total:	1,100,000	1,000,000	366,000			1,734,000
Employees in aggregate	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	5,250,000				5,250,000	0
	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 6	16,578,000		11,157,333		502,667	4,918,000
	9 Apr 2010	9 Apr 2011 to 8 Apr 2014	0.750	1, 7	26,380,000		13,239,662		2,570,668	10,569,670
	23 Nov 2010	23 Nov 2011 to 22 Nov 2014	0.760	4, 8	10,000,000		1,098,000			8,902,000
	20 May 2011	20 May 2012 to 19 May 2015	1.450	1, 9	33,150,000		6,602,332		3,818,000	22,729,668
	25 July 2011	25 July 2012 to 24 July 2015	1.506	3, 10	500,000					500,000
	19 Jan 2012	19 Jan 2013 to 18 Jan 2016	1.072	1,11		36,600,000			400,000	36,200,000
	16 Apr 2012	16 Apr 2013 to 15 Apr 2016	1.240	4,12		6,000,000				6,000,000
	18 Jun 2012	18 Jun 2013 to 17 Jun 2016	1.160	4,13		5,000,000				
	22 Nov 2012	22 Nov 2013 to 21 Nov 2016	2.610	4,14		8,000,000				
		22 Nov 2013 to 21 Nov 2016	2.610	1,14		720,276				
	28 Dec 2012	28 Dec 2012 to 27 Dec 2016	3.820	1,15		128,800				
				Sub total:	91,858,000	56,449,076	32,097,327		12,541,335	103,668,411
				Total:	104,138,000	61,949,076	33,363,327		16,141,335	116,582,414

Notes:

1. The option period for the share options granted above commences on the date of grant and ends on the last day of forty-eight months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to one-third of their share options during the option period commencing from each of first, second and third anniversaries of the date of grant.
2. The option period for the share options granted above commences on the date of grant and ends on the last day of thirty-six months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to 50% of their share options during the option period commencing from each of first and second anniversaries of the date of grant.
3. The option period for the share options granted above commences on the date of grant and ends on the last day of forty-eight months counting respectively from the said date. The grantees are vested with, and entitled to exercise all of their share options during the period commencing from the first anniversary of the date of grant until the expiry date.
4. The grantee may not exercise the options to purchase shares until after 12 months from the date of grant. If the grantee has worked for less than 12 months, all options of the grantee will lapse automatically and will no longer be exercisable. If the grantee has worked for 36 months or above, the grantee can exercise all options. If the grantee has worked for 12 months or above but less than 36 months, the number of effective options the grantee actually obtains is "the number of options granted X the number of working quarters of the grantee/12 (only the number of full quarters is counted)". The remaining options will lapse automatically. All options are entitled to be exercised before the forth anniversaries of the date of grant.
5. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.63*.
6. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.63*.
7. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.75*.
8. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.76*.
9. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.44*.
10. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.52*.
11. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.08*.
12. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.28*.
13. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.16*.
14. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$2.60*.
15. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$3.70*.

* Source from Bloomberg

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the sufficiency of public float requirement as specified in the Listing Rules to the date of this Annual Report.

TAXATION

For the year ended 31 December 2012, no foreign shareholder who is not resident of the PRC is liable for individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owing and disposing of the Company's shares.

DONATION

For the year ended 31 December 2012, the Company contributed a total of RMB2.04 million as charitable and other donations. In the future, the Company will continue to fulfill its commitment to be an enterprise with sound social responsibilities.

RELATED PARTY/CONNECTED TRANSACTIONS

The related party transactions for the year ended 31 December 2012 are set out in Note 35 to the Financial Statements of this Annual Report. On 6 July 2012, Schlumberger NV, through its wholly-owned subsidiary Schlumberger Far East Inc. ("Schlumberger"), acquired 423,361,944 Shares in the Company and became a substantial shareholder and hence a connected person of the Company for the purpose of the Listing Rules. Schlumberger and its associates have entered into contracts with the Group prior to its becoming a connected person of the Company and such transactions are not connected transactions of the Company under the Listing Rules.

On 13 September 2012, Anton Oilfield Services (Group) Limited ("Anton Oil"), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Schlumberger Oilfield (S) Pte. Ltd. ("Schlumberger Oilfield") to establish a joint venture to engage in the provision of integrated project management services for major oil and gas exploration and development projects in the PRC's onshore market. The joint venture has a registered capital of US$12 million and will be contributed as to 40% by Anton Oil and as to 60% by Schlumberger Oilfield. As Schlumberger Oilfield is a wholly owned subsidiary of Schlumberger NV, a substantial shareholder of the Company since July 2012, the establishment of the joint venture constitutes a connected transaction of the Company for the purpose of the Listing Rules.

POST BALANCE SHEET EVENTS

At a meeting held on 15 March 2013, the Board recommended a final dividend to be paid out of the share premium account of the Company in respect of the year ended 31 December 2012 of RMB0.0456 per share, totaling RMB97.6 million (2011: RMB0.0170 per share, totaling RMB35.7 million). This dividend is subject to the approval of shareholders at the AGM to be held on 3 June 2013, and compliance with the Companies Law of the Cayman Islands.

The Company has repurchased a total of 2,124,000 shares of the Company on the Stock Exchange during March and April 2013.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

There was no significant change in the Company's constitutional documents during the year ended 31 December 2012.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Mr. Wang Mingcai. The Audit Committee of the Company has reviewed the audited financial statements for the year ended 31 December 2012.

AUDITORS

The Company has appointed PricewaterhouseCoopers as the auditors of the Company for the year ended 31 December 2012. PricewaterhouseCoopers has conducted the audit of the financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS"). A resolution for their re-appointment as auditors of the Company for the year ending 31 December 2013 will be proposed at the forthcoming AGM.

By the order of the Board

Luo Lin
Chairman

15 March 2013

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

LUO Lin (羅林), aged 46, is the Chairman and Chief Executive Officer and the founder of the Group and is responsible for the overall strategy of the Group. Prior to establishing the Group, Mr. Luo worked at the Tarim Basin and was the Deputy General Manager of a subsidiary of the Southwest Petroleum Bureau (西南石油局) responsible for marketing from 1992 to 1999. Mr. Luo has 21 years of experience in the petroleum industry. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院). Mr. Luo is also a certified lawyer and a chartered accountant in the PRC.

WU Di (吳迪), aged 46, is an Executive Director of the Company. Mr. Wu joined the Group in 2010. He is responsible for strategic marketing of the Group. Prior to joining the Group, Mr. Wu was employed by China National Petroleum Corporation (CNPC) between 1990 and 2010 and was appointed as the Chief Geologist of the Development Business Department of Tarim Oilfield Company (塔里木油田分公司) and the Director of its Development Department. He has more than 23 years of experience in the petroleum industry. Mr. Wu has a master's degree in oil and gas field development engineering from China University of Petroleum, Beijing and a bachelor's degree in oil reservoir engineering from Southwest Petroleum Institute (西南石油學院) , and is also a senior engineer with professorship.

LIU Enlong (劉恩龍), aged 51, is an Executive Director of the Company. Mr. Liu joined the Group in 2010. He is responsible for the management of the drilling technology cluster of the Group. Prior to joining the Group, Mr. Liu was employed by Canadian Energy Technology Company in 2005 responsible for technical services, employed by CNPC between 1982 and 2001 and appointed as the Deputy Manager and Chief Engineer of Tarim Oil Field No.4 Exploration Corporation (塔里木油田第四勘探公司) in 1997. He has more than 31 years of experience in the petroleum industry. Mr. Liu has a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院) and is also a senior engineer in well bore engineering.

NON-EXECUTIVE DIRECTROR

Mr. Jean Francois Poupeau, aged 51, is a Non-executive Director of the Company. Mr. Poupeau has over 27 years of oilfield services and drilling experiences in the global oilfield services industry. After obtaining a bachelor degree in Geology from the Tulane University of New Orleans, U.S.A. in 1983, and a master's degree in Petroleum Engineering from the same university in 1985, Mr. Poupeau joined Schlumberger Limited ("Schlumberger"), the world's leading oilfield services company. From July 2007 to May 2010, Mr. Poupeau was President of the Drilling and Measurements business segment of Schlumberger and from May 2010 to April 2012, Mr. Poupeau was the President of the Drilling Group of Schlumberger. Mr. Poupeau is currently an Executive Vice President of Schlumberger.

INDEPENDENT NON-EXECUTIVE DIRECTRORS

ZHANG Yongyi (張永一), aged 77, is an Independent Non-executive Director of the Company. Mr. Zhang has extensive experience in the petroleum industry. Mr. Zhang was appointed as the Deputy General Manager of CNPC in 1992. Prior to this, he had taught in the Southwest Petroleum Institute (西南石油學院) for more than 31 years. Mr. Zhang was appointed as Chairman of the Supervisory Committee for State-owned Large and Medium Enterprises (國有大中型企業監事會主席) in 2000 and appointed by the State Council of the PRC as inspector (國務院稽察特派員) in 1998.

ZHU Xiaoping (朱小平), aged 64, is an Independent Non- executive Director of the Company. Mr. Zhu has extensive experience in corporate finance and is currently an Accounting Professor of the Renmin University of China (中國人民大學). He has served as the Director of the China Accounting Society (中國會計學會理事) and Director of the China Audit Society (中國審計學會理事). Mr. Zhu is also a Director of Heilongjiang Agriculture Company Limited (黑龍江北大荒農業股份有限公司), Tibet Rhodiola Pharmaceutical Holding Company Limited (西藏諾迪康藥業股份有限公司), and China Resources Double-crane Pharmaceutical Co., Ltd. (華潤雙鶴藥業股份有限公司), all of which are listed on the Shanghai Stock Exchange, and Yotrio Group Co., Ltd (浙江永強股份有限公司), which is listed on the Shenzhen Stock Exchange.

WANG Mingcai (王明才), aged 68, is an Independent Non-executive Director of the Company. Mr. Wang has extensive experience in the petroleum industry, and is the General Manager and Chairman of the board of directors of Sino-U.S. Oil Development Corporation (中美石油開發公司). Mr. Wang has previously worked as the Vice Chief Engineer of Exploring and Development Bureau of China National Petroleum Company (中國石油天然氣總公司). He also held positions such as Vice General Manager of China National Oil & Gas Exploration and Development Corporation (中國石油天然氣堪探開發公司), President of CNPC Venezuela Corporation (中油國際委內瑞拉公司), Executive Director of CNPC (Hong Kong) Limited (中國 (香港)石油有限公司) (Stock Code: 0135), a company that has been listed on the Main Board of the Stock Exchange since 2001.

SENIOR MANAGEMENT

MA Jian (馬健), aged 45, is an Executive Vice-president of the Company. Mr. Ma joined the Group in 2002. He is responsible for marketing in the overseas market. He was responsible for business development of the Group in the early stage and marketing in the domestic market and various management operations. Prior to joining the Group, Mr. Ma worked at Halliburton China from 2000 to 2002 as a Well Bore Projects Manager. From 1991 to 1999, he worked as a Petroleum Engineer at the drilling company in Jianghan Oilfield (江漢油田鑽井工程處), and has 22 years of experience in the petroleum industry. Mr. Ma has a doctoral degree from China University of Petroleum and is a guest professor at Yangtze University (長江大學). Mr. Ma has a master's degree in business administration from Huazhong University of Science and Technology (華中科技大學) and a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

LI Bingnan (李冰南), aged 44, is an Executive Vice-president of the Company. Mr. Li joined the Group in 2002. He is responsible for the management of the well completion cluster of the Group and was responsible for the business development of the Group in the early stage, marketing in the northwest market, management of the tubular service cluster, and human resources management of the Group. Prior to joining the Group, Mr. Li was employed by Jianghan Petroleum Bureau (江漢石油管理局) between 1991 and 2002, and was appointed as a Manager for the environmental protection equipment plant of the Jianghan Petroleum Bureau in 2000. He has more than 22 years of experience in the petroleum industry. Mr. Li has an Executive Master of Business Administration (EMBA) degree from China Europe International Business School (CEIBS) and has a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

FAN Yonghong (范永洪), aged 42, is an Executive Vice-president of the Company. Mr. Fan joined the Group in 2004. He is responsible for the operation management, HSE system and information system of the Group. He was responsible for management of the well service business setup and of the business clusters of the Group. Prior to joining the Group, Mr. Fan was employed by Tarim Oilfield Company (塔里木油田分公司) between 1991 and 2004 and once served as the deputy section chief. He has 17 years of experience in the petroleum industry. Mr. Fan has an Executive Master of Business Administration (EMBA) degree from China Europe International Business School (CEIBS) and graduated from China University of Petroleum, majoring in petroleum engineering.

SHEN Haihong (沈海洪), aged 44, is an Executive Vice-president of the Company. Mr. Shen joined the Group in 2007 and is currently responsible for the supply chain management and also the management of the tubular service cluster of the Group, and he is in charge of the services cluster of the Group. He was responsible for the tubular services cluster, operation management and operational support of the Group. Prior to joining the Group, Mr. Shen was employed by CNPC between 1991 and 2006 and was appointed as the deputy general manager of Toha Oil Well Drilling Company (吐哈石油鑽井公司), and as the deputy director of the Enterprises Department of Toha Directorate (吐哈指揮部企管處). He has more than 23 years of experience in the petroleum industry. Mr. Shen has a Master of Business Administration degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院), and is also a senior engineer in well bore engineering.

CHEN Wei (陳偉), aged 48, is an Executive Vice-president of the Company. Mr. Chen joined the Group in 2000. He is responsible for the management of the new material construction of the Group. He was responsible for the down-hole operation cluster, business development of the Group in the early stage and marketing in the southwest market and domestic market. Prior to joining the Group, Mr. Chen was employed by CNPC between 1982 and 2000 responsible for the general management of Chuan Zhong Oil and Gas Company (川中油氣公司). He has more than 29 years of experience in the petroleum industry. Mr. Chen has a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院).

MA Enhai (馬恩海), aged 49, is an Executive Vice-president of the Company. Mr. Ma joined the Group in 2010. He is responsible for financial accounting and management of the Group. Prior to joining the Group, Mr. Ma was appointed as the general manager of financial department of Lenovo Group (聯想集團), the chief financial officer of Ramaxel Group (記憶集團) and the chief financial officer of Liando Group (聯東集團). He has more than 22 years of experience in financial accounting and management. Mr. Ma has an Executive Master of Business Administration (EMBA) degree from Tsinghua University.

YAN Wenrong (晏文榮), aged 64, is a Chief Supervisor of the Company. Mr. Yan joined the Group in 2000. He is responsible for risk management of the Group. He was responsible for the business development of the Group in the early stage and human resources management. Prior to joining the Group, Mr. Yan was employed by CNPC Sichuan Petroleum Bureau (中石油四川石油管理局) from 1969 to 1999. He has 44 years of experience in the petroleum industry. Mr. Yan graduated from Chongqing Petroleum Institute (重慶石油學校), majoring in drilling.

PI Zhifeng (皮至峰), aged 35, is an Executive Vice-president of the Company. Mr. Pi joined the Group in 2004. He is responsible for strategic development management of the Group. He was responsible for private equity financing, initial public offering in Hong Kong of the Group. Prior to joining the Group, Mr. Pi was the general manager of the investment banking department of China Chengxin Financial Consultancy Co., Ltd (中誠信財務顧問有限公司). He has 11 years of experience in investment and capital market operation. Mr. Pi has a Master of Business Administration degree from the University of Chicago Booth School of Business in the U.S.

LI Kang (李康),aged 48,is an Executive Vice-president of the Company. Mr. Li joined the Group in 2012. He is responsible for the Group's human resources management. Prior to joining the Group, Mr. Li was the human resources director of Asia-Pacific region at Motorola. He has 20 years of experience in human resources management. Mr. Li has a doctoral degree in management science from Tianjin University (天津大學).

