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)


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Antonoil
Establishment as an
international leading
oilfield technical service company

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Luo Lin
Mr. Ma Jian
Mr. Wu Di

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

AUTHORIZED REPRESENTATIVES

Mr. Luo Lin
Mr. Ngai Wai Fung

COMPANY SECRETARY

Mr. Ngai Wai Fung (FCIS, FCS(PE), CPA, ACCA)

COMPANY'S WEBSITE

www.antonoil.com

INVESTORS RELATIONS HOTLINE

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+852 29077108
email: ir@antonoil.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2109, Cosco Tower
183 Queen's Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN PRC

No. 8, Pingcui West Road, Donghuqu
Chaoyang District, Beijing, China 100102

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
PO Box 75
George Town
Grand Cayman KY 1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
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 law:
Maples and Calder

PRINCIPAL BANKERS

China Merchants Bank
Shanghai Pudong Development Bank
Bank of Beijing

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

3337

DATE OF LISTING

14 December 2007

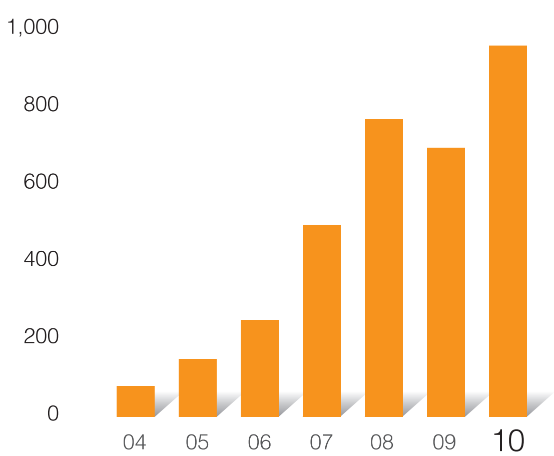
Financial Summary

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

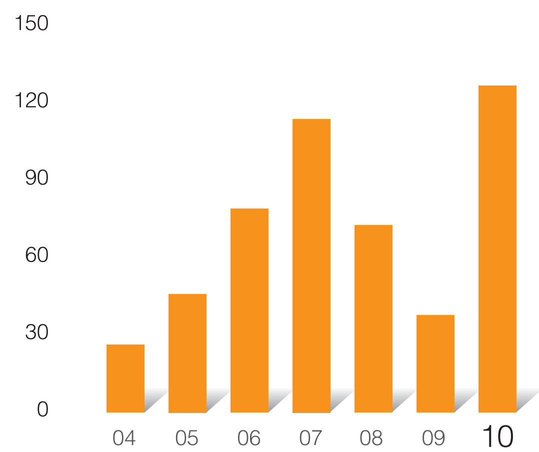
CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December				
RMB ('000)	2006	2007	2008	2009	**2010**
Revenue	246,951	493,434	763,266	690,030	**950,715**
Other income/(losses), net	1,987	888	(14,551)	3,748	**575**
Operating costs	(164,104)	(360,951)	(606,965)	(656,287)	**(805,874)**
Operating profit	84,834	133,371	141,750	37,491	**145,416**
Finance (costs)/income, net	(1,384)	(6,546)	(37,683)	1,801	**(2,697)**
Profit before income tax	83,450	127,314	105,418	38,331	**142,295**
Profit for the year	78,497	113,157	72,145	37,606	**125,926**
Attributable to:					
Equity holders of the Company	76,651	113,000	68,463	32,020	**116,655**
Minority interests	1,846	157	3,682	5,586	**9,271**
Dividends	—	—	57,000	18,000	**39,400**

REVENUE
(RMB million)



PROFIT FOR THE YEAR
(RMB million)



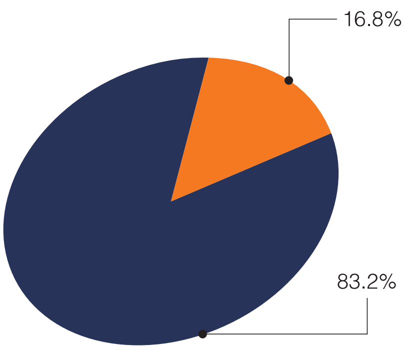
Financial Summary

CONDENSED CONSOLIDATED BALANCE SHEETS

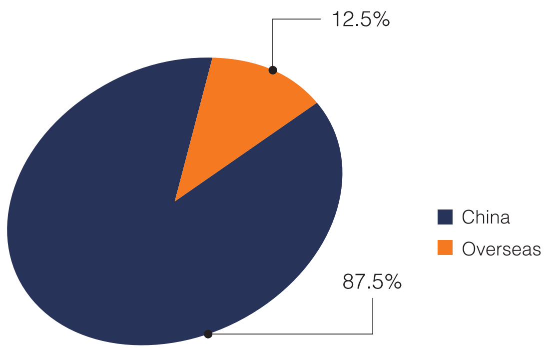
	As at 31 December				
RMB ('000)	2006	2007	2008	2009	**2010**
Assets					
Non-current assets	84,655	298,480	617,863	723,685	**844,067**
Current assets	421,337	1,542,495	1,307,459	1,067,795	**1,346,847**
Total Assets	505,992	1,840,975	1,925,322	1,791,480	**2,190,914**
Total Equity	305,753	1,389,769	1,550,614	1,546,079	**1,650,561**
Liabilities					
Non-current liabilities	—	42,545	5,407	2,479	**2,150**
Current liabilities	200,239	408,661	369,301	242,922	**538,203**
Total liabilities	200,239	451,206	374,708	245,401	**540,353**
Total equity and liabilities	505,992	1,840,975	1,925,322	1,791,480	**2,190,914**
Net current assets	221,098	1,133,834	938,158	824,873	**808,644**
Total assets less current liabilities	305,753	1,432,314	1,556,021	1,548,558	**1,652,711**

Financial Summary

REVENUE BREAKDOWN BY REGION

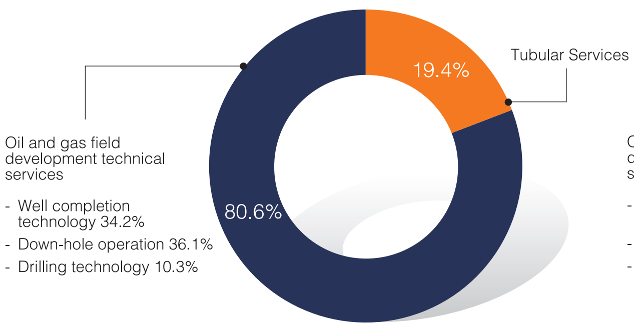


2010

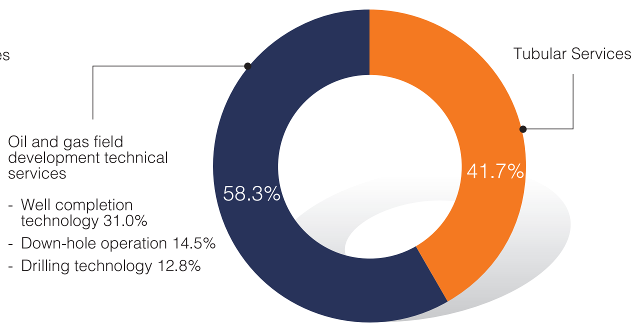


2009

REVENUE BREAKDOWN



2010



2009

Chairman's Statement

Chairman **LUO LIN**

The Group has established itself with oil and gas field development technical services as its main business and tubular services as its supplementary business. The Group's strategic transformation is successful as its business model becomes more similar to that of the international oilfield technical services companies such as Schlumberger.

The Group has been striving to establish itself as an international leading oilfield technical service company with a strong foothold in China based on an oil and gas field development technical service model with wellbore technologies as the core. Since its listing in 2007, the proportion of revenue from the oil and gas field development technical services in the revenue of the Group has been increasing through talent recruitment, research and development of new technologies and cooperation, and investments and mergers and acquisitions. From 2007 to 2009, it was 52%, 55% and 58% respectively. For 2010, there was a breakthrough which reached 80%. The proportion of revenue from the tubular services cluster, the principal operation prior to our listing, in the revenue of the Group had decreased to below 20%. The Group has established itself with oil and gas field development technical services as its main business and tubular services as its supplementary business. The Group's strategic transformation is successful as its business model becomes more similar to that of the international oilfield technical services companies such as Schlumberger.

The Group has maintained high speed growth. Before 2009, the compound annual growth rate of revenue was over 50%. 2009 was only the year that our revenue fallen in the history of the Group due to the financial crisis. In 2010, revenue reached RMB950 million, representing a growth of approximately 38% over 2009 due to industry recovery, new technological development and successful promotion. The Group has returned to the track of rapid growth.

Meanwhile, the Group has achieved higher profitability due to its high technology. In 2008, the net profit margin of its operating activities was more that 20%. Affected by the financial crisis, the profit margin significantly dropped to below 10% in 2009. However, in 2010, the net profit margin of its operating activities returned to approximately 13% due to industry recovery, new technological development and successful promotion. Compared to 2008, the change in profit margin was mainly due to its increased investment in research and development and its larger presence in the overseas

Chairman's Statement

market in the recent three years to enhance its strength in research and development and establish a global network. The Group also increased its investment in talents to recruit talents of high end technology and young and excellent talents to participate in the business of the Group. The profit margin was lower than that in 2008 but the Group's research and development capability was strengthened with more access to the overseas market and an enriched talent reserve in place for further business growth. The Group's profitability will further rebound and will be stable for a longer period as its business achieves a succes in the domestic and overseas markets.

In 2010, our development model was characterised as that of a major component and a supplementary component. For the major business of oil and gas field development technical services, the Group established an oil and gas reservoir assessment division to support its business development of drilling, well completion, down-hole operation and oil production technology in terms of oil and gas reservoir assessment, thus further optimising its strategic positioning by establishing its oil and gas field development integrated technical service capability with wellbore technologies as the core. Meanwhile, the Group established the Integrated Project Business Unit to directly undertake the projects of integrated general contracting service. In 2010, the equipment services of the down-hole operation cluster including coiled tubing services and tubular helium testing services were generally successful, indicating that the investment-driven business development model of the Group was mature. Meanwhile, the Group undertook the oil production technology service business by integrating the oil production businesses such as chemical EOR (enhanced oil recovery), well flushing services and gas lift services into the oil production technology project division, thus preparing itself for the full development of the oil production technical service businesses. For the supplementary business of tubular services, the Group took the initiative to adjust its business structure by increasing the proportion of technical services such as tubular testing and repair and decreasing the proportion of production and sales of tubulars. Its revenue decreased by approximately 36% in 2010 compared to 2009 but its profit before interest, tax, depreciation and amortisation increased by approximately 16%. The revenue quality of tubular services significantly improved.

In 2010, for market development, the Group formulated and effectively implemented its four-in-one marketing strategy comprised of strategic marketing, brand marketing, technical marketing and value marketing. In 2010, the Group established strategic cooperation relationships with the major oil and gas fields of PetroChina, Al-waha Petroleum Co., Ltd and other enterprises to further enhance its position in the market. For the domestic market, in the first half of the year, the Group was successful in being granted unilateral indicative committed workload by PetroChina for the services of multistage sanded fracture for horizontal wells in 77 out of the 102 wells in its oil and gas fields. In the second half of the year, the Group also successfully won the bid for drilling and related works contract of the Carbon Capture and Storage ("CCS") model project of Shenhua Group, under which, the Group provided Shenhua Group with integrated technical services. The Group's success in bidding the above projects represented that its brand with respect to horizontal well multistage fracture, tight gas development and integrated service gained high recognition in the domestic market. For the overseas market, the Group was granted a 3-year service contract in Iraq by Al-waha Petroleum Co., Ltd. The Group will provide a series of services such as acidizing and fracturing, well completion and directional well services during the Al-Ahdab Oilfield development in Irag of Al-waha Petroleum Co., Ltd. Its local operation achieved a success and gained recognition from the client, thus laying a solid foundation for it to expand into the Halfaya oilfield and the Rumaila oilfield of larger size. The Group's success in those projects signified that it had become the indispensable partner for the Chinese investors developing overseas oilfields.

Chairman's Statement

Looking forward into 2011, the Group will have better development opportunities. The demand for natural gas investments is strong in the domestic market. To meet the target of natural gas consumption as a percentage of primary energy consumption, which will increase to 8% by the end of the period of the Twelfth Five Year Plan, the natural gas production capacity of oil companies should at least double in five years. Development of natural gas and unconventional gas has become the strategic and growth works of oil companies. For the overseas market, oil companies have extensively undertaken investments in the Middle East and Central Asian countries, especially the Middle East. Oil companies will invest billions of US$ in Iraq to participate in the post-war reconstruction in Iraq and their service demand is strong.

In 2011, the Group will firmly grasp the opportunities arising from the oil companies' natural gas and overseas investments. The Group will rapidly build up our service capability and a team of talents to develop our business. For its operation, the Group will continuously create value for our customers generally through a service model of integrated general contracting with its business philosophy of integrated service. In 2011, the Group will make greater investment in talents, research and development and equipment to drive the business development. For the capacity in talents, the Group will make greater effort to recruit talents of the core technologies and high end technology. It also places more emphasis on campus recruitments to employ more young people to build up our great business. For the investment in research and development, the Group will strengthen the research and development strength of its research and development centre in Houston. The Group will introduce technologies from its research and development centre in Houston and establish its global purchase system. For the investment in capacity, the Group will heavily invest in the down-hole operation cluster, particularly in coiled tubing and ancillary equipment, pumping equipment and tubular helium testing equipment. Meanwhile, the Group will make investment in other business clusters and accelerate the execution of its regional distribution strategy of business.

2011 is second year of our second pioneering work. We will continue to operate under our philosophy of "We succeed by helping others to succeed". We aim at creating value for and becoming the indispensable partner of our customers. We are heading for the target of becoming an international leading oilfield technical service company with a strong foothold in China.

Company Overview

COMPANY PROFILE:

The Group is an independent oil and gas field development integrated service provider in China, which provides one-stop technical services, including the two major businesses, namely oil and gas field development technical services and tubular services for oil and gas field development of oil companies. As at 31 December 2010, the total number of employees of the Group was 1,038. The business of the Group started in 1999 and was established in the Tarim Basin, Xinjiang by its founder, Mr. Luo Lin. The business development experienced the following stages:

- From 1999 to 2002, the Group became a local tubular technical service company serving the local market by providing its customers with the technical services such as tubular testing, repair and leasing in the Tarim Basin;
- from 2003 to 2005, the Group moved its headquarters to Beijing, expanded into the businesses of the technical services such as tubular coating, and sales of tubulars' thus establishing a model combining tubular technical services and sales of tubulars, and enlarged its market from the Tarim Basin to the major oilfields in China;
- from 2006 to 2009, the Group completed its private equity financing and listing on the main board in Hong Kong and strived for the transformation from a tubular service company into an oil and gas field development one-stop technical service provider with well completion operation as its core, as well as gaining access to the overseas market by adopting a follow-up strategy by following the Chinese investors investing overseas; and
- from 2010 to date, the Group has commenced its second pioneering work with its positioning in developing its integrated oil and gas field development technical service with wellbore technologies as the core and independently developing its tubular services and has actively developed the overseas market with the target of becoming an international leading oilfield technical service company with a strong foothold in China.

DEVELOPMENT STRATEGY:

The long term strategy of the Group is establishing itself as an international leading oilfield technical service company with a strong foothold in China by capitalising on the advantage of raw material cost in China, talents and emerging markets. Since its listing in 2007, the Group has been striving for the transformation from a technical service company mainly engaging in tubular services and sales into an oil and gas field development one-stop technical service company with wellbore technologies as the core. The proportion of revenue from oil and gas field development technical services in the revenue of the Group has been increasing through talent recruitment, research and development of new technologies and cooperation, and investments and mergers and acquisitions. From 2007 to 2009, it was 52%, 55% and 58% respectively. For 2010, there was a breakthrough which reached 80%. The Group succeeded in completing its strategic transformation with its efforts in the past three years.

In the coming three years, the Group will continue to grow on a model combining self-development and mergers and acquisitions and develop its services and products based on wellbore technologies in the areas of oil and gas field development. Meanwhile, the Group will continue to adopt the follow-up strategy by following the Chinese investors to develop overseas oilfields to gain access to the overseas market with an aim to become a competitive international oil and gas field development one-stop technical service company.

In the years to come, the Group will develop an integrated business system including oil and gas field exploration, development and management from oil and gas field development over time, and will commence international merger and acquisition and establish cooperation relationship with various international major oil companies, thus establishing itself as an international leading oilfield technical service company with a strong foothold in China.

Company Overview

MARKET, CUSTOMERS AND COMPETITION:

The market of the Group is divided into the domestic market and the overseas market. Domestically, the headquarters of the Group is located in Beijing and the Group positions itself in the high end service market and for the time being mainly serves its customers in onshore oil and gas fields. Its services are provided in response to the demand for natural gas development, horizontal well technology applications and the integrated service of the customers. Its major customers in the domestic market are the major oil and gas fields of PetroChina and Sinopec. Its main markets are the major natural gas exploration and development areas such as the Tarim Basin, the Sichuan Basin, the Erdos Basin and the Songlian Basin, as well as the unconventional gas (coal seam gas and shale gas) exploration and development areas. The Group has set up 14 offices and 6 on-site service bases to provide customers with corresponding, timely and tailor-made on-site services.

The international headquarters of the Group is located in Dubai. The Group positions itself as a follower which follows Chinese investors investing overseas and provides its services to the overseas oilfields invested by them. The Chinese investors investing overseas include PetroChina, Sinopec, CNOOC, ZhenHua Oil, Sinochem, CITIC Resources and other solid private investors. Their investments are located in the regions including the countries and areas in the Middle East, Central Asia, Africa and America. The Group has set up branches and offices in 8 conutries to provide customers with comprehensive, timely and tailor-made on-site services.

In both the domestic and overseas markets, the major competitors of the Group are internationally well-known oilfield technical service companies such as Schlumberger, Halliburton, Baker Hughes and Weatherford. However, the Group is an indispensable partner of the international oilfield technical service companies as the Group enjoys the advantage of talents in China, service and better knowledge of Chinese geological conditions and the Chinese market; meanwhile, international oilfield technical service companies are also our partners due to the technology and brand they enjoyed.

BUSINESS:

The business of the Group is classified into two major segments, namely technical services for 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 oil companies complete oil and gas field development and enhance production and reduce costs against various technical problems in the wellbore during 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 tubulars (drilling tools, tubing and casing), including technical services such as testing, repair, coating and leasing, and production and sale of tubulars.

The profit centres of the Group are organised based on business cluster 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: It 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 and integrated drilling 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

Company Overview

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 payment and reduce the drilling cycle. The sidetracking drilling technology of the Group is an effective means to enhance 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.

Integrated drilling: It is the single well general contracting and block general contracting service for oil companies. The Group has developed its technology 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, supervise 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 development. As the Group positioned itself as a technical service company which does not own drilling rig directly, the drilling rig will often be provided through cooperation with third parties.

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 strata 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 strata 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

Company Overview

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 in unconsolidated formations, the reserves seriously affected by aggregates or thick but water-resistant reserves during well completion, 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 with leading gravel packing well completion technologies and tools able to be used in cased and open holes. The gravel packing well completion of 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: It 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, 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 and other coiled tubing treaments.

Company Overview

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 the industrial standard maker. It is promoting the tubular helium testing technology to the surface facilities such as underground gas storage facilities and natural gas fields 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.

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 tubulars: It includes the production and sale of heavy-weight drilling pipes, drilling collars, ordinary drilling pipes and processing and sale of tubing and casing.

TECHNOLOGICAL RESEARCH AND DEVELOPMENT:

As oil and gas field development evolves, there emerges a new trend in the oil industry in China: Low permeability becomes the mainstream of exploration and development in the future; natural gas and unconventional gas become the focus of the oil companies during exploration and development and the demand for enhancing the recovery rate of existed oil fields is much stronger. As a result, the demand for new technologies from oil companies becomes more and more strong. As an oilfield technical service company positioned in the high end market, the Group values technological research and development one of its most important tasks and adhered to a research and development strategy comprising of self-development and technology introduction. This strategy introduces the overseas advanced technologies and transforms them into self-developed technologies of the Group with their essence. Under this strategy, the Group establishes strategic cooperation relationship with various international oilfield technical service companies and sets up a research and development centre in Houston of the United States, through which the Group introduce overseas advanced technologies. Meanwhile, the Group establishes cooperation relationship with the research units of oil companies. The Group has set up Anton design institute with China University of Petroleum to self-develop its technologies. As at 31 December 2010, the total patent rights of the Group amounted to 294.

Currently, the Group had established three technological features of natural gas development, horizontal well operation and the integrated service. The natural gas development technologies of the Group established a thorough technological system which applied in conventional natural gas development, tight gas development, coal seam gas development, shale gas development, well completion of gas storage facilities and tubular helium testing. The horizontal well operation technologies of the Group established the one-stop service capability covering horizontal well drilling, well completion and production enhancement. The integrated technology realised the full range service capability which satisfied the needs for the development of horizontal wells, highly difficult wells and unconventional gas reserves, as well as block general contracting. The effective research and development strategy enables the Group to be able rapidly develop new technologies to satisfy the needs of the customers and create maximum value for them.

Highlights of the year 2010

JANUARY

First cooperation of coiled tubing project between Antonoil and Shell achieved a success.

Horizontal well flow adjustment and water control technology was successfully applied in Northwest Bureau.

APRIL

Donations were made to Yushu Disaster Relief.

Antonoil was granted unilateral indicative committed workload by PetroChina for the services of multistage sanded fracture for horizontal wells in 77 wells in its oil and gas fields.

JUNE

Liquid expansion packer was applied in Liaohe oilfield for the first time, achieving good start.

JULY

Antonoil and Schlumberger entered into a strategic cooperation agreement.

AUGUST

Antonoil won the title of Beijing well-known trademark.

Antonoil provided an integrated drilling solution to the largest carbon reduction works in Asia.

OCTOBER

2011 Campus recruitment campaign started nationwide.

Management Discussion and Analysis

BUSINESS REVIEW

Benefited from the factors such as global economic recovery and an increase in real economic demand, the oil industry has shown sign of full recovery in 2010. In China, oil companies speeded up their construction of production capacity. On one hand, they intensified efforts in exploration to gain reserves growth. On the other hand, they actively developed newly explored and proven oil and gas fields, and extensively employed new technologies to increase daily yield per well with a view to achieving steady and increased production in the key oil and gas fields. In order to fulfil the aim of establishing a resource conserving and environmentally friendly society stated in the "Twelfth Five Year Plan", oil companies turned to the natural gas business as their strategic and growth projects, and accelerated the construction of natural gas production capacity to achieve a rapid growth of natural gas production. Meanwhile, Chinese investors seized the cooperation opportunities to actively invest in overseas oilfields. Their overseas business presence continued to grow with strategic access to the countries and regions in the Middle East, Central Asia, Africa and America and yielded significant results.

Against a backdrop as stated above, China's oilfield services industry also fully recovered. By seizing the opportunities arising from the acceleration of natural gas investment by oil companies, the scaled application of horizontal well technologies, the growth in demand for integrated service and increased overseas investments, the Group returned to the track of high speed growth as before 2009 with total revenue amounted to RMB950.7 million, which represented a growth of 37.8% as compared to 2009. Meanwhile, under the guidance of the objective of becoming an international leading oilfield technology service company with a strong foothold in China, the Group further explicitly established its strategic positioning as an oil and gas field development technical service company with wellbore technologies as the core for the current stage, developed new technologies aiming at high-end market and promoted self-developed products falling into the technical services category. In 2010, the Group improved its gross profit margin by succeeding in promoting its self-developed new technologies and increasing the proportion of revenue contribution from products falling into the technical services category. The operating profit and profit after tax of the Group were RMB145.4 million and RMB125.9 million respectively, representing a growth of 287.7% and 234.8% from 2009 respectively.

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Under the guidance of its strategic positioning as an oil and gas field development technical service company with wellbore technologies as the core, the Group strived to provide its customers with one-stop service covering the whole process of the oil and gas field development by fully participating in each stage of oil and gas field development, namely drilling, well completion, down-hole operation and oil production. In 2010, the Group established an oil and gas reservoir assessment division, to support its business development of drilling, well completion, down-hole operation and oil production in terms of oil and gas reservoir assessment, and to realize the integration of geology and engineering, the integration of drilling and well completion, the integration of all the single technologies in the course of oil and gas field development. In 2010, the Group introduced a service model of integrated general contracting to provide customers with single well general contracting and block general contracting services, thus effectively making use of the overall technological strength of the Group. That service model of integrated general contracting generally lowered customers' costs and increased efficiency, and was also in line with the development trends in the market. In 2010, the Group realised revenue from the integrated general contracting service model of RMB26.8 million.

The business cluster of the Group was classified into the well completion cluster, the down-hole operation cluster, the drilling technology cluster and tubular services cluster, of which, the well completion technology cluster, the down-hole operation cluster and the drilling technology cluster, as well as the oil production technology service which was tentatively classified into the down-hole operation cluster for management reason due to its relatively small size, were part of the oil and gas field development technical services. Given the business of the tubular services cluster providing their services and products for the use and protection of oil tubular, it had a different development objective and a different business model as compared with the oil and gas field development technical services. As a result, the Group intended to formulate a target-oriented development strategy for the tubular services cluster and develop it independently.

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In 2010, revenue from each business cluster was as follows:

Revenue by cluster (%)

	Year ended 31 December	
	2010	2009
Well completion	**34.2%**	31.0%
Down-hole operation	**36.1%**	14.5%
Drilling technology	**10.3%**	12.8%
Tubular services	**19.4%**	41.7%
Total	**100%**	100%

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Well Completion

In 2010, the Group's well completion technology cluster saw substantial growth with its revenue grown by 52.1% to RMB325.3 million from 2009. Integrated well completion technical services, screen well completion technical services and gravel packing technical services under the well completion techonology cluster realised growth to varying extent.