LI Jingqun (李靜群), aged 49, is an Executive Vice-president of the Company. Mr. Li joined the Group in 2012. He is responsible for the management of the down-hole operation cluster of the Group. Prior to joining the Group, Mr. Li was Deputy Chief Engineer of CNPC Changqing Drilling and Exploration Company (中石油長慶鑽探). He has 26 years of experience in the petroleum industry. Mr. Li has a master's degree majoring in coal, oil and gas geology and exploration from Jianghan Petroleum Institute (江漢石油學院).

COMPANY SECRETARY

Dr. NGAI Wai Fung (魏偉峰), aged 51, is the Company Secretary of the Company. Dr. Ngai currently is the director and chief executive officer of SW Corporate Services Group Limited. He is the vice president of the Hong Kong Institute of Chartered Secretaries. Dr. Ngai has over 21 years' experience and knowledge in senior management and professional matters in listed companies, including IPO, Merger and Acquisition, corporate financing, internal control, governance and company secretary etc. Dr. Ngai is a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom. He also is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Dr. Ngai obtained a Doctorate in Finance from the Shanghai University of Finance and Economics, a Master's degree in Corporate Finance from the Hong Kong Polytechnic University, a Master's degree in Business Administration (MBA) from Andrews University of the United States and a Bachelor's degree (Honours) in Law from the University of Wolverhampton, the United Kingdom.

CORPORATE GOVERNANCE REPORT

Since the listing of its shares on 14 December 2007 on the Stock Exchange, the Company has been implementing the principles of the Code and adopted the Code Provision under Appendix 14 of the Listing Rules as its own code. The Company has been in compliance with all the applicable Code Provisions (other than those deviating from Code A.2.1 of the Code Provisions).

Under the structure of the existing Board of Directors, there are three Executive Directors, one Non-executive Director and three Independent Non-executive Directors to ensure the independent and objective running of the Board, and the relevant board committees play an important role in the Company's decision-making, monitoring and advisory work.

CORPORATE GOVERANCE STRUCTURE

As the core of corporate governance for the Company, the Board has distinct duties from those of the management. The Board is responsible for providing direction to and effective supervision of the management, while the management is in charge of executing established strategies and directions. Generally speaking, the Board is responsible for:

- Formulating long term strategies and supervising their execution of the Group, its subsidiaries and associated companies
- Approval of operational plan and financial budget
- Approval of the relevant annual and interim results
- Reviewing and monitoring the risk management and internal control of the Group
- Ensuring good corporate governance and compliance

The Board authorised the management to execute established strategies and directions, the management is in charge of daily operation and reports to the Board. Accordingly, the Board has set out clear written guidelines, in particular it clearly determined the scope of authority of the management, and those items requiring the Board's approval.

BOARD OF DIRECTORS

BOARD COMPOSITION

The constitution of Board of Directors adheres strictly to the principle of ensuring balance, fairness and diversity in the backgrounds of our Board members, and the Board strives to recruit the most suitable candidates to lead the Group towards a rapid and healthy growth. As at the date of this Annual Report, the Board currently comprises three Executive Directors namely, Mr. Luo Lin, Mr. Liu Enlong and Mr. Wu Di, one Non-executive Director namely, Mr. Jean Francois Poupeau and three Independent Non-executive Directors namely, Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai. The Chairman of the Company is Mr. Luo Lin. The backgrounds of these Directors bring different expertise and experiences to the Board. The biographical information of all Directors are set out under the section "Profiles of Directors and Senior Management" of this Annual Report.

To the best knowledge of the Company, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company does not separate the Chairman's and Chief Executive Officer's duties. Mr. Luo Lin served as both Chairman and Chief Executive Officer during the reporting period. Mr. Luo was the main founder of the Group, he has been responsible for the operational management since the Group's establishment, and was instrumental to the development of the Group. Mr. Luo possesses rich petroleum industry experience and excellent operational management ability. The Board is of the view that continuing to have Mr. Luo to serve as Chief Executive Officer of the Company will safeguard the continuity of the operational management and can protect shareholders' interest.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmation letters from all the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Listing Rules. Consequently, the Board is of the opinion that all the current Independent Non-executive Directors comply with the relevant guidelines set out in Rule 3.13 of the Listing Rules, thus the Company regards all the Independent Non-executive Directors as independent parties.

In 2012, the Company has complied with the requirements of Rule 3.10 of the Listing Rules and has at least three Independent Non-executive Directors, including one Independent Non-executive Director, Mr. Zhu Xiaoping, with appropriate professional qualifications or accounting or related financial management expertise. Throught the year, the Board has at least one-third in number of its members comprising Independent Non-executive Directors in compliance with Rule 3.10A of the Listing Rules.

All Independent Non-executive Directors have served the Board since 17 November 2007.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The term of the appointment for Executive Directors and Non-executive Director is three years and for Independent Non-executive Directors is one year. According to the Company's Articles of Association, at every annual general meeting of the Company one-third of the current directors shall retire from office by rotation (or if the number of directors is not three or a multiple of three, then the nearest but not less than one-third) provided that each Director (including those appointed for a specific term but not including those appointed to fill a casual vacancy or as an addition to the existing Board in accordance with Articles 114 and 115) must retire by rotation at least once every three years. The retiring Directors can be re-elected and continue to participate in the relevant meeting in the capacity as Director.

Mr. Jean Francois Poupeau has been appointed as a Non-executive Director of the Company with effect from 21 January 2013.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the written terms of reference on corporate governance functions in March 2012 so as to assist the Board performing corporate governance functions. The relevant authority and duties are clearly set out in its terms of reference which are summarized as follows:

(a) To develop and review the Company's policies and practices on corporate governance;

(b) To review and monitor the training and continuous professional development of directors and senior management;

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

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

(e) To review the Company's compliance with the Code Provisions of Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report.

The following is a summary of the work performed by the Board on corporate governance functions during 2012:

(a) Developed and reviewed the Company's policies on corporate governance including the adoption of the revised terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee respectively and shareholder communication policy;

(b) Encouraged the training and continuing professional development of Directors and senior management; and

(c) Reviewed the Board composition.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors of the Company has adopted the Model Code set out In Appendix 10 to the Listing Rules as the code of practice for carrying out securities transactions by the Directors. After specific enquiry with all members of the Board, the Company confirms that all directors have fully complied with the relevant standards stipulated in the above-mentioned rules during the reporting year.

CONTINUOUS PROFESSIONAL DEVELOPMENT

During the year ended 31 December 2012, the Directors confirmed that they have complied with the Code Provision A.6.5 of the Code on Directors' training. During the year, all Directors have participated in continuous professional development by attending seminars and/or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company.

Names of Directors	Topics on training covered (Note)	Hours
Mr. Luo Lin	C, L, R	7
Mr. Liu Enlong	C, L, R	7
Mr. Wu Di	C, L, R	7
Mr. Jean Francois Poupeau	N/A (appointed on 21 January 2013)	
Mr. Zhang Yongyi	C, L, R	7
Mr. Zhu Xiaoping	C, L, R	7
Mr. Wang Mingcai	C, L, R	7

Note:

C: Corporate Governance

L: Listing Rules Updates

R: Other Relevant Regulatory Updates

BOARD AND COMMITTEE MEETINGS AND GENERAL MEETINGS

The Company set up the Audit Committee, Remuneration Committee and Nomination Committee on 17 November 2007 and set up QHSE ("Quality, Health, Safety, Environment") committee on 21 January 2013. During the reporting year, the Company had convened eight Board of Directors' meetings, two Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting.

Attendances of meetings by Directors during the reporting year are set out in the table below:

	Meeting attendance/number of meetings				
Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting**
Executive Director					
Mr. Luo Lin (Chairman of the Board of Directors and Chief Executive Officer)	8/8	N/A	1/1	1/1	1/1
Mr. Wu Di	8/8	N/A	N/A	N/A	0/1
Mr. Liu Enlong	8/8	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Jean Francois Poupeau (appointed on 21 January 2013)	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Director					
Mr. Zhang Yongyi	8/8	2/2	N/A	1/1	1/1
Mr. Zhu Xiaoping	8/8	2/2	1/1	N/A	1/1
Mr. Wang Mingcai	8/8	2/2	1/1	1/1	1/1

In addition to the Board of Directors Meetings for results announcement, which are held twice per year, the Group also holds quarterly Board of Directors' Meetings ("Quarterly Meeting") to better exercise the strategic and monitoring roles of the Board. Senior management is invited to attend to enhance Board and management communications. During such meetings, the Board reviews the implementation of the agreed strategic plan and the agreed budget for the previous quarter, sets out the strategic plan and budget for the next quarter, and discusses specific management issues. During the reporting period, the Quarterly Meetings covered the following major discussions:

	1st Quarterly Meeting	**2nd Quarterly Meeting**	**3rd Quarterly Meeting**	**4th Quarterly Meeting**
Date	15 January 2012	25 May 2012	23 July 2012	21 October 2012
Discussion Topics				
Review the strategic plan and financial budget plan of the previous quarter	√	√	√	√
Formulate the strategic plan and financial budget plan for the next quarter	√	√	√	√
Specific management topics	Development of strategic projects	Strategies of increasing profitability	Human resources management	Plans for building up service capacity

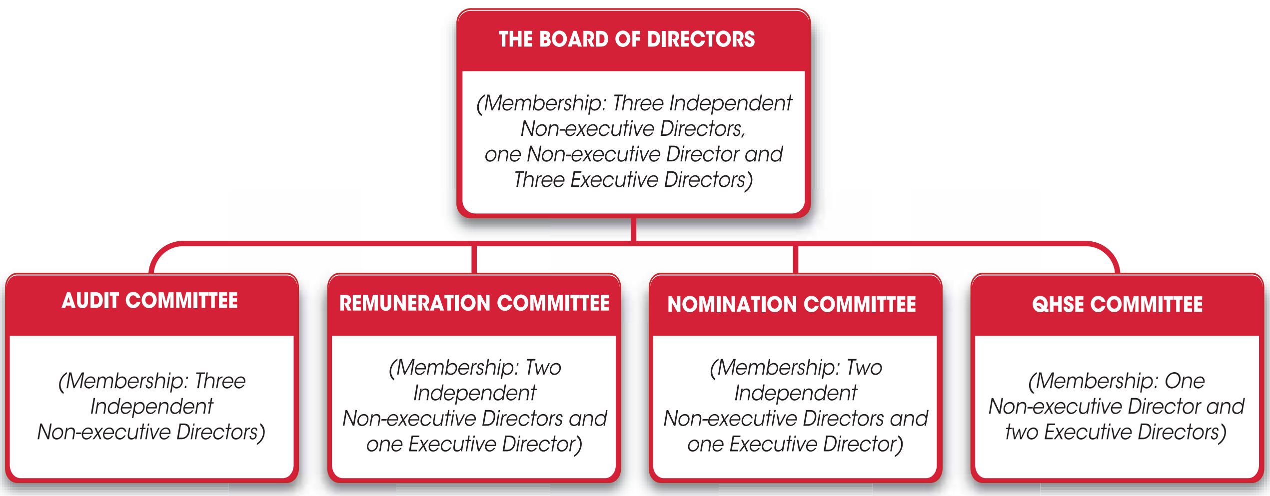
MONTHLY MANAGEMENT REPORT

During the inter-sessional period, each Executive Director receives a copy of the financial report and the management report each month, and holds business meetings with the management to obtain information of monthly operating conditions, monitor business progress, and mentor the management with effective planning.

BOARD COMMITTEES

The Board has established the Audit Committee, Remuneration Committee and Nomination Committeee (all chaired by Independent Non-executive Director) with defined terms of reference (available on the Company's website) since the listing of the Company, which are on no less exacting terms than those set out in the Corporate Governance Code.

In addition, the Board has also established QHSE ("Quality, Health, Safety, Environment") Committee (chaired by Non-executive Director) on 21 January 2013.



Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. To further reinforce independence and effectiveness, all Audit Committee members are Independent Non-executive Directors, and the Nomination and Remuneration Committees have been structured with a majority of Independent Non-executive Directors as members since their establishment in November 2007.

AUDIT COMMITTEE

The Company has set up the Audit Committee since 17 November 2007 which took effect upon listing of the Company.

There are three members in the Audit Committee, all of them are the Group's Independent Non-executive Directors, namely Mr. Zhu Xiaoping, Mr. Zhang Yongyi and Mr. Wang Mingcai. Mr. Zhu Xiaoping is the Chairman of the Audit Committee. Mr. Zhu Xiaoping has appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10 (2). The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Audit Committee are as follows:

(a) To monitor the relationship between the Company and the external auditors, make proposals to the Board on the appointment, renewal and dismissal of the external auditors of the Group as well as the relevant remuneration and terms of appointment;

(b) To review the Company's financial information; and

(c) To oversee of the Company's financial reporting system and internal control procedures

The Audit Committee held 2 meetings during 2012 and the following major matters were reviewed and discussed in the meetings:

(a) Reviewed the annual results of 2011 and the Interim results of 2012 and making recommendations to the Board for approval;

(b) Made recommendation on the re-appointment of the auditor; and

(c) Reviewed the financial reporting system and the internal control system.

REMUNERATION COMMITTEE

The Company has set up the Remuneration Committee since 17 November 2007 which took effect upon listing of the Company. The Remuneration Committee comprises two Independent Non-executive Directors, Mr. Wang Mingcai and Mr. Zhu Xiaoping, and one Executive Director, Mr. Luo Lin. Mr. Wang Mingcai is the Chairman of the Remuneration Committee. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Remuneration Committee are as follows:

(a) To review and recommend the terms of remuneration, benefits, bonus and other allowances of the Directors and senior management;

(b) To submit proposals to the Board on the remuneration policy and structure of all the Directors and senior management officers of the Company; and

(c) To approve and monitor the execution of the Company's Share Option Scheme.

The Remuneration Committee has adopted the model that it makes recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

The Remuneration Committee held 1 meeting during 2012 and reviewed the remuneration package of a newly appointed Non-executive Director.

NOMINATION COMMITTEE

The Company has set up the Nomination Committee since 17 November 2007 which took effect upon listing of the Company. The Nomination Committee is composed of two Independent Non-executive Directors, Mr. Zhang Yongyi and Mr. Wang Mingcai, and one Executive Director, Mr. Luo Lin. Mr. Zhang Yongyi is the Chairman of the Nomination Committee. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Nomination Committee are as follows:

(a) To review the structure, number and composition of the Board and make recommendation to the Board on the policy and procedures for the nomination of directors;

(b) To identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;

(c) To make recommendations to the board on the appointment or re-appointment of directors, succession planning for directors, in particular the chairman and the chief executive; and

(d) To review the independence of the Independent Non-executive Directors and submit proposals to the Board.

The Nomination Committee held 1 meeting during 2012 and made recommendation to the Board for the appointment of a Non-executive Director.

QHSE ("QUALITY, HEALTH, SAFETY, ENVIRONMENT") COMMITTEE

The Company set up the QHSE Committee on 21 January 2013. The QHSE Committee is composed of one Non-executive Director, Mr. Jean Francois Poupeau, and two Executive Directors, Mr. Luo Lin and Mr. Liu Enlong. Mr. Jean Francois Poupeau is the chairman of the QHSE Committee. The QHSE Committee is tasked with the responsibilities of providing guidance and advice on the quality, health, safety and environment ("QHSE") strategies of the Company. QHSE represents an important standard for the oilfield services industry. The Company strives to introduce international standards to enhance its service level at home and abroad. The QHSE Committee meets at least once every year.

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of the members of the senior management by band forthe year ended 31December 2012 is set out below:

Remuneration band (RMB)	Number of individuals
RMB 0 to 600,000	2
RMB 600,000 to 1,000,000	4
RMB 1,000,000 to 1,200,000	4

ACCOUNTABILITY AND AUDIT

The Directors understand that they must assume the responsibility of preparing the financial accounts of each year. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis.