In 2010, the Group consolidated the integrated well completion technology division and screen well completion technology division to unify the implementation and management of well completion technical services. Revenue of the consolidated division was RMB180.6 million, representing an increase of 61.4% as compared to revenue from the same technological products in 2009 and of which, revenue from integrated well completion technical services was RMB121.9 million, up 237.1% from 2009. The integrated well completion technical services established their self-developed tool design, testing and assembling capabilities as the base of the Group for assembling the well completion tools commenced operation. Under the same technical indicators, the well completion tools of the Group enjoyed substantial cost advantage over the same types of products in the international market. In 2010, integrated well completion technical services made major breakthroughs in the overseas markets with reputation built up, the well completion tools of the Group will be extensively used in the domestic and overseas markets. Revenue from screen well completion technical services in 2010 was RMB58.7 million, only down 22.4% despite the 23.5% decrease of the sales of sand screens used by screen well completion technical services to 42,533 meters from 2009, with profit margin slightly improved. Meanwhile, the Group continued to conduct research and development on the screen well completion technology. In 2010, the self-developed flow adjustment and water control screen pipes of the Group were successfully used in oilfields, thus laying a foundation for nationwide market promotion. The Group continued to provide the oilfield customers with well completion tools and the related equipment as required in oil production. In 2010, these activities maintained a steady growth with revenue of RMB27.0 million, representing a growth of 30.0% from 2009.

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Gravel packing well completion services were operated by Shandong Precede, which the Group bought controlling stake in 2008. In 2010, revenue from gravel packing well completion services was RMB116.7 million, representing a growth of 40.3% from 2009. The gravel packing technology of the Group attained the international standard and commanded a solid market position in Shengli oilfield, Henan oilfield and Jidong oilfield. The gravel packing well completion technical services were planned to be further introduced to Xinjiang oilfield, Dagang oilfield, Jilin oilfield, Liaohe oilfield and overseas oil and gas oilfields having such market prospects due to their significant effect on sand rock sand prevention and heavy oil production enhancement.

Down-hole Operation Cluster

In 2010, the down-hole operation cluster achieved excellent results with its revenue amounting to RMB344.0 million, representing an increase of 244.0% from 2009. Enhancement operation services and equipment services in the down-hole operation cluster, as well as oil production services which were classified in the down-hole operation cluster, recorded growth to varying extent.

In 2010, revenue from enhancement operation services was RMB221.4 million, representing a growth of 255.4% from 2009, due to the pay-off of the marketing efforts of the Group's multistage fracture technology for horizontal wells. In 2010, Anton Oilfield Services (Group) Ltd, a wholly-owned subsidiary of the Group, was granted unilateral indicative committed workload by PetroChina for the services of multistage sanded fracture for horizontal wells in 77 out of the 102 wells in its oil and gas fields. The average basic price per well was RMB2.2 million. As of 31 December 2010, the Group successfully completed the multistage fracture operation for 56 wells, upon which the relevant gas wells had achieved consecutive high productivity. The significant progress achieved for this business fully demonstrated the Group's strength in the down-hole operation area. This business helped establish the Group's leading position in the industry of multistage fracture technology for horizontal wells and laid the foundation for the long-term partnership between the Group and its major customers, which was to have a positive impact on the development of tight gas and shale gas areas.

The equipment services of the down-hole operation cluster covered coiled tubing services, tubular helium testing services as well as the pumping services that were under construction. The equipment services generated revenue of RMB90.0 million in 2010, representing an increase of 386.5% from RMB18.5 million in 2009. As of the date of this report, the Group had invested in 3 sets of coiled tubing equipment which helped form 3 coiled tubing operating teams covering the markets of the southwestern China region, Changqing region and Middle East countries. During the period under review, the Group's coiled tubing operation services were successfully applied in the Southwestern China region and the Changqing region, and successfully expanded into the Middle East market to provide services to the overseas oil and gas fields invested by Chinese investors. In addition, the enhancement operation combining coiled tubing and hydro jet tools developed by the Group had been successfully applied in the Daqing region, laying the foundation for nationwide promotion. Revenue from coiled tubing services increased to RMB61.2 million in 2010 from RMB3.1 million in 2009. Upon successful application and promotion, the tubular helium testing technology service consolidated its leading position in China with a revenue increase of 87.0% to RMB28.8 million in 2010 from RMB15.4 million in 2009. The Group had set up the industrial entry standards with the customers and was prepared to launch comprehensive promotion of the application of this technology to major gas fields of its customers and the gas storage facilities which were under large scale development.

During the period under review, revenue from the oil production services, which mainly included chemical EOR (enhanced oil recovery), well flushing services and gas lift services, of the Group was RMB32.5 million, representing a growth of 68.5% from 2009. In 2010, the Group established the oil production technology project division to unify the management of the above businesses, thus forging the unique oil production technical services.

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Drilling Technology Cluster

In 2010, revenue of the drilling technology cluster was RMB97.5 million, which represented a growth of 10.7% from 2009.

In 2010, revenue of the directional drilling division was RMB70.7 million, representing a decrease of 19.8% from 2009. The Group seized the development opportunities arising from the application of horizontal well technology of oil companies to develop its own technological features based on the technological divergence. As of the date of this report, the Group had established a directional drilling division which included the various technological features of high temperature and high pressure directional drilling, casing exiting sidetracking and drilling acceleration. The above technologies had been successfully applied in oil and gas fields.

In order to fulfill the ever-increasing marketing demand for the integrated service, on 30 June 2010, the Group established the Integrated Project Business Unit, which was engaged in the provision of integrated technical services covering drilling, well completion and down-hole operation, and oil and gas field general contracting services for the markets of, among other things, general contracting for highly difficult wells including the CCS project, general contracting for coal seam gas development and general contracting for oil and gas field development. In August 2010, the Group won the bid for drilling and related works contract of the Carbon Capture and Storage ("CCS") model project of Shenhua Group, under which, the Group provided Shenhua Group with integrated technical services, which included the works of drilling, wireline logging, mud logging, well testing, coring, cementing, well completion, perforating, fracturing and installation of monitoring apparatus, and the control and management of complicated events in the course of operations. The remuneration of the contract of this project was composed of fixed returns and variable returns. The fixed returns were approximately RMB26 million and the variable returns were determined by the actual service volumes. Shenhua Group's CCS project has turned a new page in China's undertaking of complete CCS projects. There were numerous complicated factors and a high degree of difficulties involved in such kind of projects, imposing extremely high requirements on general contractors' overall competency. The successful winning of bid reflected the Group's unparalleled integrated technical services strength, operating competency and project management capability. It also signified the establishment of the Group's advantageous position as an oilfield service provider in China's oil and gas field integration operation area. After the establishment of the Integrated Project Business Unit, the Group was also granted an integrated coal seam gas technical service contract. In 2010, the Integrated Project Business Unit achieved revenue of RMB26.8 million and of which, revenue from CCS project was RMB13.3 million, revenue from coal seam gas project was RMB13.5 million. The establishment of the Integrated Project Business Unit enhanced the overall service capability of the Group, thus having very meaningful significance to the development of the Group.

Tubular Services Cluster

In 2010, revenue of the tubular services cluster was RMB184.0 million, which represented a decrease of 36.1% from 2009 primarily due to the Group's initiative in adjusting its business structure to increase the proportion of high value-added technical services such as tubular testing and repair in the cluster and decrease the proportion of production and sales of tubulars. The profitability of the tubular services cluster was therefore enhanced.

The Group strived for establishing a one-stop tubular service model with the tubular technical services supplemented with production and sale of tubulars, especially the service capabilities of tubular testing, repair, coating and leasing. In 2010, the Group innovatively and successfully researched and developed its mobile tubular repair technology. Leveraging that technology, the Group was able to provide its customers with on-site repair services in any outdoor environment. The research and development of that technology successfully got rid of the limitation on tubular repair, which had to be conducted in a plant, and enhanced the mobile capability of

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tubular repair to satisfy the demand for on-site repair service of the customers during outdoor operation.

In 2010, the Group and Baoshan Iron & Steel Company Limited ("Baosteel") entered into a memorandum of cooperation, pursuant to which, the Group was granted with a mandate to repair tubular premium connections from Baosteel. The mandate from Baosteel testified the Group's strength in the area of tubular repair and further enhanced the Group's competitiveness in the industry.

Given the development features of the tubular services cluster, the Group intended to formulate a target-oriented development strategy to develop the tubular services cluster independently. The Group has established the tubular services industrial base in the Korla region, Xinjiang to leverage the advantage enjoyed by the tubular services in the local market and the regional advantage of Xinjiang for the development of the tubular services cluster.

MARKETING

In 2010, the recovery in the oil industry brought with new opportunities to the Chinese oilfield service industry. The Group made different market strategies against the different characteristics of the domestic and overseas markets. Domestically, the Group positioned itself in the high end service market and provided its services in response to the demand for natural gas development, horizontal well technology applications and the integrated service. The Group has adopted a follow-up strategy overseas and provided its services to the overseas oilfields invested by Chinese investors.

In 2010, in terms of the market segments, the Group's revenue from the domestic market was RMB790.7 million, representing an increase of RMB186.9 million or 31.0% from 2009. Revenue from the domestic market accounted for 83.2% of the total revenue of 2010. Revenue from the overseas markets was RMB160.0 million, representing an increase of RMB73.8 million or 85.5%. Revenue from the overseas markets accounted for 16.8% of the total revenue of 2010.

Revenue from the domestic market by region (%)

	Year ended 31 December	
	2010	2009
Northwest China	**37.8%**	40.2%
North China	**23.5%**	24.5%
Northeast China	**22.0%**	14.5%
Southwest China	**16.5%**	9.6%
Others	**0.2%**	11.2%

Revenue from the overseas markets by region (%)

	Year ended 31 December	
	2010	2009
The Middle East	**67.2%**	25.8%
Central Asia	**16.3%**	26.0%
Africa	**8.5%**	43.8%
America	**8.0%**	4.4%

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In 2010, there were great potential for development and a tendency of rapid growth in the target markets of the Group:

Natural Gas Exploration:

Natural Gas had become the major energy to be developed in the future in China as the State strongly advocated economic structure transformation and the use of clean energy. According to the forecasts of authoritative institutions, natural gas consumption as a percentage of primary energy consumption will be increased to 8% from less than 4% during the period of the Twelfth Five Year Plan. Oil companies had turned to natural gas development as their major development strategy to satisfy the rapidly growing demand for natural gas and comprehensively invested in various natural gas resources, including conventional natural gas and unconventional natural gas such as coal seam gas and shale gas, as well as underground gas storage facilities which were to satisfy the needs for strategic reserves and consumption adjustment. New technologies and new techniques were to be extensively used in the natural gas development. The Group seized the opportunities by establishing a dedicated research system, including the coal seam gas project division, a shale gas research centre and a underground gas storage facilities research centre, to develop new technologies and products in response to the demand for natural gas investments.

The Group emphasized on the promotion of high-end well completion technical services, down-hole operation technical services and directional drilling technical services in response to the development of the conventional natural gas. The Group emphasized on the promotion of integrated horizontal well drilling and completion technical services in response to coal seam gas development. The Group emphasized on the promotion of high-end well completion technical services, horizontal well multistage fracture technical services and coiled tubing technical services in response to tight gas and shale gas development, and was prepared to establish its pumping service capability to satisfy the demand for tight gas and shale gas development. The Group also emphasized on the promotion of well completion technical services and tubular helium testing technical services in response to the construction of underground storage facilities. Revenue from technical services for natural gas development had become the major source of income of the Group and the Group had also established itself as a natural gas development technology brand in the industry.

Horizontal Well Technology Application:

Oil companies had extensively promoted horizontal well technologies in various onshore oil and gas fields due to the needs for increasing daily yield per well, construction of new explored and proven oil and gas field production capacity and steady and increased production in various oil and gas fields. Compared to the developed North American market, horizontal well technologies in the onshore oilfields in China was in the preliminary stage. In the future, oil and gas field development through horizontal well technology was to become the major development means employed in the onshore oilfields in China. The Group had been striving for developing various new technologies and products to satisfy the demand for the application of horizontal well technology.

The Group had mastered a series of key technologies necessary for horizontal well development. The Group focused on the promotion of the technical services of horizontal well drilling, horizontal well completion and horizontal well fracture, as well as the integrated horizontal well drilling and completion service on the general contracting model, in response to the application of horizontal well technology. Currently, revenue from technical services related to horizontal well had become the major source of income of the Group and the Group had also established itself as a horizontal well technology brand in the industry.

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Demand for Integrated Service:

As the exploration environment was becoming more and more complicated, oil companies became more dependent on contract providers with the integrated service capabilities to solve the problems in a systematic approach. In particular, oil companies had stronger demand for the integrated service in new areas such as unconventional gas and horizontal well. In 2010, the Chinese government promulgated the "New 36 Guidelines on Non-state-owned Economy" to encourage private capital to invest in oil and gas exploration and development. The private capital investing in oil and gas fields in the future would rely on the providers with strength in the integrated service to comprehensively develop oil and gas fields in view of the professional and higher technical requirements of oil and gas field exploration.

The integrated service of the Group timely emerged. In 2010, the Group established the Integrated Project Business Unit, which provided the integrated technical service of drilling, well completion and down-hole operation and oil and gas field general contracting services for the markets including the CCS project, general contracting for coal seam gas development and general contracting for oil and gas field development. Upon establishment, the Integrated Project Business Unit successfully developed a market where it secured the CCS project of Shenhua Group and the coal seam gas development projects of local and overseas customer in China, and had good prospects for development.

Development of the Overseas Markets:

In 2010, Chinese investors actively invested in overseas oil and gas fields to strengthen their overseas strategic presence according to their implementation of overseas strategy. They realised strategic access to the countries and regions in the Middle East, Central Asia, Africa and America and yielded significant results. The post-war reconstruction in the Middle East and the construction of production capacity in Central Asia were particularly attracting in the above countries and regions. As a result, the Middle East and Central Asia had become the regional development focus of the important strategies of the overseas investments of Chinese investors. Meanwhile, the Chinese overseas investments also presented a diversified structure of investors. In addition to the three major oil companies, namely PetroChina, Sinopec and CNOOC which made investment to expand their overseas presence, other Chinese investors such as ZhenHua Oil, Sinochem, CITIC Resources and other solid private investors followed suit. Great development opportunities emerged from overseas oilfield development.

The Chinese oilfield service companies had to quickly respond to the pace of overseas investment of the Chinese investors by rapidly completing establishment of their service capability, thus satisfying the pressing overseas demand of Chinese investors. The Group had been adhering to a follow-up strategy when conducting its overseas operation by following Chinese investors and providing service to their overseas oilfields. During the period under review, the Group made significant progress in the development of the overseas market. On one hand, the service type for the overseas market became more diversified. They developed into the full range of well completion technical services including integrated well completion, screen well completion and gravel packing, from the original integrated well completion technical service and the tubular services, and included the new services of coiled tubing operation and directional well drilling. On the other hand, its overseas markets expanded to more markets including Central Asia, Africa and America with the Middle East as the focus from the previously existing regions such as Central Asia and Africa, thus strengthening the Group's capability of encompassing other markets from its international headquarters at Dubai. Meanwhile, the Group was well prepared for the great development into the overseas market by rapid investments and talent recruitments to build up its overseas service capabilities. Given the encouraging prospects for the overseas market development, the Group believed that the revenue contribution from the overseas market to the Group would rapidly increase in the future.

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Marketing Strategy Formulation and Implementation:

In 2010, the Group formulated and fully implemented its four-in-one marketing strategy comprised of strategic marketing, brand marketing, technical marketing and value marketing. Under the strategic marketing strategy, the Group entered into cooperation agreements with major oil and gas companies in China and their oil and gas fields to strengthen the stability and predictability of its operations. Under the brand marketing strategy, the Group made efforts in promoting corporate identity by organising various academic activities. It also established strategic cooperation relationship with international oilfield service companies through activities such as lectures, seminars and campus recruitments at major oil universities nationwide to promote the brand of the Group, thus enhancing its brand's position. Under the technical marketing strategy, the Group strengthened its domestic and overseas technological exchange and promotion to boast the technological features and technical strength of the Company. The Group also strengthened the cooperation with external experts and recruited more in-house experts. The Group enhanced its influence in the industry by boosting the reputation of the experts of the Group. Under the value marketing strategy, the Group stated a core idea of creating value for its customers through cost reduction, which created the price advantage of a single product and service, thus reducing the cost per operation of its customers. The Group also created value for its customers through technological innovation, which constantly introduced new technologies and new products in response to the pressing needs of its customers, the market gap, thus solving the technical problems of its customers. Finally, the Group created value for its customers through service model innovation, which jointly improved the production approach with its customers, thus taking full advantage of the new technologies, and comprehensively promoted the integrated service model, thus reducing the overall costs of its customers.

Marketing System development:

In 2010, the Group continued to strengthen its development of a marketing system. On one hand, leveraged its advantage of coverage of various oil and gas field nationwide with 14 domestic offices and the overseas market with 8 international branches and offices, the Group took full advantage of the feedback to the technology and business division of the Group on a timely basis, thus solving the problems presented by the customers as soon as possible. On the other hand, the Group strengthened its marketing team with both veteran recruitment and campus recruitment so its marketing staff grew to 186 in 2010 from 141 in 2009. The Group also took a bold move to appoint young people to act as the person-in-charge of various marketing offices. That strategy fully realised their passion and creativity for the marketing efforts with significant results.

Research and Development

The Group had established three technological features of natural gas development, horizontal well operation and the integrated service. The natural gas development technologies of the Group established a thorough technological system which applied in conventional natural gas development, tight gas development, coal seam gas development, shale gas development, well completion of gas storage facilities and tubular helium testing. The horizontal well operation technologies of the Group established the one-stop service capability covering horizontal well drilling, well completion and production enhancement. The integrated technology realised the full range service capability which satisfied the needs for the development of horizontal wells, highly difficult wells and unconventional gas reserves, as well as block general contracting.

During the reporting period, the Group continued to strengthen its investment in technology development and achieved satisfactory progress in each business area.

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For well completion technology cluster, the Group elaborately established its research and development, design, production assembling capabilities of well completion tools and their ancillary products, thus achieving pipe string design and tools supporting service capabilities to satisfy special well completion requirements. The self-developed special running tools, full bore drill-free well cementation tools and technology, special packer, polished rods, hydraulic pressure adjustment device, gas storage facilities well cementation and completion techniques, ancillary tools, etc. were successfully used, thus realising good economic efficiency for the Group. The new water control well completion and intelligent well completion technology, which were under research and development, were to become the technological breakthrough in the area of well completion for the Group. Their success was to result in new growth. During the reporting period, the Group had obtained 19 related patent rights.

In the down-hole operation cluster, for the production enhancement, the Group's horizontal well multistage fracture technology for tight gas had been set as the standard service model and was extensively promoted by the customers. The research and development of the technology quickened the technological progress of natural gas development and greatly enhanced the development's economic efficiency. Meanwhile, the Group had undertaken the preparation works of shale gas development technology. If the development of shale gas generally commenced, the Group was to be presented with great development opportunities. For the equipment services, the research of the Group was mainly oriented towards coiled tubing operation technology, hydraulic bore horizontal well technology and tubular helium testing technology. Currently, the operation technology such as coiled tubing horizontal well drag acidization technology, sandblast perforation technology, plugging removal, drilling and grinding, dredging and cementing plug had been successfully implemented and the research and development and on site operation of coiled tubing water drainage and gas production technology and ancillary tools also commenced. The Group had self-developed the service capability of the hydraulic bore horizontal well technology with significant results in its on-site performance. Tubular helium testing technology had been generally promoted in the regions of major oil and gas fields and underground gas storage facilities in China, such as the Tarim Basin Oil Field, Xinjiang oilfield, Changqing oilfield, Southwestern oilfield, North China oilfield, Jilin oilfield and Daqing oilfield. Currently, the Group was the sole technology provider of that technology in China and had set up the industrial entry standards with oil companies. During the reporting period, the Group obtained 11 related patent rights.

For the drilling technology, the Group undertook its research mainly from five aspects, namely Carbon Capture and Storage ("CCS") drilling and completion technology, branch well drilling and completion technology, sidetracking horizontal well technology, horizontal drilling technology and rotary steering technology. It also carried out on-site operation services for 28 wells including highly difficult wells, complex wells and special wells, all of them achieved satisfactory results as expected or even better than expected. The implementation of the CCS drilling and completion techniques and the dual-lateral well sidetracking technology of high difficulty paved the good way for new technology promotion and new economic growth in 2011. In particular, the implementation of the CCS drilling and completion technique greatly enhance the integrated general contracting service capability covering drilling, mud logging, wireline logging, well cementing and completion and oil production test of the Group. During the reporting period, the Group obtained 1 related patent right.

For oilfield tubular services, the Group had completed the development of modular tubular repair technology, enabling the Group to carry out mobile tubular repair. During the reporting period, the Group obtained 15 related patent rights.

In 2010, the Group continued to build up the strength in research of Anton design institute which was under the cooperation with China University of Petroleum, and strengthen its cooperation relationship with the institutes of various oil and gas fields. Meanwhile, the Group established a research and development centre in Houston, the United States, the oil field service centre of the world. It cooperated with various international oilfield technical service companies and universities to enhance its strength in research and reduce its research and development costs.

During the reporting period, the Group obtained 46 related patent rights, making the total number of patent rights owned by the Group increasing to 294.

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Construction of Capacity

Under the guidance of its strategic positioning as an oilfield technical service provider with wellbore technologies as the core, the Group continued to strengthen its capacity in accordance with its strategic development. In 2010, capital expenditure amounted to RMB137.5 million, of which, investments in fixed assets were RMB89.5 million, investments in intangible assets RMB39.5 million and the payment for the equity investments of prior years RMB8.5 million. During the period under review, the consturction of capacity of each industrial system made progress as scheduled. The well completion technology cluster mainly invested in the assembling base of well completion tools, realising its self-developed tool design, testing and assembling capabilities with the well completion technology feature of the full range of integrated well completion, screen well completion and gravel packing. Down-hole operation cluster mainly invested in coiled tubing and ancillary equipment, and tubular helium testing equipment. Currently, it had built up 3 coiled tubing service teams, 7 tubular helium testing teams and on-site service bases in the Middle East. The drilling technology cluster mainly invested in high temperature and high pressure directional well instruments. Currently, the Group had built up 8 directional well service teams with the technological feature of high temperature and high pressure directional well services. The tubular services cluster mainly invested in mobile tubular repair service capabilities and tubular premium connections repair capability. Currently, 15 testing teams and 5 repair production lines had been built up.

In 2010, the Group further determined its presence and position in terms of global industrial bases and established the bases through self investment and operating lease arrangement. In China, the Group commenced the preliminary works for the research and development headquarters in Beijing, the well completion tool industrial base and purchase and logistics centre in Tianjin Binhai New Area, the down-hole operation industrial base and equipment service centre in Suining, Sichuan, and further strengthened the construction of the tubular services industrial base in the Korla region, Xinjiang, the on-site service base in Tarim Basin oilfield, the on-site service base in Changqing oilfield, the on-site service base in Daqing oilfield, the on-site service base in Jilin oilfield and the on-site service base in Shengli oilfield. For the overseas market, the Group further strengthened the construction of the international headquarters in Dubai, the on-site service bases in countries of the Middle East, the on-site service bases in countries in Central Asia and the on-site service bases in countries of Africa.

Human Resources

In response to the needs of strategic development, the Group continuously and proactively optimised its talent structure, strengthened the training for the talents and recruited the leaders in the industry to enrich and optimise the human resources reserved and as necessary for the long term and leapfrogging development. In 2010, the human resources system establishment achieved better results. Firstly, the overall manpower structure was further optimised with the staff of undergraduate or above education qualifications increased to over 60% of the total staff members. Secondly, technical talents, especially the talents of the core technologies and high end technology, were further recruited and retained in strength. Thirdly, the talent structure became significantly internationalised in line with the increased overseas business volume. Fourthly, the Group placed more emphasis on campus recruitments. 185 fresh graduates were recruited in 2010. It was expected to recruit 238 fresh graduates in 2011. Finally, the Group continued to extensively recruit and train the talents of high end technology, thus laying a solid foundation to equip the Group with the talents of the second venture of the Group.

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In 2010, the Group continued to adjust its manpower structure. The core talents were retained and the ancillary employees were changed to outsourced labour. The decrease in the total number of the contracted employees reflected the Group's feature as a technical service company. As at 31 December 2010, the total number of employees of the Group was 1,038, among which 425 were technicians, 282 were on-site servicemen, 186 were marketing personnel and 145 were management personnel. There were 629 employees of the Group with undergraduate or above education qualifications, represented an increase of 105 as compared to 2009.

The Group had adhered to a remuneration policy composed of wages and salaries, staff benefits and share options. For the core talents and the excellent staff, the Group encouraged their growth and long term employment with the Group by providing them with long term incentive mechanism in the form of share options. In 2010, the Group granted a total of 33,080,000 share options which may be subscribed for ordinary shares of the Company to the core talents and the excellent staff. The exercise price per share was HKD$0.75. The share options will become vested after the first anniversary of the grant date and may be exercisable on the basis of one-third of the share options granted each year thereafter. The share options granted to the grantees will expire on 8 April 2014.

Outlook

In 2011, natural gas development, the horizontal well application and the integrated service will be in stronger need in the domestic market. For the overseas markets, there is greater demand for the low cost and rapidly responsive service. The Group will be more forward-looking and head for the target of becoming an international leading one-stop technical service company.