The declaration of duties by the Auditors of the Group on the Group's financial statements is contained on pages 77 and 78 of the Independent Auditor's Report.

The Group has set up the Internal Audit Department, the Legal Department and the Quality Control Department in charge of the internal control and risk management duties. The Executive Directors of the Company receive internal financial report and management report every month for monitoring the operational progress of each business department and making reasonable planning.

During the year, the Group had reviewed its internal control system. Based on the review, the Board was satisfied with the effectiveness of the current internal control system of the Group, including the adequency of resources, staff qualifications and experience, training programmes and budget of the Group's activity and financial reporting function.

AUDITORS' REMUNERATION

An analysis of the remuneration for audit and non-audit services provided by the auditor appointed by the Group during the year is as follows:

	2012 **RMB '000**	2011 RMB '000
Audit services	**3,700**	3,400
Non-audit services	**—**	—
Total	**3,700**	3,400

COMPANY SECRETARY

The Company Secretary is Mr. Ngai Wai Fung ("Mr. Ngai"), who has been appointed by the Board. Mr. Ngai is the director and Chief Executive Officer of a corporate service provider, SW Corporate Services Group Limited. The primary corporate contact person at the Company is Mr. Pi Zhi Feng, the Executive Vice President.

Mr. Ngai has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2012 in compliance with Rule 3.29 of the Listing Rules,.

CORPORATE GOVERNANCE AWARD

In 2012, the Group was pleased to be conferred "The Asset Corporate Award 2012" Gold Award (Excellence in Management and Corporate Governance). The award evaluates the candidates with a range of metrics of financial performance, highlighting their merits in the areas of corporate governance, social responsibility, environmental responsibility and investor relations over the past year.

SHAREHOLDERS' RIGHTS

The Company encourages shareholders to attend shareholders' meetings. Directors, chairman of each of Audit Committee, Remuneration Committee, Nomination Committee (or a delegated member of the Committee), chairman of the independent board committee (if any) and management will attend the annual general meeting to answer queries about the Group's business.

In 2012, the Company had convened one annual general meeting (the "2012 AGM"). The 2012 AGM provided an ideal chance for communication between the Board and the shareholders. The Chairmen of the Board, Audit Committee, Remuneration Committee and Nomination Committee and the Company's external auditor were all present at the AGM held on 25 May 2012, to answer shareholders' inquiries.

The 2013 annual general meeting of the Company will be held at No.8 Pingcui West Road, Donghuqu Chaoyang District, Beijing, China on Monday, 3 June 2013 at 9 a.m..

THE PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING ("EGM")

Pursuant to the Article 79 of articles of association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee (s)) holding at the date of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company shall deposit the written requisition at the principal office of the Company in Hong Kong, which is presently situated at unit 2109 Cosco Tower, 183 Queen's Road Central, Hong Kong, specifying the objects of the meeting and signed by the requisitionist(s)(the "Requisitionist(s)").

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene a meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months form the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist (s) as a result of the failure of the Board shall be reimbursed to them by the Company.

THE PROCEDURES AND CONTACT DETAILS FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETING

The annual general meeting and other general meetings provide an important opportunity for shareholders to express their views and the Company encourages and promotes shareholder attendance and participation at general meetings, where industry updates, business segments, operational information, development strategies of the Group will be communicated.

Board members, in particular, the chairman or his delegates, appropriate members of management team and external auditors will attend annual general meetings to answer shareholders' questions.

Shareholders attending at the annual general meeting and other general meetings are allowed to have a reasonable opportunity to ask questions regarding the items of business, including but not limiting to questions to the external auditor regarding the conduct of the audit and the preparation and content of the auditor's report.

CONSTITUTIONAL DOCUMENTS

There was no significant change in the Company's constitutional documents during the year ended 31 December 2012.

THE PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD AND SUFFICIENT CONTACT DETAILS TO ENABLE THESE ENQUIRIES TO BE PROPERLY DIRECTED

Shareholders, investors and members of the public should direct their questions about their shareholdings to the Company's Share Registrar. The contact details for the Share Registrar are:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: (852) 2862 8628
Fax: (852) 2865 0990
Website: www.computershare.com

To contact the Company in relation to your query on investor relations, the contact details are as follows:

Tel: (86 10) 5739 7584
(852) 2907 7108
Email: ir@antonoil.com

FINANCIAL CALENDAR 2013

Announcement of 2012 Results

15 March 2013

Last Day to Register for Attending 2013 Annual General Meeting

29 May 2013

Annual General Meeting

3 June 2013

Last Day to Register for Receiving 2012 Final Dividends

6 June 2013

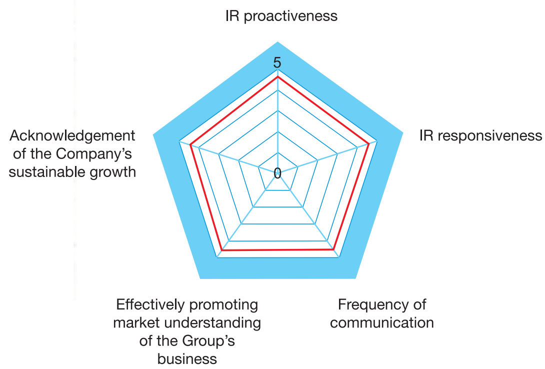
2012 Final Dividend Payment Date

Around 25 June 2013

INVESTOR RELATIONS

The Group's investor relations (IR) effort is committed to improving information transparency, promoting effective communication with investors, growing the base of prospective investors and enhancing capital market visibility on the Group's business as a way of increasing market capitalization. Following such a policy, the Group's IR effort delivered stellar performance in 2012. According to our first "Investor Perception Survey", the Group has received accolades for its IR efforts from investors on both the buy- and sell- sides.

Investor Perception Survey 2012



PROACTIVE AND TIMELY DISCLOSURE

In addition to disclosing price-sensitive and inside information pursuant to the Listing Rules and other regulatory requirements, the Group proactively communicates its strategic development to the investors. For example, the publishing of the Group's first Annual Strategy Update in January 2012 has enabled the investors to better anticipate the Group's strategic goals and business strategies for the year. The Group has also enhanced visibility by taking the lead within the industry in posting Quarterly Operational Update with disclosure of our quarterly operational data, major new contracts and business outlook. We also actively disclosed significant market, business and capital operation developments. In the year of 2012, the Group made 61 announcements and, upon the release of major announcements, broadened the communication channels with investors through press release, email alerts and conference calls.

INVESTOR RELATIONS FULLY STRENGTHENED

The Group further broadened its investor base. During the year, it participated in 15 major roadshows and completed over 1,400 counts of investor meetings, an increase of 600 as compared with 2011. This resulted in a fully diversified investor base in Hong Kong, the Chinese mainland, other Asian countries, the US and Europe. To promote a better understanding of the Group's business, we organized three reverse roadshows in the Erdos Basin and Sichuan Basin to invite buy-side and sell-side investors to visit the Group's project sites, and brought along members of the Hong Kong press to visit our premises in Beijing. In addition, the Group was initiated by 7 sell-side analysts during the year, bringing the number of covered analysts of the Group to 12. This underlines the stronger capital market interest in the Group.

SHAREHOLDER STRUCTURE FURTHER OPTIMIZED

The growing capital market interest in the Group attracted a number of internationally renowned institutional investors to become shareholders of the Group. This helped optimize the shareholder structure and promote better corporate governance. Throughout 2012, with fervent market interest, the Group's boosting stock price and trading volume delivered an extraordinary performance. In terms of share price, the Group saw the biggest percentage increase of all Hong Kong-listed shares in 2012. As at December 31st 2012, the Group's market capitalization had registered an increase of 3.6 times in just under 12 months.

EMPLOYEE RELATIONS

TEAM

As at 31 December 2012, the Group had 1,613 permanent employees, an increase of 27.8% from 1,262 last year, among which 701 were engineers, 504 on-site technical staff, 203 marketing personnel and 205 management personnel. About 25.6% of the total staff were senior engineers and mid-level and senior managers, an increase from 25.0% of 2011. In addition, outsourced labour amounted to 940 persons, a year-on-year increase of 23.2%.

SYSTEM

In 2012, we launched a program named "High Flyer" to facilitate the design of our human resources management system. The program was based on our long-term strategy, advised by Hewitt Associates, a world-leading HR consulting firm, and with reference to the best practices of the world's finest oilfield service providers. Upon the completion of the program, our international HR management system had taken a shape, aligned with job, performance and remuneration management systems. In addition, we put a strengthened and ongoing emphasis on developing well site engineers. We also furthered our commitment to the attraction, cultivation and development of international talents, while putting more efforts to create our pool of strategic talents to provide the necessary HR support for the Group's long-term business growth.

TALENT RECRUITMENT AND IDENTIFICATION

Campus recruitment and internal discovery have always constituted the core part of the Group's HR strategy. In 2012, the Group continued to implement the "Talent First" strategy to enrich the talent reserve. We rolled out an 8-month long nationwide campus recruitment program at prestigious Chinese and foreign universities. In China, we targeted some 60 well-known institutions including key petroleum universities, Peking University, Tsinghua University and various foreign studies universities. We also embarked on an overseas campus recruitment program. In the year of 2012, we recruited 225 graduates. We also introduced industry top talents and seasoned professionals from state-owned enterprises and Fortune 500 companies, which, together with public recruitment, helped bring in 226 experienced professionals, 53 of whom were senior engineers and managers.

To nurture management talent, we introduced the "Talent Leap" management trainee program to select distinguished and high-caliber graduates and place them directly under the supervision of the Group CEO. Through training and job rotation, we provided them with targeted coaching and mentorship.

In December 2012, the Group received a "100 Best Human Resource Award of 2012" by 51job.com, alongside fellow corporate stalwarts such as Shell (China) and AIA.

TRAINING

To help employees grow with the Company, the Group advanced its 3-tiered training program, including such categories as the core officer's camp, the Lion camp and the Ant camp as well as training for technical skills and generic skills. We developed our first internal trainer program and grew 35 in-house trainers. In 2012, we completed 71 Group-level training sessions, a year-on-year increase of 29.4%. The total training hours amounted to 1,309.5 and total attendance 2,197 counts with the staff penetration rate of 85.05%, up 6 percentage points compared to 2011.

EMPLOYEE RELATIONS

The Group is committed to building a resilient team as strong as an army of ants. We strive to create a place where the employees can flex their muscles and show their individual strength. We have a diverse mix of societies and groups such as the Anton Arts Ensemble and teams for basketball, footfall, table tennis, badminton and billiards. Employees may choose to participate in any of these groups based on their interest and strength. In 2012, we organized friendship games for badminton and table tennis. We also ran an action-packed calendar of employee events such as Happy Hour, health workshop and teambuilding activities. This showed the Company's commitment to its employees and helped build a more cohesive organization and increase employees' loyalty to and sense of community with the Company.

A hallmark of the industry is for well site engineers and frontline employees working in oilfields throughout the year. To show care and support for our frontline staff and their families, the Group had sent them text messages, made calls and delivered online greetings on festive occasions. The leadership of the Group went into the front line to talk to the employees and show the Group's commitment to a culture of engineers. We organized 18 sessions of dialogues with the management to solicit views and demands from the front line. The care and support from the leadership, the collaboration and team spirit of the co-workers and the passion and a sense of responsibility for their jobs have effectively motivated our well site engineers and frontline employees, made them feel loved and supported and increased their drive and a sense of belonging. They truly made the Group a second home for our employees.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the shareholders of Anton Oilfield Services Group
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Anton Oilfield Services Group (the "Company") and its subsidiaries (together, the "Group") set out on pages 79 to 144, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

羅兵咸永道

OPINION

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

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 March 2013

BALANCE SHEETS

As at 31 December 2012
(Amounts expressed in thousands of RMB)

	Note	As at 31 December			
		Group		Company	
		2012	2011	2012	2011
ASSETS					
Non-current assets					
Property, plant and equipment	6	**955,056**	538,576	**—**	—
Land use rights	7	**28,757**	31,281	**—**	—
Intangible assets	8	**371,185**	365,422	**—**	—
Investment in subsidiaries	9	**—**	—	**3,558,627**	3,558,342
Investment in a jointly controlled entity	10	**4,000**	4,000	**—**	—
Deferred income tax assets	22	**19,553**	17,643	**—**	—
		1,378,551	956,922	**3,558,627**	3,558,342
Current assets					
Inventories	11	**487,040**	271,411	**—**	—
Trade and notes receivables	12	**948,305**	670,959	**—**	—
Prepayments and other receivables	13	**239,931**	120,794	**116,512**	102,727
Restricted bank deposits	14	**15,629**	10,380	**—**	—
Term deposits with initial terms of over three months	14	**—**	5,000	**—**	—
Cash and cash equivalents	14	**523,378**	462,154	**1,567**	1,188
		2,214,283	1,540,698	**118,079**	103,915
Total assets		**3,592,834**	2,497,620	**3,676,706**	3,662,257
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	**200,836**	198,115	**200,836**	198,115
Reserves					
– Proposed final dividend	30	**97,600**	35,700	**97,600**	35,700
– Others	16	**1,673,425**	1,432,315	**3,324,983**	3,377,907
		1,971,861	1,666,130	**3,623,419**	3,611,722
Non-controlling interests		**109,093**	73,967	**—**	—
Total equity		**2,080,954**	1,740,097	**3,623,419**	3,611,722

Balance sheets

As at 31 December 2012
(Amounts expressed in thousands of RMB)

	Note	As at 31 December			
		Group		Company	
		2012	2011	**2012**	2011
LIABILITIES					
Non-current liabilities					
Long-term bonds	20	**299,051**	—	**—**	—
Other long-term payables	21	**3,256**	14,847	**—**	—
Deferred income tax liabilities	22	**979**	957	**—**	—
		303,286	15,804	**—**	—
Current liabilities					
Short-term borrowings	17	**191,568**	315,000	**—**	—
Current portion of long-term borrowings	17	**20,000**	5,003	**—**	—
Current portion of other long-term payable	21	**11,604**	10,896	**—**	—
Trade and notes payables	18	**730,444**	257,791	**—**	—
Accruals and other payables	19	**217,670**	123,852	**53,287**	50,535
Current income tax liabilities		**37,308**	29,177	**—**	—
		1,208,594	741,719	**53,287**	50,535
Total liabilities		**1,511,880**	757,523	**53,287**	50,535
Total equity and liabilities		**3,592,834**	2,497,620	**3,676,706**	3,662,257
Net current assets		**1,005,689**	798,979	**64,792**	53,380
Total assets less current liabilities		**2,384,240**	1,755,901	**3,623,419**	3,611,722

The financial statements were approved by the Board of Directors on 15 March 2013 and were signed on its behalf.