For product positioning, the Group will focus on the wellbore technologies as its core technology to establish an oil and gas field development integrated service system, which includes the drilling technology cluster, the well completion cluster, the down-hole operation cluster and oil production technology. Meanwhile, the Group will pay more attention to the development of the tutular services cluster. The Group will develop tubular services business independently by formulating a target-oriented development strategy.

For the domestic market, the Group will firmly seize the opportunities arising from natural gas investments, extensive horizontal well technology application and the rising demand for the integrated service. The Group will rapidly develop its business in its key markets where oil companies heavily invest.

For the overseas market, the Group will view the overseas oilfield of the Chinese investors as its target market. It will seize the great opportunities in the post war reconstruction of the Middle East and make efforts to develop the Middle East market. Meanwhile, the Group will continue to consolidate its Central Asian and African markets and be in a position to develop the American market.

For technology development, the Group will continue to forge the technological feature of natural gas development, horizontal well operation and the integrated service. The Group will focus on developing its featured technologies of directional drilling, sidetracking drilling operation, integrated drilling, intelligent well completion, flow control, multistage well completion, multistage fracturing, coiled tubing, helium testing and gas lift oil production. The Group provide its customers with one-stop service in a larger scope which was based on the strategic goals and product positioning through self-development, technological cooperation and mergers and acquisitions on the existing basis.

For construction of capacity, the Group will focus its investments in the down-hole operation cluster and mainly invest in coiled tubing and ancillary equipment, and tubular helium testing equipment, pumping equipment. Meanwhile, the Group will also continue to strengthen down-hole tool assembling capability and directional drilling service capability. For industrial base construction, the Group will accelerate its industrial presence and fully activate the construction of the research and development headquarters in Beijing, the well completion tool industrial base and purchase and logistics centre in Tianjin Binhai New Area, and the down-hole operation industrial base and equipment service centre in Suining, Sichuan. The Group will also further consolidate its strength in various on-site service bases domestically and overseas to provide customers with services on a timely and convenient basis.

Management Discussion and Analysis

2011 is the "Year of talents" for the Group. Talent nurturing and recruitment and implantation of the venturing spirit will be the most important works in 2011. The Group will recruit many young elites and make use of the rapid talent growth mechanism. The Group will also activate the leadership program to nurture and recruit senior talents, senior professional managers and entrepreneurial team and search for the persons with leadership in the industry. In 2011, the Group will make greater investment in training and education. The career orientation program will nurture venturers in Anton. The Group plans to facilitate the sustainable development of the Group by talent nurturing, recruitment, training and management.

2010 was the first year of the Group's second venture. By leveraging the recovery of the oil industry and the new development opportunities, the Group succeeded in returning to the way of rapid growth as previously. For 2011, the Group will accelerate its second venture pace. The Group will continue to adopt the divergence strategy for competition. It will forge its integrated oil and gas field development service system with wellbore technologies as the core, thus differentiating itself from other competitors in terms of product positioning. Meanwhile, the Group will make great efforts in establishing strong technical support and service capabilities to keep creating value for the customers so it will become their indispensable partner and head for the target of becoming an international leading oilfield technical service company with a strong foothold in China.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2010 amounted to RMB950.7 million, representing an increase of RMB260.7 million or 37.8% as compared to 2009. The increase of the Group's revenue was mainly attributable to an industrial recovery and the success in the marketing of the new technologies.

Materials Costs

The costs of materials in 2010 increased to approximately RMB395.1 million, representing an increase of 7.3%, from approximately RMB368.2 million in 2009. The increase was mainly due to the development of business.

Staff Costs

Staff costs amounted to approximately RMB123.5 million in 2010, representing an increase of RMB8.4 million or 7.3% from approximately RMB115.1 million in 2009. This was mainly due to an improvement in the talent structure of the Group with a higher proportion of talents of high academic qualifications and quality.

Operating Lease Expenses

Operating lease expense was in 2010 approximately RMB12.7 million, representing a increase of approximately RMB5.2 million from 2009. The increase was due to an increase of operating lease activities resulting from a rapid growth in business of the Group during the year.

Depreciation and Amortisation

Depreciation and amortisation in 2010 amounted to approximately RMB50.8 million, representing an increase of RMB16.3 million or 47.2% from RMB34.5 million in 2009. The increase was mainly attributable to higher depreciation resulting from the increased use of the equipment purchased for various business clusters.

Sales Tax and Surcharges

Sales tax and surcharges in 2010 were approximately RMB18.6 million, representing an increase of approximately RMB5.1 million or 37.8% as compared with approximately RMB13.5 million in 2009, mainly due to a significant increase of revenue from the services of the Group as compared to 2009.

Management Discussion and Analysis

Other Operating Costs

Other operating costs in 2010 amounted to approximately RMB205.1 million, representing an increase of approximately RMB87.8 million or 74.9% as compared with approximately RMB117.3 million in 2009. The increase was mainly attributable to an increase in revenue and more investments in research and development.

Operating Profit

As a result of the foregoing, the operating profit in 2010 amounted to approximately RMB145.4 million, representing an increase of approximately RMB107.9 million or 287.7% as compared with RMB37.5 million in 2009. The operating profit margin was 15.3% in 2010, representing an increase of 9.9 percentage points from 5.4% in 2009.

Net Finance Costs

Net finance costs in 2010 was approximately RMB2.7 million, up approximately RMB4.5 million from approximately RMB1.8 million of net finance income in 2009. The increase was mainly due to the lower interest income from the average capital balance of the Group and the increase of interest expenses resulting from the increase in borrowings.

Income Tax Expense

Income tax expense in 2010 amounted to RMB16.4 million, representing an increase of approximately RMB15.7 million from 2009, mainly due to the significant increase of the profit before tax for the year of the subsidiaries of the Group in China.

Profit for the Year

As a result of the foregoing, the Group's profit for 2010 was approximately RMB125.9 million, representing an increase of approximately RMB88.3 million or 234.8% from the corresponding period of 2009.

Profit Attributable to Equity Holders of the Company

The Group's profit attributable to equity holders of the Company in 2010 amounted to approximately RMB116.7 million, representing an increase of RMB84.7 million or 264.7% from the corresponding period of 2009.

Trade Receivables

As at 31 December 2010, the Group's net trade receivables were approximately RMB664.5 million, representing an increase of RMB246.5 million as compared to the corresponding period of 2009, mainly due to a significant increase of revenue for the period. The average trade receivables turnover days (exclude quality guarantee deposits and other deposits) in 2010 were 195 days, representing a decrease of 19 days as compared to 2009.

In 2010, the Group set up a special committee with its Chief Executive Officer as the chairman of the committee to strengthen the working capital management of the Group, especially for the collection of trade receivables. The Group set specific trade receivables collection target for each sales region, which was a key performance benchmark for the regional managers. In 2010, the Group collected RMB791.9 million, representing an increase of RMB6.9 million or 0.9% from 2009.

Inventory

As at 31 December 2010, the Group's inventory was approximately RMB265.4 million, representing an increase of RMB53.8 million as compared to the same period of 2009, mainly due to an increase in revenue and the accumulation of some tools for the production in the first quarter of 2011 by the Group.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2010, the Group's cash and bank deposits amounted to approximately RMB339.3 million (included: restricted bank deposits, term deposits with initial terms of over three months, cash on hand and cash equilvalents), representing a decrease of RMB4.4 million as compared to the corrsponding period of 2009, mainly due to an increase in working capital.

As at 31 December 2010, the Group's outstanding short term bank loans amounted to RMB150.0 million and the Group's outstanding long term bank loans due within one year amounted to RMB34.8 million. A bank in China granted the Group a credit facility of approximately RMB687.7 million, of which approximately RMB481.4 million were not withdrawn.

As at 31 December 2010, the gearing ratio of the Group was 20.0%, representing an increase from the gearing ratio of 9.0% in the corresponding period of 2009. This was mainly due to the increase of bank loans, trade payables and notes payables. Net debt included borrowings and trade and notes payables. Total capital was calculated as equity plus net debt.

The equity attributable to equity holders of the Company increased to RMB1.61 billion in 2010 from RMB1.51 billion in 2009. The increase was mainly due to the increase in the profit for the year.

EXCHANGE RISK

The Group mainly conducts its business in RMB. During 2010, the Group continued to expand into overseas markets with most of transactions denominated and settled in US dollars. The exchange risk of the Group also comes from its foreign currency deposits in US dollars. The fluctuation in RMB exchange rate against US dollars may have a negative impact on the Group's operating results and financial position. As at 31 December 2010, the Group had foreign currency deposits equivalent to RMB17.7 million. Appreciation of RMB would result in exchange loss in those bank balances and other assets denominated in foreign currencies. During the year ended 31 December 2010, the Group did not use any derivatives to hedge against the risk of exchange rate fluctuations.

CASHFLOW FROM OPERATING ACTIVITIES

Cash inflow from operating activities in 2010 was approximately RMB26.0 million, as compared with a cash inflow of RMB54.2 million in 2009. This decrease was mainly due to the greater increase in purchase expenditure and various costs and expenses expenditure as compared to the recovered receivables.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for 2010 was approximately RMB137.5 million, of which, investments in fixed assets were RMB89.5 million, investments in intangible assets RMB39.5 million and the payment for the equity investments of prior years RMB8.5 million.

In 2011, the budgeted capital expenditure is approximately RMB410.0 million, and will be applied primarily for the construction of capacity of the drilling technology cluster, well completion cluster, down-hole operation cluster and tubular services cluster.

CONTRACTUAL LIABILITY

The Group's contractual commitments consist primarily of payment obligations under the Group's operating lease arrangements for offices, bases and certain equipment. The Group's operating lease commitments amounted to RMB16.0 million as at 31 December 2010.

The Group's capital commitments of RMB45.4 million which were not yet provided for in the balance sheet as at the balance sheet date.

CONTIGENT LIABILITIES

As at 31 December 2010, the Group did not have any material contingent liabilities or guarantees.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2010, 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 2010.

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 2010 are set out in pages 55 to 120 of this Annual Report.

FIVE YEAR FINANCIAL SUMMARY

The five year financial summary of the Company is set out in pages 4 to 5 in the section "Financial Summary" of this Annual Report.

DIVIDENDS

At the Board meeting held on 20 March 2011, the Board recommended a payment of a final dividend for the year ended 31 December 2010 of RMB0.0188 per share, totaling RMB39.4 million (2009: RMB0.0086 per share, totaling RMB18.0 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 9.5% and 32.0% respectively of the Company's revenues for the year ended 31 December 2010.

For the year ended 31 December 2010, the total amount of purchases made by the Company from its five largest suppliers amounted to RMB164.46 million, and accounted for 44.46% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB101.5 million, and accounted for 27.44% of the total purchases for the year. 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.

Directors' Report

PROPERTY, PLANT AND EQUIPMENT

Additions to the property, plant and equipment of the Company for the year ended 31 December 2010 totaled RMB133.04 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 2010, 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 2010 are set out in Note 16 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the aggregate amount of reserves which is available for distribution to the equity shareholders of the Company was RMB446.0 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. Ma Jian	(appointed on 3 August 2007)
Mr. Pan Weiguo	(retired on 27 May 2010)
Mr. Wu Di	(appointed on 22 March 2010)

Directors' Report

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, and the letters of appointment for all Independent Non-executive Directors of the Company, Mr. Luo Lin, Mr. Ma Jian, Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai being eligible, have offered themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of Mr. Luo Lin and Mr. Ma Jian, being the Executive Directors, 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 month's notice in writing served by either party on the other.

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 27 May 2010 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

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. 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 Code on Corporate Governance Practices (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 26 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' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 31 December 2010, 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	689,146,150	32.92%
Ma Jian	2	Founder of a discretionary trust	87,850,550	4.20%

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 689,146,150 shares of the Company. Mr. Luo Lin and his family members are the beneficiaries of the Loles Trust.

2. Mr. Ma Jian is the founder of the Brewster Trust, which is indirectly interested in 60.4% of the issued share capital of Anton Management Development Holdings Corp., which in turn is interested in 87,850,550 shares of the Company. Mr. Ma Jian and his family members are the beneficiaries of the Brewster Trust.

(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 2010, 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 2010, 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	689,146,150	32.92%
Seletar Limited	1	Trustee	689,146,150	32.92%
Serangoon Limited	1	Trustee	689,146,150	32.92%
Avalon Assets Limited	1	Trustee	689,146,150	32.92%
Pro Development Holdings Corp.	1	Beneficial owner	689,146,150	32.92%
China Harvest Fund, L.P.	2	Interest of controlled corporation	375,000,000	17.92%
China Renaissance Capital Investment, L.P.	2	Interest of controlled corporation	375,000,000	17.92%
China Renaissance Capital Investment GP	2	Interest of controlled corporation	375,000,000	17.92%
Erdos Holding Company Limited	2	Beneficial owner	375,000,000	17.92%
Chengwei Anton Holdings Inc.	3	Beneficial owner	162,350,740	7.76%
Chengwei Ventures Evergreen Fund, LP	3	Interest of controlled corporation	162,350,740	7.76%
Chengwei Ventures Evergreen Management, LLC	3	Interest of controlled corporation	162,350,740	7.76%
EXL Holdings, LLC	3	Interest of controlled corporation	162,350,740	7.76%
Li Eric Xun	3	Interest of controlled corporation	162,350,740	7.76%
Li Zhu Yi Jing	3, 4	Interest of spouse	162,350,740	7.76%

Notes:

1. The 689,146,150 shares referred to the same batch of shares.

2. The 375,000,000 shares referred to the same batch of shares.

3. The 162,350,740 shares referred to the same batch of shares.

4. Ms. Li Zhu Yi Jing is Mr. Li Eric Xun's spouse.

Save as disclosed above, as at 31 December 2010, 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.

Directors' Report

SHARE OPTION SCHEME

The Company conditionally adopted its share option scheme on 17 November 2007 and amended on 27 May 2010 (the "Share Option Scheme") and shall be valid and effective for a period of 10 years from that date, 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 (ie, 27 May 2010), being 209,305,400 shares. As at the date of this annual report, the number of shares available for issue and remained outstanding under the share option scheme was 134,625,400 shares (2009: 71,330,000 shares) representing 6.43% (2009: 3.41%) 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 2010, 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.

Directors' Report

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 2010	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 2010
Directors										
Zhang Yongyi	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 3	1,400,000					1,400,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 4	600,000					600,000
				Sub total:	2,000,000					2,000,000
Zhu Xiaoping	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 3	1,200,000					1,200,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 4	600,000					600,000
				Sub total:	1,800,000					1,800,000
Wang Mingcai	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 3	1,000,000					1,000,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 4	600,000					600,000
				Sub total:	1,600,000					1,600,000
Luo Lin	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 4	2,000,000					2,000,000
	9 Apr 2010	9 Apr 2011 to 8 Apr 2014	0.750	1, 5		80,000				80,000
				Sub total:	2,000,000	80,000				2,080,000
Ma Jian	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 4	1,500,000					1,500,000
	9 Apr 2010	9 Apr 2011 to 8 Apr 2014	0.750	1, 5		500,000				500,000
				Sub total:	1,500,000	500,000				2,000,000
Pan Weiguo	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 4, 7	1,800,000				1,800,000	0
Employees in aggregate	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 3	6,250,000				750,000	5,500,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 4	21,300,000		100,000		550,000	20,650,000
	9 Apr 2010	9 Apr 2011 to 8 Apr 2014	0.750	1, 5		32,500,000			600,000	31,900,000
	23 Nov 2010	23 Nov 2011 to 22 Nov 2014	0.760	1, 6		10,000,000				10,000,000
				Sub total:	27,550,000	42,500,000	100,000		1,900,000	68,050,000
				Total:	38,250,000	43,080,000	100,000		3,700,000	77,530,000

Directors' Report

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 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.
4. 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.
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$0.75.
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$0.76.
7. Mr. Pan Weiguo retired as an executive Director of the Company on 27 May 2010.

PRE-IPO SHARE OPTION SCHEME

The Company adopted its pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on 1 October 2007.

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme:

Grantee	Note	Date of grant of share options	Number of share options as at 1 January 2010	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Number of share options as at 31 December 2010
Employees in aggregate	1	9 Oct 2007	3,244,500			3,244,500	0
	2	16 Oct 2007	210,000			210,000	0
			3,454,500			3,454,500	0

Notes:

1. The option period for the share options granted commences on the date of grant and ends on the last day of the eight years counting from the said date. The grantee is vested with, and entitled to exercise up to 30%, 30%, 20%, 10% and 10% of their share options during the option period commencing from each of the first, second, third, fourth and fifth anniversaries of the date of grant.
2. The option period for the share options granted commences on the date of grant and ends on the last day of the five years counting from the said date. The grantee is vested with, and entitled to exercise up to all of her share options during the option period commencing from the first anniversary of the date of grant.

As at the date of this annual report, the number of shares available for issue and remained outstanding under the Pre-IPO Share Option Scheme was 0 shares (2009: 3,454,500 shares).

Directors' Report

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 2010, 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 2010, the Company contributed a total of RMB1.8 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 TRANSACTIONS

The related party transactions for the year ended 31 December 2010 are set out in Note 32 to the Financial Statements of this Annual Report.

POST BALANCE SHEET EVENTS

At a meeting held on 20 March 2011, 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 2010 of RMB0.0188 per share, totaling RMB39.4 million (2009: RMB0.0086 per share, totaling RMB18.0 million). This dividend is subject to the approval of shareholders at the AGM to be held on 16 May 2011, and compliance with the Companies Law of the Cayman Islands.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

In view of the amended Rule 2.07A of the Listing Rules relating to the use of electronic means or website for communication with shareholders which became effective on 1 January 2009, the Board proposes to seek the approval of shareholders at the forthcoming AGM on 16 May 2011 by passing a special resolution to amend the relevant provisions of the Company's memorandum and articles of association to conform to such amendments to the Listing Rules. Additional amendments will also be proposed to update all references of the Companies Law (2007 Revision) of the Cayman Islands in the memorandum and articles of association of the Company to "Companies Law (2010 Revision)", which came into effect in July 2010. Please refer to the circular published by the Company on 11 April 2011 for details of amendments.

Directors' Report

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 2010.

AUDITORS

The Company has appointed PricewaterhouseCoopers as the auditors of the Company for the year ended 31 December 2010. 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 2011 will be proposed at the forthcoming AGM.

By the order of the Board

Luo Lin
Chairman

Hong Kong, 20 March 2011

Profiles of Directors and Senior Management

Wu Di, Zhu Xiaoping, Luo Lin, Zhang Yongyi, Wang Mingcai, Ma Jian

EXECUTIVE DIRECTORS

Luo Lin (羅林), aged 44, is the Chairman and 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 19 years of experience in the petroleum industry. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and a bachelor degree in well bore engineering from Southwest Petroleum Institute (西南石油學院). Mr. Luo is also qualified as a lawyer and a chartered accountant in the PRC.

Ma Jian (馬健), aged 43, is an Executive Director 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 operation. 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 20 years of experience in the petroleum industry. Mr. Ma is completing the doctoral degree at the China University of Petroleum and is a guest professor at Yangtze University (長江大學). Mr. Ma has a master degree in business administration from the Huazhong University of Science and Technology (華中科技大學) and a bachelor degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

Profiles of Directors and Senior Management

Wu Di (吳迪), aged 44, 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 21 years of experience in the petroleum industry. Mr. Wu has a master degree in oil and gas field development engineering from China University of Petroleum, Beijing and a bachelor degree in oil reservoir engineering from Southwest Petroleum Institute (西南石油學院), and is also a professor senior engineer.

INDEPENDENT NON-EXECUTIVE DIRECTRORS

Zhang Yongyi (張永一), aged 75, 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 62, 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 Auditing Society (中國審計學會理事). Mr. Zhu is also a Director of Beijing Wandong Medical Company Limited (北京萬東醫療設備股份有限公司), 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), 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. Mr. Zhu is also an Independent Non-executive Director of Sanmenxia Tian Yuan Aluminum Company Limited (三門峽天元鋁業股份有限公司) (Stock Code: 8253), a company listed on the Growth Enterprise Market of the Stock Exchange.

Wang Mingcai (王明才), aged 66, 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.

Profiles of Directors and Senior Management

SENIOR MANAGEMENT

Li Bingnan (李冰南), aged 42, is an Executive Vice President of the Company. Mr. Li joined the Group in 2002. He is responsible for the human resources and corporate culture of the Group and was responsible for the business development of the group in the early stage and marketing in the northwest market and management of the tubular service cluster 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 plant of the Jianghan Petroleum Bureau in 2000. He has more than 20 years of experience in the petroleum industry. Mr. Li is completing the Executive Master of Business Administration (EMBA) degree at China Europe International Business School (CEIBS) and has a bachelor degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

Fan Yonghong (范永洪), aged 40, is an Executive Vice-president of the Company. Mr. Fan joined the Group in 2004. He is responsible for the operation management and research and development of the Group. He was responsible for management of the oil well service business setup and 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 15 years of experience in the petroleum industry. Mr. Fan is completing the Executive Master of Business Administration (EMBA) degree at China Europe International Business School (CEIBS) and graduated from China University of Petroleum, majoring in petroleum engineering.

Shen Haihong (沈海洪), aged 42, is an Executive Vice-president of the Company. Mr. Shen joined the Group in 2007 and is currently responsible for management of the tubular services cluster of the Group. He was responsible for operation and supply chain management 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 21 years of experience in the petroleum industry. Mr. Shen has a Master of Business Administration degree from Tsinghua University and a bachelor 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 46, is an Executive Vice-president of the Company. Mr. Chen joined the Group in 2000. He is responsible for service management of the Group. He was responsible for the 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 to be responsible for the general management of Chuan Zhong Oil and Gas Company (川中油氣公司). He has more than 27 years of experience in the petroleum industry. Mr. Chen has a bachelor degree in oil bore engineering from Southwestern Petroleum Institute (西南石油學院).

Liu Enlog (劉恩龍), aged 49, is an Executive President of the Company. Mr. Liu joined the Group in 2010. He is responsible for management of business clusters and technology cooperation of the Group. Prior to joining the Group, Mr. Liu was employed by a Canadian Energy Technology Company in 2005 to be responsible for technical services, and was employed by CNPC between 1982 and 2001 and was appointed as the deputy manager and chief engineer of North China Oil Field No.4 Exploration Corporation (華北油田第四勘探指揮公司) in 1997. He has more than 29 years of experience in the petroleum industry. Mr. Liu has a bachelor 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.

Ma Enhai (馬恩海), aged 47, 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 depatment 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 20 years of experience in financial accounting and management. Mr. Ma has a Executive Master of Business Administration degree from Tsinghua University.

Profiles of Directors and Senior Management

Yan Wenrong (晏文榮), aged 62, is a Senior Vice-president of the Company. Mr. Yan joined the Group in 2000. He is responsible for risk management and administration of the Group. He was responsible for the business development of the Group in the early stage and human resources. 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 42 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 33, is a Senior Vice-president of the Company. Mr. Pi joined the Group in 2004. He is responsible for strategic investment, capital market and management of joint venture 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 10 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.

Zeng Bin (曾斌), aged 37, is a Senior Vice-president of the Company. Mr. Zeng joined the Group in 2007. He is responsible for marketing in the domestic market of the Group. He was responsible for supply chain and marketing management. Prior to joining the Group, Mr. Zeng was employed by Langfang Branch of CNPC Research Institute of Petroleum Exploration and Development (中國石油勘採開發研究院廊坊分院) between 1998 and 2007. He has 13 years of experience in the petroleum industry. Mr. Zeng has Master of Business Administration degree from Asia International Open University (Macau), and a bachelor degree in petroleum engineering from Southwest Petroleum Institute (西南石油學院) and is also a senior engineer in production engineering.

Wu Jinping (吳錦平), aged 44, is a Senior Vice-president of the Company. Mr. Wu joined the Group in 2007. He is responsible for service execution management. He was responsible for management of down-hole operation. Prior to joining the Group, Mr. Wu was employed by CNPC between 1989 and 2007 and was appointed as the deputy director of the research institute of the down-hole operation company and the deputy head of the engineering technology department of CNPC Sichuan Petroleum Bureau (四川石油管理局), and the deputy manager of the down-hole operation company of Tarim No.2 Exploration Company (塔里木二勘井下作業公司). He has 22 years of experience in the petroleum industry. Mr. Wu has a bachelor degree in production engineering from Southwest Petroleum Institute (西南石油學院) and is also a senior engineer in oil and gas field development.

COMPANY SECRETARY

Ngai Wai Fung (魏偉峰), aged 49, is the Company Secretary of the Company. Mr. Ngai is currently the Managing Director of MNCOR Consulting Limited and the Vice President of the Hong Kong Institute of Chartered Secretaries ("HKICS"). He is also a fellow member of HKICS and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Ngai holds a Master of Corporate Finance degree from the Hong Kong Polytechnic University, a Master of Business Administration degree from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom. He is also undertaking a PhD course (thesis stage) in Finance at the Shanghai University of Finance and Economics.

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 under Appendix 14 of the Listing Rules, and has been in compliance with all the applicable provisions of the Code (other than those deviating from Article A.2.1 of the provisions of the Code).

Under the structure of the existing Board of Directors, there are three Executive Directors 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors of the Company has adopted the Model Code 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.

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 guidelines 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 of 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
- Review 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.

Corporate Governance Report

BOARD OF DIRECTORS

At present, the Board comprise three Executive Directors namely, Mr. Luo Lin, Mr. Ma Jian and Mr. Wu Di 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 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.

The term of the appointment for Executive Directors is three years and for Independent Non-executive Directors is one year. According to the Company's Articles of Association, one-third of the current directors shall retire from office by rotation (if the number of directors is not three or a multiple of three, then the nearest but not less than one-third) in each annual general meeting of shareholders. However, each Director must retire by rotation once at least every three years. The retiring Directors can be re-elected and continue to participate in the relevant meeting in the capacity as Director.