LUO Lin	**WU Di**
Executive Director	*Executive Director*

The notes on page 85 to 144 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012
(Amounts expressed in thousands of RMB, except per share data)

	Note	Year ended 31 December 2012	2011 (Reclassified, Notes 2, 24)
Revenue	23	**2,004,583**	1,258,909
Cost of sales	24	**(1,103,307)**	(735,990)
Gross Profit		**901,276**	522,919
Other gains, net	25	**10,646**	2,155
Selling expenses	24	**(154,480)**	(104,103)
Administrative expenses	24	**(260,045)**	(164,814)
Research and development expenses	24	**(66,274)**	(53,297)
Sales tax and surcharges	24	**(33,144)**	(28,005)
Operating profit		**397,979**	174,855
Interest income	26	**1,932**	2,254
Finance expenses	26	**(32,542)**	(18,348)
Finance costs, net		**(30,610)**	(16,094)
Share of loss of a jointly controlled entity	10	**—**	(14,320)
Impairment loss of long-term investment in a jointly controlled entity		**—**	(31,924)
Profit before income tax		**367,369**	112,517
Income tax expense	28	**(49,664)**	(20,849)
Profit for the year		**317,705**	91,668
Profit attributable to:			
Equity holders of the Company		**302,579**	77,344
Non-controlling interests		**15,126**	14,324
		317,705	91,668
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic	29	**0.1430**	0.0369
– Diluted	29	**0.1402**	0.0365
Dividends	30	**97,600**	35,700

The notes on page 85 to 144 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(Amounts expressed in thousands of RMB)

	Year ended 31 December	
	2012	2011
Profit for the year	**317,705**	91,668
Other comprehensive income/(loss), net of tax:		
Cash flow hedges	**—**	1,102
Currency translation differences	**(1,882)**	(6,813)
Other comprehensive loss, net of tax for the year	**(1,882)**	(5,711)
Total comprehensive income for the year	**315,823**	85,957
Attributable to:		
– Equity holders of the Company	**300,697**	71,633
– Non-controlling interests	**15,126**	14,324
Total comprehensive income for the year	**315,823**	85,957

The notes on page 85 to 144 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012
(Amounts expressed in thousands of RMB)

		Attributable to the equity holders of the Company									
	Note	Share capital	Share premium	Capital reserve	Statutory reserve	Hedging reserve	Retained earnings	Currency translation differences	Total	Non-controlling interests	Total equity
Balance at 1 January 2011		197,420	612,035	325,846	36,510	(1,102)	445,989	(2,684)	1,614,014	36,547	1,650,561
Profit for the year		—	—	—	—	—	77,344	—	77,344	14,324	91,668
Other comprehensive income:											
Cash flow hedges		—	—	—	—	1,102	—	—	1,102	—	1,102
Currency translation differences		—	—	—	—	—	—	(6,813)	(6,813)	—	(6,813)
Total comprehensive income		—	—	—	—	1,102	77,344	(6,813)	71,633	14,324	85,957
Share option scheme	15(b)	—	—	9,870	—	—	—	—	9,870	—	9,870
Share option exercised	15(b)	695	6,992	(2,756)	—	—	—	—	4,931	—	4,931
Disposal of subsidiaries	16(a)	—	—	4,590	(2,496)	—	297	—	2,391	23,255	25,646
Transfer to statutory reserves	16(a)	—	—	—	6,632	—	(6,632)	—	—	—	—
Dividends	30	—	(39,426)	—	—	—	—	—	(39,426)	(1,064)	(40,490)
Other		—	—	2,717	—	—	—	—	2,717	905	3,622
Balance at 31 December 2011		198,115	579,601	340,267	40,646	—	516,998	(9,497)	1,666,130	73,967	1,740,097
Profit for the year		—	—	—	—	—	302,579	—	302,579	15,126	317,705
Other comprehensive income:											
Currency translation differences		—	—	—	—	—	—	(1,882)	(1,882)	—	(1,882)
Total comprehensive income		—	—	—	—	—	302,579	(1,882)	300,697	15,126	315,823
Share option scheme	15(b)	—	—	17,980	—	—	—	—	17,980	—	17,980
Share option exercised	15(b)	2,721	29,943	(8,916)	—	—	—	—	23,748	—	23,748
Transfer to statutory reserves	16(a)	—	—	—	15,465	—	(15,465)	—	—	—	—
Acquisition of subsidiaries	33	—	—	—	—	—	—	—	—	30,000	30,000
Dividends	30	—	(36,694)	—	—	—	—	—	(36,694)	(10,000)	(46,694)
Balance at 31 December 2012		**200,836**	**572,850**	**349,331**	**56,111**	**—**	**804,112**	**(11,379)**	**1,971,861**	**109,093**	**2,080,954**

The notes on page 85 to 144 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012
(Amounts expressed in thousands of RMB)

	Note	Year ended 31 December 2012	2011
Cash flows from operating activities			
Net cash inflows from operations	31	**412,163**	260,543
Interest paid		**(15,422)**	(14,031)
Interest received		**1,932**	2,254
Income tax paid		**(49,110)**	(28,392)
Net cash generated from operating activities		**349,563**	220,374
Cash flows from investing activities			
Purchase of property, plant and equipment		**(232,179)**	(159,509)
Proceeds from disposal of property, plant and equipment		**2,227**	960
Purchase of land use rights		**(21,244)**	(8,000)
Purchase of intangible assets		**(22,195)**	(28,100)
Proceeds from acquisition of subsidiaries (Note 33)		**2,645**	—
Payment of considerations of prior year acquisition		**(7,600)**	(4,000)
Disposal of a subsidiary, net (Note 34)		**(13)**	—
Proceeds from disposal of term deposits with initial terms of over three months		**5,000**	1,000
Net cash used in investing activities		**(273,359)**	(197,649)
Cash flows from financing activities			
Proceeds from long-term bond		**299,128**	—
Proceeds from long-term borrowings		**—**	5,003
Proceeds from short-term borrowings		**329,000**	377,000
Proceeds from sale and leaseback		**—**	27,000
Repayments of short-term borrowings		**(580,293)**	(212,000)
Repayments of long-term borrowings		**(25,003)**	(34,822)
Repayments of sale and leaseback		**(11,100)**	(5,456)
Proceeds from share options exercised	15(b)	**23,748**	4,931
Dividends distribution		**(46,694)**	(39,426)
Decrease of deposits pledged for borrowing		**—**	135,646
Net cash (used)/generated from financing activities		**(11,214)**	257,876
Net increase in cash and cash equivalents		**64,990**	280,601
Cash and cash equivalents, at beginning of the year		**462,154**	188,960
Exchange loss on cash and cash equivalents		**(3,766)**	(7,407)
Cash and cash equivalents at end of the year		**523,378**	462,154

The notes on page 85 to 144 are an integral part of these financial statements.

1. GENERAL INFORMATION

Anton Oilfield Services Group (the "Company") was incorporated in the Cayman Islands on 3 August 2007 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are mainly engaged in providing oilfield technology services, manufacturing and trading of related products in the People's Republic of China (the "PRC") and other oversea countries. The Company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 14 December 2007.

The directors regard Pro Development Holdings Corp., a company incorporated in British Virgin Islands as the ultimate holding company of the Company, which is controlled by Mr. Luo Lin, the Company's controlling shareholder.

These consolidated financial statements have been approved for issue by the Board of Directors on 15 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention, as modified by the revaluation of derivative financial liabilities.

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

Change of presentation of the consolidated income statement

For the year ended 31 December 2012, the Company adopted an alternative presentation of the consolidated income statement, with operating expenses presented by function. The comparative figures for the year ended 31 December 2011 have been reclassified according to the change in presentation. A reconciliation of operating expenses by nature is disclosed in Note 24.

(a) New and amended standards adopted by the Group

Amended standards adopted by the Group:

- Amendments to IFRS 7, 'Financial instruments: disclosures'. The amendments were as a result of amendments on disclosure requirements of transfers of financial assets released in October 2010 (effective for financial year beginning 1 July 2011). The amendments clarified and strengthened the disclosure requirements of transfers of financial assets which help users of financial statements evaluating related risk exposures and the effect of those risks on the financial position of the Group and its subsidiaries. The Group and its subsidiaries adopt the amendments from 1 January 2012. These amendments have no material impact on the consolidated financial statements of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and interpretations not yet effective for the financial year beginning 1 January 2012 and relevant to the Group

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.
- IAS 19, 'Employee benefits', was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.
- 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 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and interpretations not yet effective for the financial year beginning 1 January 2012 and relevant to the Group *(Continued)*

- 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.

2.2 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 combination

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 combination (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 re-measured 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) Changes in ownership interests in subsidiaries without change of control

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

(c) Disposal of subsidiaries

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

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

2.3 Jointly controlled entities

Jointly controlled entities are those over which the Group has contractual arrangements to jointly share control with one or more parties, and whereby the Group together with the other ventures undertake an economic activity which is subject to joint control and none of the ventures has unilateral control over the economic activity.

The Group's interest in jointly controlled entities is accounted for by equity method of accounting in the consolidated financial statements. In the balance sheet of the Company, investments in jointly controlled entities are stated at costs less provision for impairment costs (Note 2.9). Investment income from investments in jointly controlled entities is accounted for by the Company based on dividends received and receivable.

2.4 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer, vice presidents and directors who make strategic decisions.

2.5 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 financial statements are presented in Renminbi ("RMB"), which is the Company's functional 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 re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

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

(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.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress represents property, plant and equipment under construction and is stated at cost. This includes the costs of construction, machinery and other expenditures necessary for the purpose of preparing the construction-in-progress for its intended use and those borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction-in-progress is not depreciated until such time as the relevant asset is completed and ready for its intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

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

Depreciation of property, plant and equipment is calculated using the straight-line method except for drill pipes which are leased out as operating lease are depreciated using unit-of-production method, to allocate their costs to their residual values over their estimated useful lives, as follows:

	Estimated useful life
Buildings	5-50 years
Machinery and equipment	5-10 years
Motor vehicles	5-10 years
Furniture, fixtures and others	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

2.7 Land use rights

Land use rights represent upfront prepayments made for the land use rights and leasehold land located in the PRC, which are classified as operating lease, and are expensed in the consolidated income statement on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the consolidated income statement.

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 the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Intangible assets *(Continued)*

(b) Computer software

Computer software 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, ranging from 5 to 10 years.

(c) Patents

Patents are initially recorded at actual cost incurred to acquire and amortised on a straight-line basis over their estimated useful lives, ranging from 3 to 10 years. Development costs that are directly attributable to the design, development and application of patents are recognised as intangible assets when the following criteria are met:

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

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

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.1 Classification *(Continued)*

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise 'trade and notes receivables', 'prepayments and other receivables' and 'cash and cash equivalents' in the balance sheets.

2.10.2 Recognition and measurement

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 carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.3 Impairment of financial assets

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 income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

2.10.4 Derivative financial instruments and hedging activities

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 method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) hedges of a net investment in a foreign operation (net investment hedge).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.4 Derivative financial instruments and hedging activities *(Continued)*

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within `other gains/(losses) – net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within `other gains/losses, net'.

2.11 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 design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

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

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

2.13 Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 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.

2.15 Trade payables

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

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

2.16 Borrowings

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

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

2.17 Current and deferred income tax

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

(a) Current income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Outside basis differences

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

(c) Offsetting

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

2.18 Employee benefits

(a) Pension and other social obligations

The Group has various defined contribution plans for pensions, housing fund and other social obligations in accordance with the local conditions and practices in the municipalities and provinces in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate publicly administered pension and/or other social insurance plan on mandatory bases. The Group will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Employee benefits *(Continued)*

(b) Share-based compensation

The Group operates a number of equity-settled share-based compensation plans, 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 at the grant date:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market 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. 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 income statement, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that 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 Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue associated with the sales of goods is recognised when the title to the goods, such as drilling tools, tubing and casing, has been passed to the customer, which is at the date when the customer receives and accepts the goods and collectability of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Revenue recognition *(Continued)*

(c) Lease income

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

(d) Interest income

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

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

2.21 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 income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as sale and leasebacks. Sale and leasebacks are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under sale and leasebacks is depreciated over the shorter of the useful life of the asset and the lease term.

2.22 Sale and lease back transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package, the accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognized as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Government grants

Grants from the government are recognised at fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to cost are deferred and recognised in the income statement over the period necessary to match them with the related costs that they are intended to compensate.

2.24 Dividend distribution

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

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 and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, while the Group also has purchases from and sales to overseas. During the year ended 31 December 2012, the Group developed its businesses overseas with most of the transactions denominated and settled in US$. Foreign exchange risk also arise from certain bank deposits and borrowings denominated in US$. The Group is exposed to foreign currency exchange risk primarily with respect to US$.

Anton Oilfield Services (Group) Limited, a subsidiary of the Company, entered into a foreign exchange forward contract to hedge the foreign exchange risk associated with its borrowings. This foreign exchange forward contract expired and settled in 2012.

As at 31 December 2012, if RMB had strengthened/weakened by 3% (2011: 3%) against the US$ with all other variables held constant, profit for the year and profit attributable to equity holders of the Company would have been RMB1,547,000 (2011: RMB7,024,000) lower/higher mainly as a result of foreign exchange losses/gains on translation of US$-denominated cash and cash equivalent, trade receivables and accruals, other payables and loans.

(ii) Cash flow interest rate risk

Borrowings at variable rate expose the Group to cash flow interest rate risk. Anton Oilfield Services (Group) Limited, a subsidiary of the Company, entered into a floating-to-fixed interest rate swap to hedge its cash flow interest rate risk. This interest rate swap expired and settled in 2012.

(Amounts expressed in thousands of RMB unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

A considerable portion of sales were made to the several major oilfield operators of the PRC and their affiliates, which are state-owned entities with good credit reputation, therefore the trade receivables of the Group had concentration risk (Note 5). Most of the Group's cash and cash equivalents were placed with state-owned banks in the PRC, the corresponding credit risk is relatively low.

(c) Liquidity risk

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

The table below analyses the Group's financial liabilities that will be settled on a net basis 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.

Group

As at 31 December 2012	**Within 1 year**	**1-2 years**	**Over 2 years**
Short-term borrowings	**191,683**	**—**	**—**
Trade and notes payables	**730,444**	**—**	**—**
Accruals and other payables	**217,670**	**—**	**—**
Current income tax liabilities	**37,308**	**—**	**—**
Long-term borrowings	**20,043**	**—**	**—**
Long-term bonds	**20,214**	**20,214**	**306,860**
Long-term payables	**12,430**	**3,313**	**—**
	1,229,792	**23,527**	**306,860**

Group

As at 31 December 2011	Within 1 year	1-2 years	Over 2 years
Short-term borrowings	315,439	—	—
Trade and notes payables	257,791	—	—
Accruals and other payables	123,852	—	—
Current income tax liabilities	29,177	—	—
Long-term borrowings	5,133	—	—
Long-term payables	12,509	12,409	3,314
	743,901	12,409	3,314

(Amounts expressed in thousands of RMB unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include borrowings and trade and notes payables, as shown in the consolidated balance sheet. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus total borrowings.

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

	As at 31 December	
	2012	2011
Total borrowings	**1,241,063**	577,794
Total equity	**2,080,954**	1,740,097
Total capital	**3,322,017**	2,317,891
Gearing ratio	**37%**	25%

The increase in gearing ratio in 2012 was mainly due to the increase in trade and notes payable and long-term bonds for operating needs.

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 liabilities that are measured at fair value at 31 December 2012 and 31 December 2011:

	As at 31 December	
	2012	2011
Liabilities		
– Derivatives used for hedging (level 2)	**N/A**	—

The fair value of above derivatives used for hedging is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little possible on entity specific estimates. All significant inputs required to fair value and instruments are observable.

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and notes receivables, other receivables and financial liabilities including trade and other payables, short-term borrowings and current portion of long-term borrowings approximate their fair values due to their short maturities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8). Based on management's assessment results, there was no impairment of goodwill as at 31 December 2012 and 2011 and no reasonable change to the assumptions would lead to an impairment.

(b) Useful lives of patents

The Group's management decided the estimated useful lives of patents and respective amortisation. The expected economic useful lives of patents can be significantly different following technology innovation and development. When the expected economic useful lives differ from the original estimates, management will adjust the useful lives accordingly. It is possible that the estimates made based on existing experience are different to the actual outcomes within the next financial period and could cause an adjustment to the amortisation and carrying amount of patents.

(c) Impairment of trade receivables

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

(d) Fair value of share options

The fair value of share options granted is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on the specific terms prescribed in the share option contracts and relevant market conditions at the grant dates.

(Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION

The chief executive officer, vice presidents and directors are the Group's chief operating decision-makers. Management has determined the operating segments based on the information reviewed by the chief operating decision makers for the purposes of allocating resources and assessing performance.

The Group's reportable segments are entity or group of entities that offer different products and services, which is the basis by which the chief operating decision makers make decisions about resources to be allocated to the segments and assesses their performance. Financial information of these entities has been separated to present discrete segment information to be reviewed by the chief operating decision makers.