The Company set up the Audit Committee, Remuneration Committee and Nomination Committee on 17 November 2007. During the reporting year, the Company had convened six Board of Directors' meetings, two Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting.

Corporate Governance Report

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

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
	Meeting attendance/number of meetings			
Executive Director				
Mr. Luo Lin (Chairman of the Board of Directors and Chief Executive Officer)	6	N/A	1	1
Mr. Ma Jian	6	N/A	N/A	N/A
Mr. Pan Weiguo (resigned on 27 May 2010)	1	N/A	N/A	N/A
Mr. Wu Di (appointed on 22 March 2010)	6	N/A	N/A	N/A
Independent Non-executive Director				
Mr. Zhang Yongyi	6	2	N/A	1
Mr. Zhu Xiaoping	6	2	1	N/A
Mr. Wang Mingcai	6	2	1	1

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer of a company must be separated, and must not be assumed by one person. 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.

To the best knowledge of the Company, neither members of the Board and the Chairman has any financial, business or family relationship with the Chief Executive Officer. They can all exercise independent judgment freely.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

The Directors understand that they must assume the responsibility of preparing the financial accounts of each year.

The declaration of duties by the Auditors of the Group on the Group's financial statements is contained on pages 53 and 54 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 has 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.

AUDIT COMMITTEE

The Company has set up the Audit Committee since 17 November 2007 which took effect upon listing of the Company. The major duties of the Audit Committee are to monitor the relationship between the Company and the external auditors, make proposals to the Board of Directors on the appointment, renewal and dismissal of the external auditors of the Group as well as the relevant remuneration and terms of appointment etc; review the Group's financial statements; supervise the financial reporting system and internal control management; review the scope, degree and effectiveness of the internal audit functions of the Group. The authority and duties of this Committee are clearly set out in its terms of reference. 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.

During the year, the Audit Committee has convened two meetings.

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:

	RMB'000
Audit services	3,400
Non-audit services	—

The Audit Committee recommended to the Board to renew the appointment of PricewaterhouseCoopers as the Company's auditors subject to shareholders' approval in the forthcoming AGM.

Corporate Governance Report

REMUNERATION COMMITTEE

The Company has set up the Remuneration Committee since 17 November 2007 which took effect upon listing of the Company. The major duties of the Remuneration Committee are to review and determine the terms of remuneration, benefits, bonus and other allowances of the Directors and senior management, and submit proposals to the Board on the remuneration policy and structure of all the Directors and senior management officers of the Company. In addition, the Remuneration Committee will approve and monitor the execution of the Company's Share Option Scheme. The authority and duties of this Committee are clearly set out in its terms of reference, which specifies that it must be composed of at least three members, the majority of which must be Independent Non-executive Directors.

The Remuneration Committee comprises two Independent Non-executive Directors, Mr. Wang Mingcai and Mr. Zhu Xiaoping, and one Executive Driector, Mr. Luo Lin. Mr. Wang Mingcai is the Chairman of the Remuneration Committee.

During the year, the Remuneration Committee has convened one meeting.

NOMINATION COMMITTEE

The Company has set up the Nomination Committee since 17 November 2007 which took effect upon listing of the Company. The major duties of the Nomination Committee are to review the structure, number and composition of the Board; to submit proposals to the Board on the appointment of Chief Executive Officer; review the independence of the Independent Non-executive Directors and submit proposals to the Board. The authority and duties of this Committee are clearly set out in its terms of reference. 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.

During the year, the Nomination Committee has convened one meeting.

INVESTOR RELATIONSHIP AND SHAREHOLDERS' EQUITY

Since its listing, the Group actively fosters communication with investors and professionals in the investment sector through conference calls and briefings in response to the enquiries of professionals in the investment sector (including institutional investors, analysts and the media).

In 2010, the Group strengthened its investor relations,and helped the capital market to understand the Group. The Group organized and participated in various investor conferences and proactively communicated with investors, analysts and the media to introduce the history, industry, business, operational results and development strategies of the Group.

Corporate Governance Report

INVESTOR RELATIONS ACTIVITIES FOR 2010

March

Announced annual results for 2009

— Held analysts meeting in Hong Kong
— Held press conference in Hong Kong
— Participated in the Asian Investment Conference organised by Credit Suisse in Hong Kong

June

— Held analysts reverse roadshow in Beijing

July

— Participated in the OSK Corporate Day in Singapore and Hong Kong

August

Announced interim results for 2010

— Held analysts meeting in Hong Kong
— Held press conference in Hong Kong

October

— Participated in the Conference organised by Capital Group in Hong Kong
— Conducted Non-Deal Roadshow in Hong Kong

December

— Participated in 2010 Mirae Corporate Access Day in New York and conducted Non-Deal Roadshow in the U.S.
— Participated in China Investors Forum 2011 held by China Merchant Securities (HK) Co., Ltd. in Shenzhen

The Board of Directors will provide clear and comprehensive information on the Group's results through the publication of annual and interim reports. Apart from receiving circulars, notices and financial reports by mail, shareholders can also visit the website of the Company (www.antonoil.com) for more information.

The Company encourages shareholders to attend shareholders' meetings. The Directors and management will attend the annual general meeting to answer queries about the Group's business. All shareholders have statutory authority to demand for convening an extraordinary general meeting and submit an agenda for consideration by shareholders. For convening such meeting, shareholders have to send a letter to the Company's principal place of business in Hong Kong, and make a request to the Company Secretary to convene a shareholders' meeting with the proposed agenda.

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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 55 to 120, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 as to 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.

Independent Auditor's Report

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 2010, 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, 20 March 2011

BALANCE SHEETS

As at 31 December 2010
(Amounts expressed in thousands of RMB)

		As at 31 December			
		Group		Company	
	Note	**2010**	2009	**2010**	2009
ASSETS					
Non-current assets					
Property, plant and equipment	6	**419,471**	334,240	**—**	—
Land use rights	7	**25,486**	26,051	**—**	—
Intangible assets	8	**345,858**	312,087	**—**	—
Investment in subsidiaries	9	**—**	—	**3,551,412**	3,551,412
Investment in a jointly controlled entity	10	**50,244**	50,668	**—**	—
Deferred income tax assets	21	**3,008**	639	**—**	—
		844,067	723,685	**3,551,412**	3,551,412
Current assets					
Inventories	11	**265,423**	211,613	**—**	—
Trade and notes receivables	12	**671,993**	429,985	**—**	—
Prepayments and other receivables	13	**70,118**	82,509	**146,243**	120,787
Restricted bank deposits	14	**144,353**	3,120	**—**	—
Term deposits with initial terms of over three months	14	**6,000**	67,609	**—**	—
Cash and cash equivalents	14	**188,960**	272,959	**1,476**	27,524
		1,346,847	1,067,795	**147,719**	148,311
Total assets		**2,190,914**	1,791,480	**3,699,131**	3,699,723
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	15	**197,420**	197,411	**197,420**	197,411
Reserves					
– Proposed final dividend	29	**39,400**	18,000	**39,400**	18,000
– Others	16	**1,377,194**	1,295,954	**3,413,546**	3,464,613
		1,614,014	1,511,365	**3,650,366**	3,680,024
Non-controlling interests		**36,547**	34,714	**—**	—
Total equity		**1,650,561**	1,546,079	**3,650,366**	3,680,024

Balance Sheets

As at 31 December 2010
(Amounts expressed in thousands of RMB)

		As at 31 December			
		Group		Company	
	Note	**2010**	2009	**2010**	2009
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	21	**2,150**	2,479	**—**	—
Current liabilities					
Short-term borrowings	17	**150,000**	50,000	**—**	—
Current portion of long-term borrowings	17	**34,822**	—	**—**	—
Derivative financial liabilities	18	**1,102**	—	**—**	—
Trade and notes payables	19	**218,416**	103,138	**—**	—
Accruals and other payables	20	**112,971**	77,895	**48,765**	19,699
Current income tax liabilities		**20,892**	11,889	**—**	—
		538,203	242,922	**48,765**	19,699
Total liabilities		**540,353**	245,401	**48,765**	19,699
Total equity and liabilities		**2,190,914**	1,791,480	**3,699,131**	3,699,723
Net current assets		**808,644**	824,873	**98,954**	128,612
Total assets less current liabilities		**1,652,711**	1,548,558	**3,650,366**	3,680,024

The notes on pages 61 to 120 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 March 2011 and were signed on its behalf.

Luo Lin
Executive Director

Ma Jian
Executive Director

Consolidated Income Statement

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB, except per share data)

	Note	Year ended 31 December 2010	2009
Revenue	22	**950,715**	690,030
Other gains, net	24	**575**	3,748
Operating costs			
Material costs		**(395,050)**	(368,240)
Staff costs	26	**(123,533)**	(115,140)
Operating lease expenses		**(12,741)**	(7,496)
Depreciation and amortisation		**(50,827)**	(34,547)
Sales tax and surcharges		**(18,619)**	(13,547)
Others		**(205,104)**	(117,317)
		(805,874)	(656,287)
Operating profit	23	**145,416**	37,491
Interest income	25	**3,119**	3,403
Finance expenses	25	**(5,816)**	(1,602)
Finance income / (costs), net		**(2,697)**	1,801
Share of loss of a jointly controlled entity	10	**(424)**	(961)
Profit before income tax		**142,295**	38,331
Income tax expense	27	**(16,369)**	(725)
Profit for the year		**125,926**	37,606
Attributable to:			
Equity holders of the Company		**116,655**	32,020
Non-controlling interests		**9,271**	5,586
		125,926	37,606
Dividends	29	**39,400**	18,000
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic	28	**0.0557**	0.0153
– Diluted	28	**0.0557**	0.0153

The notes on pages 61 to 120 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB)

	Year ended 31 December	
	2010	2009
Profit for the year	**125,926**	37,606
Other comprehensive loss, net of tax:		
Cash flow hedges	**(1,102)**	—
Currency translation differences	**(2,270)**	(83)
Other comprehensive loss, net of tax for the year	**(3,372)**	(83)
Total comprehensive income for the year	**122,554**	37,523
Attributable to:		
– Equity holders of the Company	**113,283**	31,937
– Non-controlling interests	**9,271**	5,586
Total comprehensive income for the year	**122,554**	37,523

The notes on pages 61 to 120 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB)

		Attributable to the Company's equity holders									
	Note	Share capital	Share premium	Capital reserve	Statutory reserve	Hedging reserve	Retained earnings	Currency translation differences	Total	Non-controlling interests	Total equity
As at 31 December 2008		197,411	686,918	301,673	24,951	—	308,873	(331)	1,519,495	31,119	1,550,614
Profit for the year		—	—	—	—	—	32,020	—	32,020	5,586	37,606
Other comprehensive income:											
Currency translation differences		—	—	—	—	—	—	(83)	(83)	—	(83)
Total comprehensive income		—	—	—	—	—	32,020	(83)	31,937	5,586	37,523
Share option scheme	15(b)	—	—	15,357	—	—	—	—	15,357	—	15,357
Disposal of a subsidiary		—	—	—	—	—	—	—	—	(2,516)	(2,516)
Capital injection by minority shareholders	16(a)	—	—	1,576	—	—	—	—	1,576	525	2,101
Transfer to statutory reserves	16(b)	—	—	—	5,817	—	(5,817)	—	—	—	—
Dividends	29	—	(57,000)	—	—	—	—	—	(57,000)	—	(57,000)
As at 31 December 2009		197,411	629,918	318,606	30,768	—	335,076	(414)	1,511,365	34,714	1,546,079
Profit for the year		—	—	—	—	—	116,655	—	116,655	9,271	125,926
Other comprehensive income:											
Currency translation differences		—	—	—	—	—	—	(2,270)	(2,270)	—	(2,270)
Cash flow hedges	18	—	—	—	—	(1,102)	—	—	(1,102)	—	(1,102)
Total comprehensive income		—	—	—	—	(1,102)	116,655	(2,270)	113,283	9,271	122,554
Share option scheme	15(b)	—	—	7,307	—	—	—	—	7,307	—	7,307
Share option exercised	15(b)	9	117	(67)	—	—	—	—	59	—	59
Transfer to statutory reserves	16(b)	—	—	—	5,742	—	(5,742)	—	—	—	—
Dividends	29	—	(18,000)	—	—	—	—	—	(18,000)	(7,438)	(25,438)
As at 31 December 2010		**197,420**	**612,035**	**325,846**	**36,510**	**(1,102)**	**445,989**	**(2,684)**	**1,614,014**	**36,547**	**1,650,561**

The notes on pages 61 to 120 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB)

	Note	Year ended 31 December 2010	2009
Cash flows from operating activities			
Net cash inflows from operations	30	**36,254**	66,207
Interest paid		**(2,896)**	(474)
Interest received		**2,661**	3,202
Income tax paid		**(10,062)**	(14,694)
Net cash generated from operating activities		**25,957**	54,241
Cash flows from investing activities			
Purchase of property, plant and equipment		**(93,071)**	(152,929)
Proceeds from disposal of property, plant and equipment		**3,624**	1,661
Purchase of land use rights		**—**	(537)
Purchase of intangible assets		**(39,503)**	(23,129)
Acquisition of subsidiaries, net of cash received		**(8,500)**	(102,054)
Disposal of a subsidiary, net of cash payment		**—**	(2,126)
Increase in restricted bank deposits		**—**	(3,120)
Decrease in term deposits with initial terms of over three months		**61,609**	47,500
Decrease in entrusted loans and structured deposits		**—**	121,000
Proceeds from entrusted loans and structured deposits		**—**	5,888
Disposal of financial assets at fair value through profit or loss		**—**	33,418
Net cash used in investing activities		**(75,841)**	(74,428)
Cash flows from financing activities			
Proceeds from long-term borrowings		**34,822**	—
Proceeds from short-term borrowings		**202,000**	70,000
Repayments of short-term borrowings		**(102,000)**	(27,000)
Proceeds from share options exercised	15(b)	**59**	—
Dividends distribution		**(25,438)**	(57,000)
Hold as securities of financing activities		**(139,697)**	—
Net cash used in financing activities		**(30,254)**	(14,000)
Net decrease in cash and cash equivalents		**(80,138)**	(34,187)
Cash and cash equivalents, at beginning of the year		**272,959**	307,918
Exchange loss on cash and cash equivalents		**(3,861)**	(772)
Cash and cash equivalents at end of the year		**188,960**	272,959

The notes on pages 61 to 120 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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 the 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 principally engaged in providing oilfield technology services, manufacturing and trading of related products in the People's Republic of China (the 'PRC'). 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.