The chief operating decision makers assess performance of four reportable segments: drilling technology, well completion, down-hole operation, and tubular services.

The measurement of profit or loss, assets and liabilities of the operating segments are the same as those described in the summary of significant accounting policies. The chief operating decision makers evaluate the performance of the operating segments based on profit or loss before income tax expense, depreciation and amortisation, interest income, finance expenses (net), share of loss from a jointly controlled entity and impairment loss of long-term investment in a jointly controlled entity ('EBITDA'). The corporate overheads and corporate assets are the general management expenses and assets incurred and held by the headquarters of the Group.

	Down-hole operation	**Well completion**	**Drilling technology**	**Tubular services**	**Total**
For the year ended 31 December 2012					
Revenue	**856,543**	**458,161**	**432,956**	**256,923**	**2,004,583**
EBITDA	**470,843**	**145,833**	**107,911**	**105,448**	**830,035**
Depreciation and amortisation	**(33,929)**	**(17,945)**	**(10,496)**	**(26,425)**	**(88,795)**
Interest income	**49**	**355**	**53**	**690**	**1,147**
Finance expenses	**—**	**—**	**(905)**	**(96)**	**(1,001)**
Income tax expense	**(23,825)**	**(14,091)**	**(4,236)**	**(7,512)**	**(49,664)**
For the year ended 31 December 2011					
Revenue	570,328	319,758	197,527	171,296	1,258,909
EBITDA	258,704	109,828	45,372	40,333	454,237
Depreciation and amortisation	(15,346)	(12,773)	(5,456)	(20,517)	(54,092)
Interest income	303	452	54	264	1,073
Finance expenses	(486)	(4)	(115)	(567)	(1,172)
Share of loss from a jointly controlled entity	—	—	—	(14,320)	(14,320)
Impairment loss of investment in a jointly controlled entity	—	—	—	(31,924)	(31,924)
Income tax expense	(14,618)	(9,703)	(1,085)	4,557	(20,849)

(Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
As at 31 December 2012					
Total assets	**989,095**	**954,503**	**697,904**	**359,738**	**3,001,240**
Total assets include:					
Investments in a jointly controlled entity	**—**	**—**	**—**	**4,000**	**4,000**
Additions to non-current assets (other than deferred tax assets)	**253,792**	**28,205**	**132,039**	**37,175**	**451,211**
As at 31 December 2011					
Total assets	577,089	882,670	198,773	334,836	1,993,368
Total assets include:					
Investments in a jointly controlled entity	—	—	—	4,000	4,000
Additions to non-current assets (other than deferred tax assets)	158,407	9,777	29,451	25,329	222,964

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

	Year ended 31 December	
	2012	2011
EBITDA for reportable segments	**830,035**	454,237
Corporate overheads	**(374,017)**	(241,285)
Depreciation	**(69,234)**	(46,725)
Amortisation	**(19,561)**	(7,367)
Interest income	**1,147**	1,073
Finance expenses	**(1,001)**	(1,172)
Share of loss of a jointly controlled entity	**—**	(14,320)
Impairment loss of investment in a jointly controlled entity	**—**	(31,924)
Profit before income tax	**367,369**	112,517

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

	As at 31 December	
	2012	2011
Assets for reportable segments	**3,001,240**	1,993,368
Corporate assets for general management	**591,594**	504,252
Total Assets	**3,592,834**	2,497,620

(Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

Geographical Information

	Revenue		Non-current Assets	
	2012	2011	**2012**	2011
PRC	**1,555,987**	971,642	**1,215,104**	881,642
Iraq	**327,564**	171,963	**150,860**	71,926
Other countries	**121,032**	115,304	**12,587**	3,354
Total	**2,004,583**	1,258,909	**1,378,551**	956,922

Client Information

Sales made to individually significant customer of each operating segment (accounts for over 10% of the total revenue of each operating segment) are as following:

For the year ended 31 December 2012

	Down-hole operation	**Well completion**	**Drilling technology**	**Tubular services**	**Total**
Client a	**—**	**—**	**108,507**	**156,279**	**264,786**
Client b	**183,274**	**—**	**—**	**—**	**183,274**
Client c	**151,948**	**—**	**—**	**—**	**151,948**
Client d	**90,387**	**—**	**—**	**—**	**90,387**
Client e	**—**	**—**	**65,504**	**—**	**65,504**
Client f	**—**	**—**	**—**	**26,249**	**26,249**
Total	**425,609**	**—**	**174,011**	**182,528**	**782,148**

Note: Client a and e are entities controlled by one major oilfield operator and client b and f are entities controlled by one major oilfield operator.

For the year ended 31 December 2011

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
Client 1	130,358	—	—	—	130,358
Client 2	86,996	—	—	—	86,996
Client 3	—	—	—	71,009	71,009
Client 4	—	—	54,899	—	54,899
Client 5	—	—	29,366	—	29,366
Client 6	—	—	25,044	—	25,044
Total	217,354	—	109,309	71,009	397,672

Note: Client 2, 3, 4 and 6 are entities controlled by one major oilfield operator.

(Amounts expressed in thousands of RMB unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and others	Construction-in-progress	Total
As at 1 January 2011						
Cost	95,975	301,874	37,201	21,350	72,864	529,264
Accumulated depreciation	(14,655)	(69,980)	(16,131)	(9,027)	—	(109,793)
Net book value	81,320	231,894	21,070	12,323	72,864	419,471
Year ended 31 December 2011						
Opening net book value	81,320	231,894	21,070	12,323	72,864	419,471
Additions	3,349	74,804	15,266	3,561	69,171	166,151
Additions due to sale and leaseback (a)	—	38,198	—	—	—	38,198
Transfer in/(out)	37,312	20,142	—	1,393	(58,847)	—
Disposal of subsidiaries	—	(3,436)	(173)	(7)	—	(3,616)
Depreciation charge	(4,368)	(34,109)	(7,504)	(3,948)	—	(49,929)
Disposals	—	(297)	(363)	(64)	—	(724)
Disposals due to sale and leaseback (a)	—	(30,975)	—	—	—	(30,975)
Closing net book value	117,613	296,221	28,296	13,258	83,188	538,576
As at 31 December 2011						
Cost	136,636	381,252	49,420	25,576	83,188	676,072
Accumulated depreciation	(19,023)	(85,031)	(21,124)	(12,318)	—	(137,496)
Net book value	117,613	296,221	28,296	13,258	83,188	538,576
Year ended 31 December 2012						
Opening net book value	**117,613**	**296,221**	**28,296**	**13,258**	**83,188**	**538,576**
Additions	**21,168**	**282,789**	**3,578**	**6,841**	**116,818**	**431,194**
Acquisition of subsidiaries	**13,378**	**7,239**	**5,771**	**880**	**41,110**	**68,378**
Transfer in/(out)	**9,177**	**53,074**	**543**	**1,130**	**(63,924)**	**—**
Depreciation charge	**(10,148)**	**(52,860)**	**(10,009)**	**(4,935)**	**—**	**(77,952)**
Disposals	**—**	**(2,687)**	**(552)**	**(200)**	**—**	**(3,439)**
Disposals of a subsidiary (Note 34)	**—**	**—**	**—**	**—**	**(1,701)**	**(1,701)**
Closing net book value	**151,188**	**583,776**	**27,627**	**16,974**	**175,491**	**955,056**
As at 31 December 2012						
Cost	**181,801**	**720,617**	**59,085**	**34,740**	**175,491**	**1,171,734**
Accumulated depreciation	**(30,613)**	**(136,841)**	**(31,458)**	**(17,766)**	**—**	**(216,678)**
Net book value	**151,188**	**583,776**	**27,627**	**16,974**	**175,491**	**955,056**

(Amounts expressed in thousands of RMB unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

(a) The Group entered into a sale and leaseback contract in 2011, pursuant to which the Group disposed some machinery and equipment with carrying amount of RMB30,975,000 and finance leased back. The contract term is 3 years.

Machinery and equipment includes the following amounts where the Group is a lessee under a sale and leaseback contract:

	As at 31 December	
	2012	2011
Cost - capitalised sale and leasebacks	**38,198**	38,198
Accumulated depreciation	**(5,828)**	(1,890)
	32,370	36,308

(b) As at 31 December 2012, buildings with net book value amounting to RMB37,742,000 and RMB6,770,000 were pledged as counter-guarantee for short-term and long-term borrowings, respectively (Note 17) (31 December 2011: Buildings amounting to RMB37,742,000 were pledged as counter-guarantee for short-term borrowings).

(Amounts expressed in thousands of RMB unless otherwise stated)

7. LAND USE RIGHTS - GROUP

Land use rights represent the Group's prepayments for the leasehold land located in the PRC which are held on leases within 50 years. The movement is as follows:

As at 1 January 2011	
Cost	27,190
Accumulated amortisation	(1,704)
Net book value	25,486
Year ended 31 December 2011	
Opening net book value	25,486
Additions	8,000
Disposal of subsidiaries	(1,673)
Amortisation charge	(532)
Closing net book value	31,281
As at 31 December 2011	
Cost	33,405
Accumulated amortisation	(2,124)
Net book value	31,281
Year ended 31 December 2012	
Opening net book value	**31,281**
Additions	**22,995**
Acquisition of subsidiaries	**6,126**
Disposal of a subsidiary (Note 34)	**(30,995)**
Amortisation charge	**(650)**
Closing net book value	**28,757**
As at 31 December 2012	
Cost	**31,531**
Accumulated amortisation	**(2,774)**
Net book value	**28,757**

As at 31 December 2012, land use rights amounting to RMB13,022,000 and RMB6,585,000 were pledged as counter-guarantee for short-term and long-term borrowings (Note 17) (31 December 2011: Land use rights amounting to RMB13,022,000 were pledged as counter-guarantee for short-term borrowings).

(Amounts expressed in thousands of RMB unless otherwise stated)

8. INTANGIBLE ASSETS - GROUP

	Patents	Goodwill	Computer software	Total
As at 1 January 2011				
Cost	89,248	265,697	6,046	360,991
Accumulated amortisation and impairment	(14,138)	—	(995)	(15,133)
Net book value	75,110	265,697	5,051	345,858
Year ended 31 December 2011				
Opening net book value	75,110	265,697	5,051	345,858
Additions	28,434	—	811	29,245
Amortisation charge	(9,028)	—	(653)	(9,681)
Closing net book value	94,516	265,697	5,209	365,422
As at 31 December 2011				
Cost	117,682	265,697	6,857	390,236
Accumulated amortisation and impairment	(23,166)	—	(1,648)	(24,814)
Net book value	94,516	265,697	5,209	365,422
Year ended 31 December 2012				
Opening net book value	**94,516**	**265,697**	**5,209**	**365,422**
Additions	**20,568**	**3,764**	**1,627**	**25,959**
Amortisation charge	**(19,419)**	**—**	**(777)**	**(20,196)**
Closing net book value	**95,665**	**269,461**	**6,059**	**371,185**
As at 31 December 2012				
Cost	**138,250**	**269,461**	**8,484**	**416,195**
Accumulated amortisation and impairment	**(42,585)**	**—**	**(2,425)**	**(45,010)**
Net book value	**95,665**	**269,461**	**6,059**	**371,185**

Goodwill is allocated to the cash-generating units of the Group identified according to their operations.

(Amounts expressed in thousands of RMB unless otherwise stated)

8. INTANGIBLE ASSETS - GROUP *(Continued)*

An operating segment-level summary of the goodwill allocation is presented below.

As at 31 December 2012	Down-hole operation	Well completion	Drilling technology	Total
Jilin Dongxin Oil Engineering Technology Co., Ltd.（吉林省東新石油工程技術有限公司, "Jilin Dongxin"）	**26,325**	**—**	**—**	**26,325**
Shandong Precede Petroleum Technology Co., Ltd.（山東普瑞思德石油技術有限公司, "Shandong Precede"）	**—**	**132,486**	**—**	**132,486**
Screen business	**—**	**106,886**	**—**	**106,886**
Bazhou Anton Chang Xiang Applied Chemical Technology Co., Ltd.（巴州安東暢想油田應用化學技術有限公司, "Bazhou Anton"）(Note 33)	**—**	**—**	**3,764**	**3,764**
	26,325	**239,372**	**3,764**	**269,461**

As at 31 December 2011	Down-hole operation	Well completion	Total
Jilin Dongxin	26,325	—	26,325
Shandong Precede	—	132,486	132,486
Screen business	—	106,886	106,886
	26,325	239,372	265,697

The recoverable amount of an operating segment is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expects cash flow beyond the five-year period will be similar to that if the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using zero growth rates.

(Amounts expressed in thousands of RMB unless otherwise stated)

8. INTANGIBLE ASSETS - GROUP *(Continued)*

The key assumptions used for value-in-use calculations are as follows:

As at 31 December 2012

	Jilin Dongxin	**Shandong Precede**	**Screen business**	**Bazhou Anton**
Gross margin	**13.08%**	**47.97%**	**27.60%**	**25.70%**
Discount rate	**13.00%**	**13.00%**	**13.00%**	**13.00%**

As at 31 December 2011

	Jilin Dongxin	Shandong Precede	Screen business
Gross margin	29.26%	58.08%	34.35%
Discount rate	13.00%	13.00%	13.00%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business.

Based on the assessments, no goodwill was impaired as at 31 December 2012.

9. INVESTMENT IN SUBSIDIARIES - COMPANY

	As at 31 December	
	2012	2011
Unlisted shares, at cost	**2,862,439**	2,862,439
Amounts due from a subsidiary*	**686,216**	686,216
Share option granted to employees of subsidiaries	**9,972**	9,687
	3,558,627	3,558,342

* The amounts due from a subsidiary are unsecured, interest free and with no fixed maturity dates. It is the directors' intention to convert these amounts due from a subsidiary into investment at cost in due course. Therefore the directors considered them as quasi-equity contributions which are stated at cost.

(Amounts expressed in thousands of RMB unless otherwise stated)

9. INVESTMENT IN SUBSIDIARIES - COMPANY *(Continued)*

As at 31 December 2012, the Company directly or indirectly held equity interests in the following subsidiaries, all of which are unlisted and limited liability companies:

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Directly held:				
Pure Energy Investments Limited ("Pure Energy")	Hong Kong, 17 August 2007	HK$100	100%	Investment holding
Anton Oilfield Services International Company Limited ("Anton International")	Hong Kong, 17 July 2008	HK$10,000	100%	Oilfield services and sales of equipment
Indirectly held:				
Beijing Hinen-Hitech Petroleum Technology Development Co., Ltd.（北京海能海特石油科技發展有限公司, "Hinen-Hitech"）	Beijing, the PRC, 18 September 2000	RMB500,000	100%	Manufacturing and sales of petroleum drilling and sand control equipment
Jilin Dongxin	Jilin Province, the PRC, 1 September 2001	RMB5,500,000	100%	Oilfield services and sales of production equipment
Anton Oilfield Services (Group) Limited（安東石油技術（集團）有限公司, "Anton Oil"）	Beijing, the PRC, 28 January 2002	US$131,000,000	100%	Oilfield services and sales of equipment
Xinjiang Tong'ao Oilfield Services Limited（新疆通奧油田技術服務有限公司, "Xinjiang Tong'ao"）	Xinjiang Uygur Autonomous Region, the PRC, 21 February 2002	RMB51,000,000	100%	Oilfield services
Beijing Tongsheng Well Engineering And Technology Limited（北京通盛威爾工程技術有限公司, "Tongsheng Well"）	Beijing, the PRC, 24 December 2004	RMB11,000,000	100%	Oilfield services
Anton Tong'ao Technological Products Co., Limited（安東通奧科技產業股份有限公司, "Anton Tong'ao"）	Xinjiang Uygur Autonomous Region, the PRC, 15 December 2005	RMB90,000,000	90%	Manufacturing of rod casing
Beijing Huarme Petroleum Technology Co., Ltd.（北京華瑞美爾石油科技有限公司, "Huarme"）	Beijing, the PRC, 17 April 2006	RMB500,000	100%	Manufacturing and sales of petroleum drilling and sand control equipment
Beijing Anton Oil Machine Technology Limited（北京安東石油機械技術有限公司, "Anton Machine"）	Beijing, the PRC, 29 September 2006	RMB10,000,000	100%	Research and development of new materials and technology

(Amounts expressed in thousands of RMB unless otherwise stated)

9. INVESTMENT IN SUBSIDIARIES - COMPANY *(Continued)*

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Indirectly held: *(Continued)*				
Xinjiang Foyou Oil Engineering Construction Limited（新疆佛友石油工程建設有限責任公司, "Xinjiang Foyou"）	Xinjiang Uygur Autonomous Region, the PRC, 22 December 2006	RMB35,000,000	100%	Oilfield services
Anton Energy Services Corp.	Canada, 14 August 2007	USD$100,000	100%	Sales and leasing of drilling equipments
Shandong Precede	Shandong Province, the PRC, 2 September 2008	RMB12,000,000	75%	Oilfield services and sales of equipment
Roxxon Industry Group Limited ("Roxxon Hong Kong")	Hong Kong, 11 September 2008	HK$10,000	100%	Oilfield services
Dongying Precede Well Completion and Sand Prevention Engineering Technology Research Centre（東營市普瑞斯德完井防砂工程技術研究中心, "Dongying Research Centre"）	Shandong Province, the PRC, 10 November 2008	RMB100,000	100%	Research and development of oilfield well completion technology
Qingdao Precede Oil Technology Limited（青島普瑞思德石油技術有限公司, "Qingdao Precede"）	Shandong Province, the PRC, 22 January 2009	RMB1,000,000	100%	Oilfield services and sales of production equipment
Anton International Kazakhstan Ltd. ("Anton HSK")	Kazakhstan, 31 March 2009	US$1,000	100%	Oilfield services
Anton International FZE Ltd. ("Anton Dubai")	The United Arab Emirates, 12 April 2009	US$7,300,000	100%	Oilfield services
Sichuan Anton Oil Gas Engineering And Technology Services Ltd.（四川安東油氣工程技術服務有限公司, "Sichuan Anton"）	Sichuan Province, the PRC, 14 July 2009	RMB50,000,000	100%	Oilfield services and sales of production equipment
Anton Oilfield Services Africa Co., Ltd. ("Anton Sudan")	Sudan, 9 September 2009	US$1,000,000	100%	Oilfield services
Anton Oilfiled Services Oversea Kish LLC. ("Anton Iran")	Kish Island, Iran, 1 February 2010	—	99%	Oilfield services
Anton Oil Technical Group (International) Limited ("Anton Oil Tech")	British Virgin Islands, 15 April 2010	US$10,000,000	100%	Import and export petroleum machinery and tools
RockWell Energy Services Ltd. ("Rockwell")	British Virgin Islands, 15 April 2010	US$50,000	100%	Oilfield technology consulting services

(Amounts expressed in thousands of RMB unless otherwise stated)

9. INVESTMENT IN SUBSIDIARIES - COMPANY *(Continued)*

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Indirectly held: *(Continued)*				
T&C International Trading Ltd. ("T&C")	British Virgin Islands, 15 April 2010	US$ 10,000,000	100%	Import and export petroleum machinery and tools
Anton Oilfield Technology, Inc. ("Anton Houston")	United States of America, 5 May 2010	US$500,000	100%	Oilfield technology research and consulting service
Anton Software Technology Ltd. (北京安東軟件技術有限公司, "Anton Software")	Beijing, the PRC, 19 October 2010	RMB7,500,000	100%	Software services, sales of electronic products
Tianjin Antonoil Machinery Manufacture Co., Ltd. (天津安東石油機械製造有限公司, "Tianjin Machine")	Tianjin, the PRC, 27 January 2011	RMB50,000,000	100%	Oilfield services, sales of production equipment and consulting service
Anton Oilfield Services DMCC. ("DMCC")	The United Arab Emirates, 28 March 2011	US$545,140	100%	Oilfield services
Tianjin Antonoil Import and Export Trading Co.,Ltd. (天津安東進出口貿易有限公司, "Tianjin Trading")	Tianjin, the PRC, 13 July 2011	US$5,000,000	100%	Oilfield services, sales of production equipment and consulting service
Andes Petroleum Company SAS ("SAS")	Bogota, Columbia, 27 October 2011	US$100,000	100%	Oilfield services
Sichuan Tongsheng Drilling Technology Ltd. (四川通盛鑽探工程有限公司, "Sichuan Tongsheng")	Sichuan Province, the PRC, 13 February 2012	RMB5,000,000	100%	Construction and service of drilling,sales of drilling product
Xinjiang Anton Oilfield Services Limited (新疆安東石油技術服務有限責任公司, "Xinjiang Anton")	Xinjiang Uygur Autonomous Region, the PRC, 24 February 2012	RMB30,000,000	100%	Oilfield services
Anton Oilfield Service Sucursal Colombia ("Anton Camara")	Bogota, Columbia, 4 April 2012	COP200,000,000	100%	Oilfield services
Anton New Material (Suining)Limited (安東新材料(遂寧)有限公司, "Suining Material")	Sichuan Province, the PRC, 6 June 2012	RMB10,000,000	100%	Oilfield services and sales of product
Wabolt Petroleum Limited ("Wabolt")	Hong Kong, 6 September 2012	RMB8,190,000	100%	Oilfield services

(Amounts expressed in thousands of RMB unless otherwise stated)

9. INVESTMENT IN SUBSIDIARIES - COMPANY *(Continued)*

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Indirectly held: *(Continued)*				
Antonoil De Suramerica C.A. ("Anton C.A.")	Venezuela, 19 December 2012	VEB300,000	100%	Oilfield services and sales of production equipment
Bazhou Chang Xiang Applied Chemical Technology Co., Ltd.巴州暢想應用化學技術有限公司("Bazhou Changxiang")	Xinjiang Uygur Autonomous Region, the PRC, 5 August 1994	RMB12,000,000	55%	Oilfield services
Bazhou Cheng Xi Petroleum Commodity Co., Ltd. （巴州誠熙石油物資有限公司,"Bazhou Chengxi"）	Xinjiang Uygur Autonomous Region, the PRC, 18 September 2006	RMB10,000,000	55%	Oilfield services
Bazhou Cheng Xi Petroleum Commodity Kazakhstan Co., Ltd. ("Bazhou HSK")	Kazakhstan, 1 December 2009	KZT13,000	55%	Oilfield services
Bazhou Anton	Xinjiang Uygu Autonomous Region, the PRC, 18 May 2012	RMB33,500,000	100%	Oilfield services

(Amounts expressed in thousands of RMB unless otherwise stated)

10. INVESTMENT IN A JOINTLY CONTROLLED ENTITY – GROUP

Investment in a jointly controlled entity of the Group represents the investment of 50% equity interest in Northern Heavy Anton Machinery Manufacturing Co., Ltd. (北重安東機械製造有限公司, "Northern Heavy"), which is unlisted and a limited liability company established in the PRC.

	2012	2011
As at 1 January	**4,000**	50,244
Share of loss	**—**	(14,320)
Impairment loss	**—**	(31,924)
As at 31 December	**4,000**	4,000

Company name	**Place and date of incorporation**	**Registered capital**	**Equity interest held by the Group**	**Principal activities**
Northern Heavy	Inner Mongolia, the PRC, 30 October 2007	RMB100,000,000	50%	Manufacturing and sales of drill collars and heavy-weight drill pipes

The following amounts represent 100% of the assets and liabilities, and sales and results of the jointly controlled entity.

	As at 31 December	
	2012 (Unaudited)	2011 (Unaudited)
Assets:		
Non-current assets	**76,540**	83,945
Current assets	**154,862**	114,875
	231,402	198,820
Liabilities:		
Current liabilities	**168,983**	125,575
	168,983	125,575
Non-controlling interests	**550**	1,397
Net assets	**62,419**	73,245
Revenue	**160,454**	172,448
Expenses	**(171,280)**	(199,593)
Loss after income tax	**(10,826)**	(27,145)
Non-controlling interests	**(847)**	(1,755)
Joint venture's commitments	**—**	—

There are no contingent liabilities relating to the Group's interest in the jointly controlled entity, and no contingent liabilities of the venture itself.

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INVENTORIES - GROUP

	As at 31 December	
	2012	2011
Raw materials	**135,253**	56,635
Work-in-progress	**167,896**	62,875
Finished goods	**202,363**	159,030
Spare parts and others	**3,698**	2,141
	509,210	280,681
Less: provision for inventory obsolescence (a)	**(22,170)**	(9,270)
	487,040	271,411

As at 31 December 2012 and 2011, all inventories were stated at cost.

(a) Movements of provision for inventory obsolescence during the year are analysed as follows:

	2012	2011
As at 1 January	**9,270**	9,270
Addition	**12,900**	—
As at 31 Decemeber	**22,170**	9,270

12. TRADE AND NOTES RECEIVABLES - GROUP

	As at 31 December	
	2012	2011
Trade receivables, net (a)	**919,430**	647,212
Notes receivable (d)	**28,875**	23,747
	948,305	670,959

(Amounts expressed in thousands of RMB unless otherwise stated)

12. TRADE AND NOTES RECEIVABLES - GROUP *(Continued)*

Note:

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

	As at 31 December 2012		
	Gross amount	**Impairment**	**Net value**
1 - 6 months (i)	**735,256**	**—**	**735,256**
6 months - 1 year (i)	**137,975**	**(6,286)**	**131,689**
1 - 2 years (ii)	**47,000**	**(1,737)**	**45,263**
2 - 3 years (ii)	**8,679**	**(3,815)**	**4,864**
Over 3 years (ii)	**7,205**	**(4,847)**	**2,358**
	936,115	**(16,685)**	**919,430**

	As at 31 December 2011		
	Gross amount	Impairment	Net value
1 - 6 months (i)	418,914	—	418,914
6 months - 1 year (i)	166,584	(1,052)	165,532
1 - 2 years (ii)	61,697	(6,623)	55,074
2 - 3 years (ii)	11,786	(4,164)	7,622
Over 3 years (ii)	6,023	(5,953)	70
	665,004	(17,792)	647,212

(i) As at 31 December 2012, trade receivables amount of RMB866,945,000 (31 December 2011: RMB584,446,000) aged within one year. These trade receivables were neither past due nor impaired due to the Group's credit policy.

(ii) The Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2012, trade receivables amounting to RMB52,485,000 (31 December 2011: RMB62,766,000) were past due but not impaired. For the past-due trade receivables without impairment, management considered such long ageing items were receivable from customers with good cooperation and no default history, therefore the risk of impairment was low.

(b) Most of the trade receivables are with credit terms of one year, except for retention money which would be collected one year after the completion of the sales. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables mentioned above. As of 31 December 2012, no trade receivables were pledged as security for borrowings (31 December 2011: RMB211,964,000 were pledged as security for short-term borrowings)(Note 17).

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

	2012	2011
As at 1 January	**17,792**	10,674
Additions	**28,277**	12,294
Reversal	**—**	(1,454)
Dispose of subsidiaries	**—**	(750)
Written off	**(29,384)**	(2,972)
As at 31 December	**16,685**	17,792

(d) Notes receivables are bank acceptance with maturity dates within six months.

(Amounts expressed in thousands of RMB unless otherwise stated)

12. TRADE AND NOTES RECEIVABLES - GROUP *(Continued)*

Note: *(Continued)*

(e) Trade and notes receivables were denominated in the following currencies:

	As at 31 December	
	2012	2011
RMB	**791,430**	585,138
US$	**156,261**	85,821
KZT	**614**	—
	948,305	670,959

13. PREPAYMENTS AND OTHER RECEIVABLES - GROUP AND COMPANY

	As at 31 December			
	Group		Company	
	2012	2011	**2012**	2011
Advances to suppliers	**74,997**	61,479	**—**	—
Other receivables	**164,786**	58,900	**383**	656
Amounts due from subsidiaries (a)	**—**	—	**116,129**	102,071
Amounts due from a related party (Note 35 (c))	**148**	415	**—**	—
	239,931	120,794	**116,512**	102,727

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

	As at 31 December			
	Group		Company	
	2012	2011	**2012**	2011
1 - 6 months	**119,815**	76,263	**5,874**	274
6 months - 1year	**89,515**	30,304	**8,414**	—
1 - 2 years	**23,276**	7,119	**—**	102,058
2 - 3 years	**900**	2,370	**102,058**	395
Over 3 years	**8,530**	8,557	**166**	—
Prepayments and other receivables, gross	**242,036**	124,613	**116,512**	102,727
Less: Impairment of prepayments and other receivables (b)	**(2,105)**	(3,819)	**—**	—
Prepayments and other receivables, net	**239,931**	120,794	**116,512**	102,727

(a) Amounts due from subsidiaries are unsecured, interest free and payable on demand.

(Amounts expressed in thousands of RMB unless otherwise stated)

13. PREPAYMENTS AND OTHER RECEIVABLES - GROUP AND COMPANY *(Continued)*

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

	2012	2011
As at 1 January	**3,819**	3,925
Additions	**95**	873
Reversal	**(8)**	(979)
Write-off	**(1,801)**	—
As at 31 December	**2,105**	3,819

14. CASH AND BANK – GROUP AND COMPANY

	As at 31 December			
	Group		Company	
	2012	2011	2012	2011
Restricted bank deposits (a)	**15,629**	10,380	**—**	—
Term deposits with initial terms of over three months (b)	**—**	5,000	**—**	—
Cash and cash equivalents				
– Cash on hand	**959**	1,423	**—**	—
– Deposits in bank	**522,419**	460,731	**1,567**	1,188
	539,007	477,534	**1,567**	1,188

(a) As at 31 December 2012, bank deposits amounting to RMB15,629,000 were held as securities for letter of guarantee and for issuance of notes payable (31 December 2011: RMB5,029,000).

As at 31 December 2011, bank deposits amounting to RMB5,351,000 were held as securities for long-term borrowings (Note 17(a)).

(b) As at 31 December 2011, the effective interest rate on term deposit with initial terms of over three months was 3.30% per annum and the deposit has a maturity of 180 days.

(c) Cash and bank were denominated in the following currencies:

	As at 31 December			
	Group		Company	
	2012	2011	2012	2011
RMB	**419,516**	397,414	**—**	—
US$	**97,535**	60,880	**292**	231
HK$	**4,574**	3,984	**1,275**	957
EUR	**4,301**	8,433	**—**	—
KZT	**11,069**	6,117	**—**	—
Others	**2,012**	706	**—**	—
	539,007	477,534	**1,567**	1,188

(Amounts expressed in thousands of RMB unless otherwise stated)

15. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	Authorised Number of shares	HK$'000
As at 31 December 2011 and 2012	3,500,000,000	350,000

	Number of shares issued and fully paid of HK$0.1 each (thousand)	Share capital HK$'000	Share capital RMB'000
As at 31 December 2010	2,093,154	209,315	197,420
Addition	8,397	840	695
As at 31 December 2011	2,101,551	210,155	198,115
Addition	33,363	3,336	2,721
As at 31 December 2012	2,134,914	213,491	200,836

(Amounts expressed in thousands of RMB unless otherwise stated)

15. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(b) Share options

In 2012, options to subscribe for 61,949,000 shares at the exercise price ranging from HK$1.072 to HK$3.820 (2011: 39,850,000 shares and 1,500,000 shares at exercise price of HK$1.450 and HK$1.506, respectively) have been conditionally granted to certain key employees and three independent non-executive directors. The options are exercisable gradually from the first anniversary of the service commencement date and have an option period of 3 to 4 years.

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

	Average exercise price in HK$ per share	Number of share options (thousands)
As at 31 December 2010		77,530
Granted (on 20 May 2011)	1.45	39,850
Granted (on 25 July 2011)	1.506	1,500
Exercised		(8,397)
Forfeited		(6,345)
As at 31 December 2011		104,138
Granted (on 19 Jan 2012)	1.072	40,000
Granted (on 16 Apr 2012)	1.240	6,000
Granted (on 18 Jun 2012)	1.160	7,100
Granted (on 22 Nov 2012)	2.610	8,720
Granted (on 28 Dec 2012)	3.820	129
Exercised		(33,363)
Forfeited		(7,591)
Expired		(8,550)
As at 31 December 2012		116,583

15. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(b) Share options *(Continued)*

Share options outstanding (in thousands) at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$ per share	Number of share options (thousands) As at 31 December 2012
28 April 2013	0.684	6,918
8 April 2014	0.750	10,650
19 May 2014	1.450	1,500
22 November 2014	0.760	8,902
18 January 2015	1.072	1,500
19 May 2015	1.450	26,564
24 July 2015	1.506	500
18 January 2016	1.072	38,100
15 April 2016	1.240	6,000
17 June 2016	1.160	7,100
21 November 2016	2.610	8,720
27 December 2016	3.820	129
	1.221	116,583

The exercise price of the granted options is equal to the highest of (i) the closing price of the shares of the Company in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the par value of the shares. Options are conditional on the employee completing one to three years' service (the vesting period) and have a contractual option term of three to four years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As of 31 December 2012, out of the 116,583,000 outstanding options (31 December 2011: 104,138,000 options), 29,412,000 options (31 December 2011: 30,110,000 options) were exercisable. Options exercised in 2012 resulted in 33,363,000 shares (2011: 8,397,000 shares) being issued at a weighted average price of HK$0.87 each (2011: HK$0.71 each). The related weighted average share price at the time of exercise was HK$1.85 (2011: HK$1.18) per share.

(Amounts expressed in thousands of RMB unless otherwise stated)

15. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(b) Share options *(Continued)*

The fair value of the options granted during the year ended 31 December 2012 is determined using the Binomial Option Pricing Model. The major assumptions used in the pricing model for options granted in 2012 were the exercise price shown above, and the other parameters are shown below:

Parameters	**Option granted in 2012**	Option granted in 2011
Share price as of the valuation date (HK$)	**1.06-3.82**	1.45-1.49
Expected dividend yield	**1.00%**	1.00%
Maturity years	**1.0-3.0**	2.0-3.5
Risk free rate	**0.25%-0.60%**	0.46%-1.04%
Annualised volatility	**46.88%-52.47%**	41.32%-59.41%

The weighted average fair value of options granted during the year determined using the Binomial valuation model was HK$0.47 per option (2011: HK$0.46). The volatility measured at the standard deviation of continuously compounded share returns is derived from historical volatility of the share price over the last 4 years.

The total expense recognised in the consolidated income statement for the year ended 31 December 2012 for share options amounted to RMB17,980,000 (2011: RMB9,870,000), with a corresponding amount credited in capital reserve.

(Amounts expressed in thousands of RMB unless otherwise stated)

16. RESERVES

	Group						
	Share premium	Capital reserve	Statutory reserve	Hedging reserve	Retained earnings	Exchange differences	Total
As at 31 December 2010	612,035	325,846	36,510	(1,102)	445,989	(2,684)	1,416,594
Profit for the year	—	—	—	—	77,344	—	77,344
Exchange differences	—	—	—	—	—	(6,813)	(6,813)
Cash flow hedges	—	—	—	1,102	—	—	1,102
Share option scheme (Note15(b))	—	9,870	—	—	—	—	9,870
Share option exercised (Note15(b))	6,992	(2,756)	—	—	—	—	4,236
Disposal of subsidiaries	—	4,590	(2,496)	—	297	—	2,391
Transfer to statutory reserves (a)	—	—	6,632	—	(6,632)	—	—
Dividends (Note 30)	(39,426)	—	—	—	—	—	(39,426)
Other	—	2,717	—	—	—	—	2,717
As at 31 December 2011	579,601	340,267	40,646	—	516,998	(9,497)	1,468,015
Profit for the year	—	—	—	—	302,579	—	302,579
Exchange differences	—	—	—	—	—	(1,882)	(1,882)
Share option scheme (Note15(b))	—	17,980	—	—	—	—	17,980
Share option exercised (Note15(b))	29,943	(8,916)	—	—	—	—	21,027
Transfer to statutory reserves (a)	—	—	15,465	—	(15,465)	—	—
Dividends (Note 30)	(36,694)	—	—	—	—	—	(36,694)
As at 31 December 2012	572,850	349,331	56,111	—	804,112	(11,379)	1,771,025

(a) Statutory reserves

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

	Company			
	Share premium	Capital reserve	Accumulated losses	Total
As at 31 December 2010	612,035	2,931,098	(90,187)	3,452,946
Share option scheme (Note 15(b))	—	9,870	—	9,870
Share option exercised (Note 15(b))	6,992	(2,756)	—	4,236
Loss for the year	—	—	(14,019)	(14,019)
Dividends (Note 30)	(39,426)	—	—	(39,426)
As at 31 December 2011	579,601	2,938,212	(104,206)	3,413,607
Share option scheme (Note 15(b))	—	17,980	—	17,980
Share option exercised (Note 15(b))	29,943	(8,916)	—	21,027
Profit for the year	—	—	6,663	6,663
Dividends (Note 30)	(36,694)	—	—	(36,694)
As at 31 December 2012	572,850	2,947,276	(97,543)	3,422,583

(Amounts expressed in thousands of RMB unless otherwise stated)

17. BORROWINGS

	As at 31 December	
	2012	2011
Long-term borrowings		
– Secured bank borrowings (a)	**20,000**	5,003
Less: Amount due within one year under current liabilities	**(20,000)**	(5,003)
	—	—
Short-term borrowings		
– Unsecured bank borrowings (b)	**126,568**	160,000
– Secured bank borrowings (c)	**65,000**	155,000
	191,568	315,000

(a) As at 31 December 2012, long-term bank borrowings denominated in RMB were secured by land use rights amounted to RMB6,585,000 (Note 7) and buildings of the Group amounted to RMB6,770,000 (Note 6), bearing interest at 7.07% per annum. The long-term borrowings will be matured in November 2013.

As at 31 December 2011, long-term bank borrowings were denominated in US$ and secured by bank deposits of the Group (Note 14(a)), bearing floating interest rates at LIBOR plus 3.4% per annum. These long-term borrowings were matured in 2012.

(b) As at 31 December 2012, unsecured short-term bank borrowings denominated in RMB amounted to RMB59,000,000 were bearing interest at 6% annum; RMB67,568,000 denominated in US$ were bearing interest ranging from Libor+3.711% to Libor+6.644% per annum.

As at 31 December 2011, short-term bank borrowings were all denominated in RMB, bearing interest ranging from 6.060% to 7.872% per annum.

(c) As at 31 December 2012, secured short-term bank borrowings are all denominated in RMB.

Secured short-term bank borrowings amounted to RMB50,000,000, bearing interest of 6%, were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd., a third party, with the Group's buildings amounting to RMB37,742,000 (Note 6) and land use rights amounting to RMB13,022,000 (Note 7) pledged as counter-guarantee.

Secured short-term bank borrowings amounted to RMB15,000,000, bearing interest at 7.8% per annum, were guaranteed by Li Ming, the minority interest shareholder of Bazhou Anton, a subsidiary of the Company.

As at 31 December 2011, RMB105,000,000 were secured by trade receivables of the Group amounting to RMB211,964,000, RMB50,000,000 were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd., a third party, with the Group's buildings amounted to RMB37,742,000 and land use right amounted to RMB13,022,000 pledged as counter-guarantee.

(d) As at 31 December 2012, the undrawn bank borrowing facilities of the Group amounted to RMB434 million (31 December 2011: RMB592 million) with maturity date of 30 January 2014.

(Amounts expressed in thousands of RMB unless otherwise stated)

18. TRADE AND NOTES PAYABLES - GROUP

	As at 31 December	
	2012	2011
Trade payables	**643,134**	217,765
Trade payables to related parties (Note 35(c))	**50,354**	—
Notes payables	**36,956**	40,026
	730,444	257,791

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

	As at 31 December	
	2012	2011
Less than 1 year	**692,188**	241,681
1 - 2 years	**24,930**	10,843
2 - 3 years	**8,983**	3,142
Over 3 years	**4,343**	2,125
	730,444	257,791

Trade and notes payable were denominated in the following currencies:

	As at 31 December	
	2012	2011
RMB	**703,099**	226,876
US$	**23,074**	30,915
KZT	**4,271**	—
	730,444	257,791

(Amounts expressed in thousands of RMB unless otherwise stated)

19. ACCRUALS AND OTHER PAYABLES – GROUP AND COMPANY

	As at 31 December			
	Group		**Company**	
	2012	2011	**2012**	2011
Customer deposits and receipts in advance	**16,268**	14,012	**—**	—
Accrued expenses	**15,572**	5,308	**2,508**	2,520
Payroll and welfare payable	**46,624**	11,030	**31**	31
Taxes other than income taxes payable (a)	**90,235**	53,722	**—**	—
Consideration for acquisition of subsidiaries in prior years	**6,360**	13,960	**—**	—
Amounts due to subsidiaries (b)	**—**	—	**50,748**	47,984
Dividend payable	**3,000**	—	**—**	—
Interest payable	**12,128**	847	**—**	—
Others	**27,483**	24,973	**—**	—
	217,670	123,852	**53,287**	50,535

(a) Taxes other than income taxes payable mainly comprise accruals for business tax, value-added tax and individual income tax.

(b) Amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed term of repayment.

20. LONG-TERM BONDS

Anton Oil, a subsidiary of the Company, issued a RMB medium-term note with maturity of 3 years in May 2012 on China's Interbank Bond Market. The bonds were issued at par value of RMB300 million, bearing interest at 6.59% per annum. The net proceeds received by the Group approximated RMB299 million. Interest is payable on an annually basis. The effective interest rate is 6.74% per annum. As at 31 December 2012, interest payable amounted to approximately RMB12 million (31 December 2011: N/A).

As of 31 December 2012, the fair value of long-term bonds approximated to RMB314,272,000 (31 December 2011: N/A).

(Amounts expressed in thousands of RMB unless otherwise stated)

21. OTHER LONG-TERM PAYABLES

As at 31 December 2012, other long-term payables represent sale and leaseback liabilities.

	As at 31 December	
	2012	2011
Gross sale and leaseback liability		
No later than 1 year	**12,430**	12,509
Later than 1 year and no later than 3 years	**3,313**	15,723
Present value of sale and leaseback liability	**15,743**	28,232
Future finance charges on sale and leaseback	**(883)**	(2,489)
Present value of sale and leaseback liability	**14,860**	25,743

The present value of sale and leaseback liabilities is as follows:

	As at 31 December	
	2012	2011
No later than 1 year	**11,604**	10,896
Later than 1 year and no later than 3 years	**3,256**	14,847
	14,860	25,743

22. DEFERRED INCOME TAX – GROUP

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.

	As at 31 December	
	2012	2011
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**19,553**	17,643
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**484**	331
– Deferred tax liabilities to be settled within 12 months	**495**	626
	979	957

(Amounts expressed in thousands of RMB unless otherwise stated)

22. DEFERRED INCOME TAX – GROUP *(Continued)*

Deferred tax liabilities:

	Acquisition of subsidiaries	Withholding tax from investment income	Total
As at 31 December 2010	1,156	994	2,150
Credited to the consolidated income statement	(626)	(567)	(1,193)
As at 31 December 2011	530	427	957
(Credited)/Charged to the consolidated income statement	(472)	494	22
As at 31 December 2012	58	921	979

As at 31 December 2012, deferred income tax liabilities of RMB32,202,000 (31 December 2011: RMB24,658,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries in the PRC. 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.

Deferred tax assets:

	Tax losses	Impairment provision of receivables and inventories	Total
As at 31 December 2010	749	2,259	3,008
Credited to the consolidated income statement	13,122	1,513	14,635
As at 31 December 2011	13,871	3,772	17,643
Credited to the consolidated income statement	577	1,333	1,910
As at 31 December 2012	14,448	5,105	19,553

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB2,811,000 (2011: RMB605,000) in respect of losses amounting to RMB10,955,000 (2011: RMB2,952,000) that can be carried forward against taxable income as the Group is going to close the relevant subsidiaries.

(Amounts expressed in thousands of RMB unless otherwise stated)

23. REVENUE

Revenue by category is analysed as following:

	Year ended 31 December	
	2012	2011
Sales of goods	**515,931**	367,078
Sales of services	**1,488,652**	891,831
	2,004,583	1,258,909

24. EXPENSE BY NATURE

Operating profit is arrived at after charging/(crediting) the following:

	Year ended 31 December	
	2012	2011
Materials and services	**865,468**	571,878
Staff costs		
– Salaries and other staff expenses	**248,130**	125,982
– Share-based compensation	**17,980**	9,870
Depreciation	**72,579**	48,783
Amortisation	**20,846**	10,213
Sales tax and surcharges	**33,144**	28,005
Other operating expenses	**359,103**	291,478
– Addition in impairment of receivables	**28,364**	10,734
– Addition in impairment of inventories	**12,900**	—
– Loss/(Gain) on disposal of property, plantand equipment	**1,211**	(236)
– Auditor's remuneration - audit service	**3,700**	3,400
Total operating cost	**1,617,250**	1,086,209

25. OTHER GAINS, NET

	Year ended 31 December	
	2012	2011
Government grants and subsidies	**12,185**	5,169
Loss on disposal of subsidiaries	**—**	(3,066)
Fair value loss on derivatives	**(273)**	—
Others	**(1,266)**	52
	10,646	2,155

(Amounts expressed in thousands of RMB unless otherwise stated)

26. FINANCE COSTS, NET

	Year ended 31 December	
	2012	2011
Interest income	**1,932**	2,254
Interest expenses on bank borrowings	**(27,473)**	(14,877)
Interest expenses on sale and leaseback liability	**(1,606)**	(851)
Exchange loss, net	**(1,884)**	(593)
Others	**(1,579)**	(2,027)
	(30,610)	(16,094)

27. STAFF COSTS

	Year ended 31 December	
	2012	2011
Wages, salaries and allowances	**202,796**	110,206
Housing subsidies (a)	**7,347**	4,171
Contributions to pension plans (b)	**12,639**	9,212
Share option costs		
– equity settled share based payment (Note 15(b))	**17,980**	9,870
Welfare and other expenses	**25,348**	2,393
	266,110	135,852

(a) Housing subsidies mainly include the Group's contributions to government-sponsored housing funds, at rates ranging from 5% to 12% of the employees' salaries for the Group's Chinese employees in the PRC.

(b) This represents the Group's contributions to defined contribution pension plans organised by respective municipal and provincial governments of the PRC, at a rate of 20% of the salaries for the Group's Chinese employees and subject to a certain ceiling according to the related local regulations.

The Group has no other material obligations for the payment of pensions and other post-retirement benefits of employees or retirees other than those disclosed above.

(Amounts expressed in thousands of RMB unless otherwise stated)

27. STAFF COSTS *(Continued)*

(c) Emoluments of directors and five highest paid individuals

The remuneration of every director and the chief executive for the year ended 31 December 2012 and 2011 are set out below:

	For the year ended 31 December 2012				
Directors	**Fees**	**Basic Salaries and Allowances**	**Bonus**	**Retirement benefits and others**	**Total**
Luo Lin (also the chief executive)	**—**	**1,272**	**—**	**29**	**1,301**
Liu Enlong	**—**	**1,002**	**—**	**38**	**1,040**
Wu Di	**—**	**1,060**	**—**	**40**	**1,100**
Wang Mingcai*	**390**	**—**	**—**	**—**	**390**
Zhu Xiaoping*	**390**	**—**	**—**	**—**	**390**
Zhang Yongyi*	**390**	**—**	**—**	**—**	**390**
	1,170	**3,334**	**—**	**107**	**4,611**

	For the year ended 31 December 2011				
Directors	Fees	Basic Salaries and Allowances	Bonus	Retirement benefits and others	Total
Luo Lin (also the chief executive)	—	858	—	23	881
Liu Enlong	—	769	—	—	769
Wu Di	—	767	—	35	802
Wang Mingcai*	390	—	—	—	390
Zhu Xiaoping*	390	—	—	—	390
Zhang Yongyi*	390	—	—	—	390
	1,170	2,394	—	58	3,622

* 8,400,000 share options on aggregate were granted to three independent non-executive directors in February 2008, April 2009, May 2011 and January 2012, with total expense recognised in the consolidated income statement for the year ended 31 December 2012 amounted to RMB536,000 (2011: RMB315,000) which are not included in this summary.

(Amounts expressed in thousands of RMB unless otherwise stated)

27. STAFF COSTS *(Continued)*

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2011: two) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the other three (2011: three) individuals during the year are as follows:

	Year ended 31 December	
	2012	2011
Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,239**	2,634
Contributions to pension schemes	**53**	45
	3,292	2,679

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emoluments bands		
RMB nil – RMB 1,000,000	**—**	2
RMB 1,000,000 – RMB 1,500,000	**3**	1
	3	3

(e) During the years ended 31 December 2012 and 2011, no directors or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

28. INCOME TAX EXPENSE

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

PRC enterprise income tax ("EIT") is provided on the basis of the profits of the PRC established subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for the subsidiaries of the Group was 25% in 2012 (2011: 25%), based on the relevant PRC tax laws and regulations, except for certain subsidiaries which are taxed at preferential tax rates as detailed below. The statutory income tax is assessed on an individual entity basis, based on their results of operations. The commencement dates of tax holiday period of each entity are individually determined.

Being high technology enterprises certified by Beijing Municipal Science And Technology Commission and local finance and taxation administration, Anton Oil, Hinen-Hitech and Tongsheng Well have been granted a preferential rate of 15% respectively which is required to be filed and approved by Beijing Local Taxation Bureau annually.

Pursuant to Ba Kai Guo Shui Deduction Bei Zi [2011] No.29 issued by the State Administration of Taxation, Bazhou Technical Economic Development Area, Korla, Xinjiang Uygur Autonomous Region, Anton Tong'ao has been granted a preferential rate of 15% during 2011 to 2013 as a high technology enterprise.

Pursuant to Lun Guo Shui Jian Tong Deduction Bei Zi [2012] No.28 issued by the State Administration of Taxation, Luntai County office, Xinjiang Tong'ao has been granted a preferential rate of 15% in 2012 as an enterprise set up in the western area of the PRC.

Being a high technology enterprise certified by Shandong Science And Technology Department and local finance and taxation administration, Shandong Precede has been granted a preferential rate of 15%, which is required to be filed and approved by Shandong Local Taxation Bureau annually.

(Amounts expressed in thousands of RMB unless otherwise stated)

28. INCOME TAX EXPENSE *(Continued)*

Pursuant to Chuan Guo Shui Fa [2012] No.28 issued by the State Administration of Taxation, Chuan Shan District office, Sichuan Anton, as an enterprise set up in the western area of the PRC, has been granted a preferential rate of 15% during 2011 to 2020.

The applicable EIT tax rates of the group companies during the years ended 31 December 2012 and 2011 are detailed as follows:

	Year ended 31 December	
	2012	2011
The Company	**—**	—
Anton Oil	**15%**	15%
Xinjiang Tong'ao	**15%**	15%
Tongsheng Well	**15%**	15%
Anton Tong'ao	**15%**	15%
Anton Machine	**25%**	25%
Xinjiang Foyou	**25%**	25%
Hinen-Hitech	**15%**	15%
Huarme	**25%**	25%
Jilin Dongxin	**25%**	25%
Shandong Precede	**15%**	15%
Anton Energy Services Corp.	**29.5%**	29.5%
Anton International	**16.5%**	16.5%
Pure Energy	**16.5%**	16.5%
Qingdao Precede	**25%**	25%
Dongying Research Centre	**25%**	25%
Anton HSK	**20%**	20%
Anton Dubai*	**—**	—
Sichuan Anton	**15%**	25%
Anton Sudan	**35%**	35%
Roxxon Hong Kong	**16.5%**	16.5%
RockWell	**—**	—
T&C	**—**	—
Anton Oil Tech	**—**	—
Anton Software	**25%**	25%
Anton Houston	**15%**	15%
Anton Iran	**25%**	25%
Tianjin Trading	**25%**	25%
Tianjin Machine	**25%**	25%
DMCC	**—**	—
SAS	**33%**	33%
Bazhou Anton	**25%**	N/A
Bazhou Changxiang	**25%**	N/A
Bazhou Chengxi	**25%**	N/A
Bazhou HSK	**20%**	N/A
Sichuan Tongsheng	**25%**	N/A
Suining Material	**25%**	N/A
Xinjiang Anton	**25%**	N/A
Anton C.A.	**33%**	N/A
Anton Camara	**33%**	N/A

* Anton Dubai's branch in Iraq is levied by local tax authority at 35% of the deemed taxable income which is calculated as total revenue multiplied by 7%.

(Amounts expressed in thousands of RMB unless otherwise stated)

28. INCOME TAX EXPENSE *(Continued)*

	Year ended 31 December	
	2012	2011
Current income tax		
– PRC income tax	**32,693**	21,716
– Others	**18,859**	14,961
Deferred income tax (Note 22)		
– Deferred tax relating to the origination and reversal of temporary differences	**(1,888)**	(15,828)
	49,664	20,849

The taxation of the Group's profit before tax differs from the theoretical amount that would arise using applicable tax rates of the Group companies as follows:

	Year ended 31 December	
	2012	2011
Profit before income tax	**367,369**	112,517
Tax calculated at applicable tax rates	**64,870**	28,244
Preferential tax rates and tax exemption on the income of certain subsidiaries	**(21,616)**	(6,437)
Income not subject to taxation	**—**	(15,783)
Expenses not deductible for taxation purposes	**5,971**	4,726
Additional deduction of research and development expense	**(3,890)**	(3,495)
Tax losses for which no deferred income tax asset was recognised	**2,811**	605
Utilisation of previously unrecognised tax losses	**(605)**	(685)
Withholding tax from overseas income	**2,293**	13,810
Others	**(170)**	(136)
Income tax expense	**49,664**	20,849

(Amounts expressed in thousands of RMB unless otherwise stated)

29. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**302,579**	77,344
Weighted average number of ordinary shares in issue (thousands of shares)	**2,115,501**	2,098,430
Basic earnings per share (expressed in RMB per share)	**0.1430**	0.0369

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2012, the only dilutive factor of the Company was the outstanding share options. For the purpose of calculating diluted earnings per share, the Company assumed the outstanding share options had been exercised upon the grant dates of the options. Meanwhile, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January 2012 to 31 December 2012) based on the monetary value of the subscription rights attached to outstanding share options, which are deducted from the total number of outstanding share options to determine the number of diluted shares deemed to be issued at no consideration.

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**302,579**	77,344
Weighted average number of ordinary shares in issue (thousands of shares)	**2,115,501**	2,098,430
Adjustments for assumed conversion of share options (thousands of shares)	**42,404**	20,780
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	**2,157,905**	2,119,210
Diluted earnings per share (expressed in RMB per share)	**0.1402**	0.0365

(Amounts expressed in thousands of RMB unless otherwise stated)

30. DIVIDENDS

The dividends paid in 2011 and 2012 were RMB39,426,000 (RMB0.0188 per ordinary share) and RMB36,694,000 (RMB0.0170 per ordinary share), respectively, which were paid out of the share premium account of the Company A dividend in respect of the year ended 31 December 2012 of RMB0.0456 per ordinary share, amounting to a total dividend of RMB97,600,000, is recommended by the directors on 15 March 2013, which is to be paid out of the share premium account of the Company (Dividend per ordinary share is calculating based on the number of issued share as of 14 March 2013). Such dividend is subject to the approval by the shareholders at the next Annual General Meeting. These financial statements do not reflect this dividend payable.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31 December	
	2012	2011
Profit for the year	**317,705**	91,668
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 24)	**72,579**	48,783
– net loss/(gain) on disposals (Note 24)	**1,211**	(236)
Amortisation of land use rights and intangible assets (Note 24)	**20,846**	10,213
Addition of impairment of receivables (Note 24)	**28,364**	10,734
Addition of impairment of inventories (Note 24)	**12,900**	—
Charge of share option scheme (Note 15(b))	**17,980**	9,870
Loss on disposal of subsidiaries (Note 25)	**—**	3,066
Share of loss of a jointly controlled entity	**—**	14,320
Impairment loss of investment in a jointly controlled entity	**—**	31,924
Net foreign exchange loss (Note 26)	**1,884**	593
Interest income (Note 26)	**(1,932)**	(2,254)
Interest expenses on bank borrowings (Note 26)	**27,473**	14,877
Interest expenses on sale and leaseback liability (Note 26)	**1,606**	851
Income tax expense	**49,664**	20,849
Changes in working capital:		
Inventories	**(189,823)**	(7,106)
Trade and notes receivables	**(215,770)**	(11,101)
Prepayments and other receivables	**(19,885)**	(19,065)
Trade and notes payables	**290,808**	26,572
Accruals and other payables	**1,802**	17,658
Restricted bank deposits	**(5,249)**	(1,673)
Net cash inflows from operations	**412,163**	260,543

(b) Significant non-cash transactions

The principal non-cash transactions for the year ended 31 December 2012 were short-term bank loans borrowed via trade finance agreement whereby the bank made payments to the Group's suppliers directly, which involved no cash receipts or payments by the Group. The aggregate amount of such short-term bank loans borrowed during the year ended 31 December 2012 was approximately RMB102 million (2011: Nil).

(Amounts expressed in thousands of RMB unless otherwise stated)

32. COMMITMENTS

(a) Capital commitments

Capital commitments related to investments in property, plant and equipment at the balance sheet date but not yet provided for in the balance sheets were as follows:

	As at 31 December	
	2012	2011
Contracted but not provided for		
– Property, plant and equipment	**289,442**	222,814
	289,442	222,814

(b) Operating lease commitments – where the Group is the lessee

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

	As at 31 December	
	2012	2011
No later than 1 year	**3,080**	5,925
1 to 2 years	**1,156**	2,013
2 to 3 years	**533**	800
3 to 4 years	**—**	533
	4,769	9,271

(Amounts expressed in thousands of RMB unless otherwise stated)

33. BUSINESS COMBINATIONS

In May 2012, Anton Oil, a wholly-owned subsidiary of the Company, acquired 55% equity interest in Bazhou Changxiang, Bazhou Chengxi and Bazhou Chengxi HSK (together the "Bazhou Companies") from their independent natural person owners via the establishment of Bazhou Anton, in which Anton Oil holds 55% of the equity interest. Anton Oil injected cash into Bazhou Anton whilst the owners of Bazhou Companies invested their 100% equity interest of Bazhou Companies into Bazhou Anton and Bazhou Anton became the immediate parent company of Bazhou Companies. According to the Acquisition and Cooperation Agreement, the maximum cash consideration is RMB61 million, in which certain portion is contingent depending on achievement of future profit target. Based on the management's best estimates of the contingent consideration, the total consideration of this acquisition is determined as RMB40,431,000.

The fair values of assets and liabilities arising from this acquisition on the acquisition date are as follows:

Non-current assets	75,265
Cash and cash equivalents	39,312
Other current assets	201,492
Non-current liabilities	(40,000)
Current liabilities	(209,402)
Total identifiable net assets	66,667
Non-controlling interests	(30,000)
Goodwill	3,764
Consideration	40,431
Cash and cash equivalents from the subsidiaries acquired	39,312
Cash consideration paid	(36,667)
Cash from acquisition of subsidiaries, net	2,645

The revenue included in the consolidated income statement since acquisition date contributed by the acquisition above was RMB31.14 million. The acquisition above also contributed a net loss of RMB8.98 million over the same period.

Had the acquisition above been consolidated from 1 January 2012, the consolidated income statement would show revenue of RMB2,095 million and net profit of RMB344 million.

Anton Bazhou has been sold to a third party in February 2013 (Note 36(b)).

34. DISPOSAL OF A SUBSIDIARY

In July 2012, Anton Oil entered into a share transfer agreement with an independent third party and sold the Group's 100% equity interest in Tianjin Antonoil Investment and Management Co., Ltd. ("天津安東投資管理有限公司", "Tianjin Investment"), for a consideration of RMB10,000,000 with no consequent disposal gain or loss.

35. RELATED PARTY TRANSACTIONS

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

(a) The following companies are related parties of the Group during the year ended 31 December 2012 and 2011:

Names of related parties	**Nature of relationship**
Northern Heavy	Jointly controlled entity invested by Anton Oil
Schlumberger NV ("SLB NV")	Shareholder of the Company since 6 July 2012
China Nanhai Magcobar Mud Corp. Ltd. ("Nanhai Magcobar")	Controlled by the same ultimate parent company of SLB NV
Schlumberger Oilfield China ("SLB China")	Controlled by the same ultimate parent company of SLB NV
Schlumberger Drilling (Singapore) Pte. Ltd ("SLB Singapore")	Controlled by the same ultimate parent company of SLB NV
Schlumberger JHP Oilfield Technologies (Shandong) Co.,Ltd. ("SLB JHP")	Controlled by the same ultimate parent company of SLB NV
Smith Drilling Equipment (Changzhou) LTD ("Smith Drilling")	Controlled by the same ultimate parent company of SLB NV
Dowell Schlumberger (Western) S.A. ("Dowell SLB")	Controlled by the same ultimate parent company of SLB NV

(Amounts expressed in thousands of RMB unless otherwise stated)

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

	Year ended 31 December	
	2012	2011
Purchases of goods or services		
Northern Heavy	**36,172**	6,105
Nanhai Magcobar	**33,094**	—
SLB China	**18,515**	—
SLB JHP	**674**	—
Smith Drilling	**2,676**	—
Dowell SLB	**3,122**	—
	94,253	6,105
Sales of goods		
Northern Heavy	**1,047**	859

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

(c) Balances with related parties

	As at 31 December			
	Group		Company	
	2012	2011	**2012**	2011
Prepayments and other receivables (Note 13)				
Northern Heavy	**148**	415	**—**	—
Trade and notes payable (Note 18)				
Northern Heavy	**18,824**	—	**—**	—
Nanhai Magcobar	**21,449**	—	**—**	—
SLB China	**6,028**	—	**—**	—
SLB JHP	**674**	—	**—**	—
Smith Drilling	**257**	—	**—**	—
Dowell SLB	**3,122**	—	**—**	—
	50,354	—	**—**	—

Balances with related parties were all unsecured, non-interest bearing and had no fixed repayment terms.

(Amounts expressed in thousands of RMB unless otherwise stated)

35. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

	Year ended 31 December	
	2012	2011
Salaries and other short-term employee benefits	**8,736**	7,914
Pension scheme	**142**	120
Share-based payments	**2,581**	3,480
	11,459	11,514

36. SUBSEQUENT EVENTS

(a) On 15 March 2013, the directors of the Company proposed to distribute RMB97,600,000 dividend for the year ended 31 December 2012. This dividend is subject to the approval of shareholders at the annual general meeting.

(b) In February 2013, Anton Oil entered into a share transfer agreement with an independent third party to sell the Group's 55% equity interest in Bazhou Anton, for a consideration of RMB56,497,000. This disposal was completed on 6 February 2013, with a gain on disposal approximated RMB13.25 million.