These financial statements have been approved for issue by the Board of Directors on 20 March 2011.

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.

New and amended standards adopted by the Group in 2010

- IAS 17 (amendment) 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS/HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. The Group has applied IAS 17 (amendment) from 1 January 2010. The Group's land use rights are all located in the PRC. The Group's management has reassessed land leases classification by referring to the general principles set out in the standard, and concluded that the amendment has no impact on the Group's classification of land leases which are treated as operating lease.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.1 Basis of preparation *(Continued)*

New and amended standards adopted by the Group in 2010 (Continued)

- IAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit and loss. The Group apply this standard prospectively to transactions with non-controlling interests from 1 January 2010 onwards. IAS 27 (Revised) had no material impact on the consolidated financial statements in the current year.

- IFRS 3 (Revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate shares of the acquiree's net assets. All acquisition-related costs are expensed. Contingent liabilities assumed in a business combination are recognised at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. After the date of the business combination, contingent liabilities are re-measured at the higher of the original amount and the amount under the relevant standard, IAS 37. IFRS 3 (Revised) had no impact on the consolidated financial statement in the current year.

- IAS 38 (Amendment), 'Intangible Assets'. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination when it is not traded in an active market. It also permits the grouping of intangible assets as a single asset if each asset has similar economic useful lives. The Group apply this amendment prospectively to all business combinations from 1 January 2010 onwards. The amendment had no impact on the consolidated financial statements in the current year.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all 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. 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.

The Group uses 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 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.2 Consolidation

(b) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owner of the Group. For purchases from non-controlling interests, the difference between 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 disposal to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, 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.

(c) 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.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ('CODM'), who is responsible for allocating resources and assessing performance of the operating segments. CODM has been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group's internal reporting. The CODM has determined the operating segments based on these reports.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'Functional Currency'). The 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 and qualifying net investment hedges.

(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.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and accumulated 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.

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 2.8).

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

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.6 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 income statements on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the income statements.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Computer software

Acquired 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.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.7 Intangible assets *(Continued)*

(c) Patents

Acquired patents are initially recorded at actual cost incurred to acquire and amortised on a straight-line basis over their estimated useful lives. 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.

2.8 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 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.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.9 Financial assets

2.9.1 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.

(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. These 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 sheet.

2.9.2 Recognition and measurement

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

Gains and losses from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains, net', in the period in which they arise.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.9 Financial assets *(Continued)*

2.9.3 Impairment of financial assets

Except for financial assets carried at fair value though profit and loss, 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.

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.

2.9.4 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. Gain or loss arising from subsequent change in the fair value of derivatives is regconised in profit or loss except for the gain or loss on the derivative financial instruments designated for cash flow hedge which is recognised directly in other comprehensive income.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'interest expense'. The gain or loss relating to the effective portion of exchange forward hedging foreign currency borrowings is recognised in the income statement within 'exchange gain or loss, net'.

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 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 income statement within 'other gains/(losses) – net'.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.10 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). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 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.

2.12 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.

2.13 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.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
(Amounts expressed in thousands of RMB unless otherwise stated)

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

2.15 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 date.

2.16 Current and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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.

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.

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For the year ended 31 December 2010
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 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 entity (a fund) and 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.

(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:

- 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.

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

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Revenue recognition

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

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

(a) Sales of goods

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

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

(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.

Notes To The Consolidated Financial Statements

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

2.19 Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortisation of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying assets are capitalised as part of the cost of that asset. Other borrowing costs are recognised as expenses and included as finance costs in the period in which they are incurred.

2.20 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) The Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(b) The Group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. Lease income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2.21 Government grants

Grants from the government are recognised at their fair values 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.

2.22 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.

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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 2010, the Group developed its businesses overseas with most of the transactions denominated and settled in US$. Foreign exchange risk also arise from certain bank deposits denominated in US$. The Group is exposed to foreign currency exchange risk primarily with respect to US$.

Anton Oilfield Services (Group) Limited, a subsidiary of the Group, entered into a foreign exchange forward contract in 2010 for the purpose of hedging the foreign exchange risk associated with its borrowings.

As at 31 December 2010, if RMB had strengthened/weakened by 3% (2009:3%) against the US$ with all other variables held constant, profit for the year and equity attributable to the equity holders would have been RMB1,916,000 (2009: RMB3,911,000) lower/higher mainly as a result of foreign exchange losses/gains on translation of US$-denominated cash and cash equivalent, trade receivables and accruals and other payables.

(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 Group, entered into a floating-to-fixed interest rate swap in 2010 to hedge its cash flow interest rate risk.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
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3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group has concentrations of 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. The carrying amounts of bank deposits, trade and notes receivables, and other receivables included in the balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group's credit sales are mainly made to customers with appropriate credit history and the new customers are entities owned or managed by the Group's several major customers who have no default history.

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 Within 1 year as at 31 December	
	2010	2009
Short-term borrowings	**154,204**	51,545
Trade and notes payables	**218,416**	103,138
Accruals and other payables	**112,971**	77,895
Current income tax liabilities	**20,892**	11,889
Long-term borrowings	**35,217**	—
	541,700	244,467

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
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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 2010 and 2009 are as follows:

	As at 31 December	
	2010	2009
Total borrowings	**403,238**	153,138
Total equity	**1,650,561**	1,546,079
Total capital	**2,053,799**	1,699,217
Gearing ratio	**20%**	9%

The increase in gearing ratio in 2010 was mainly due to the increase in short-term borrowings.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
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3. FINANCIAL RISK MANAGEMENT *(Continued)*

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 2010:

	Leval 2	Total
Liabilities		
– Derivatives used for hedging	1,102	1,102

As at 31 December 2009, the Group had no financial instruments that are measured in the balance sheet at fair value.

Financial instruments carried at fair value as at 31 December 2010 is derivatives used for hedging, which is included in level 2. Its fair value are 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 an instruments are observable.

The specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is caculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

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.

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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 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of goodwill

(b) Fair value of derivative financial instruments

The fair value of financial instruments that are not traded in an active market 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 market conditions existing at each balance sheet date.

(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.

Despite the significant increase in the past-due trade receivables as of 31 December 2010, impairment provision of trade receivables increased only slightly because the increase in gross trade receivables was mainly derived from the increase in sales to major customers with no default history.

Notes To The Consolidated Financial Statements

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Impairment of trade receivables *(Continued)*

Ageing analysis of past-due trade receivables is as follows:

	As at 31 December	
	2010	2009
1 - 6 months	**—**	—
6 months - 1 year	**—**	—
1 - 2 years	**71,420**	63,717
2 - 3 years	**19,627**	3,467
Over 3 years	**4,217**	—
	95,264	67,184

As at 31 December 2010 and 2009, majority of pass-due trade receivables were not impaired as the management considered such long ageing items were receivable from the customers with good cooperation and no default history in the past, therefore the risk of impairment was remote.

(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.

Notes To The Consolidated Financial Statements

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5. SEGMENT INFORMATION

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

The Group's reportable segments are entity or group of entities that offer different products and services, which is the basis by which the CODM makes decisions about resources to be allocated to the segments and assesses their performance. Most of these entities engaged in just single business, except a few entities deal with diversified operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

The CODM assesse performance of four reportable segments: well completion, down-hole operation, drilling technology, and tubular services.

Revenue recognised during the years ended 31 December 2010 and 2009 are as follows:

	Year ended 31 December	
	2010	2009
Well completion	**325,333**	213,888
Down-hole operation	**343,952**	100,034
Drilling technology	**97,464**	88,139
Tubular services	**183,966**	287,969
Total	**950,715**	690,030

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 CODM evaluates the performance of the operating segments based on profit or loss before income tax expense, depreciation and amortisation, interest income, finance costs net, and share of (loss) / profit from a jointly controlled entity ('EBITDA').

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010
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5. SEGMENT INFORMATION *(Continued)*

	Well completion	Down-hole operation	Drilling technology	Tubular services	Total
For the year ended 31 December 2010					
Revenue (from external customers)	**325,333**	**343,952**	**97,464**	**183,966**	**950,715**
EBITDA	**140,280**	**138,791**	**34,362**	**59,413**	**372,846**
Depreciation and amortisation	**(9,913)**	**(7,582)**	**(4,857)**	**(21,233)**	**(43,585)**
Interest income	**268**	**15**	**—**	**16**	**299**
Finance costs, net	**(4)**	**(1)**	**—**	**(96)**	**(101)**
Share of loss from a jointly controlled entity	**—**	**—**	**—**	**(424)**	**(424)**
Income tax expense	**(11,547)**	**(2,696)**	**(579)**	**(1,547)**	**(16,369)**
For the year ended 31 December 2009					
Revenue (from external customers)	213,888	100,034	88,139	287,969	690,030
EBITDA	91,534	37,801	22,396	51,237	202,968
Depreciation and amortisation	(10,258)	(4,034)	(1,702)	(13,291)	(29,285)
Interest income	637	55	—	52	744
Finance costs, net	(131)	(12)	—	(131)	(274)
Share of loss from a jointly controlled entity	—	—	—	(961)	(961)
Income tax (expense)/benefit	(2,125)	141	337	922	(725)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010
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5. SEGMENT INFORMATION *(Continued)*

	Well completion	Down-hole operation	Drilling technology	Tubular services	Total
As at 31 December 2010					
Total assets	**756,801**	**500,289**	**176,257**	**335,654**	**1,769,001**
Total assets include:					
Investments in					
a jointly controlled entity	**—**	**—**	**—**	**50,244**	**50,244**
Additions to non-current assets					
(other than deferred tax assets)	**23,783**	**63,366**	**33,763**	**40,633**	**161,545**
As at 31 December 2009					
Total assets	618,029	143,267	46,778	354,205	1,162,279
Total assets include:					
Investments in					
a jointly controlled entity	—	—	—	50,668	50,668
Additions to non-current assets					
(other than deferred tax assets)	20,607	6,657	25,621	62,997	115,882

Notes To The Consolidated Financial Statements

For the year ended 31 December 2010
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5. SEGMENT INFORMATION *(Continued)*

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

	Year ended 31 December	
	2010	2009
EBITDA for reportable segments	**372,846**	202,968
Corporate overheads	**(186,740)**	(134,861)
Depreciation	**(37,778)**	(24,597)
Amortisation	**(5,807)**	(4,688)
Interest income	**299**	744
Finance costs, net	**(101)**	(274)
Share of loss of a jointly controlled entity	**(424)**	(961)
Profit before income tax	**142,295**	38,331

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

	As at 31 December	
	2010	2009
Assets for reportable segments	**1,769,001**	1,162,279
Corporate assets for general management	**421,913**	629,201
Total Assets	**2,190,914**	1,791,480

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6. PROPERTY, PLANT AND EQUIPMENT - GROUP

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and others	Construction-in-progress	Total
As at 1 January 2009						
Cost	82,727	127,780	21,681	13,157	42,480	287,825
Accumulated depreciation	(4,502)	(26,610)	(4,820)	(3,449)	—	(39,381)
Net book value	78,225	101,170	16,861	9,708	42,480	248,444
Year ended 31 December 2009						
Opening net book value	78,225	101,170	16,861	9,708	42,480	248,444
Additions	2,218	8,390	7,678	1,017	99,776	119,079
Disposal of a subsidiary	—	(1,163)	(1,060)	(136)	—	(2,359)
Transfer in/(out)	3,817	109,163	3,168	1,340	(117,488)	—
Depreciation charge	(4,480)	(16,681)	(5,043)	(3,185)	—	(29,389)
Disposals	—	(1,214)	(290)	(31)	—	(1,535)
Closing net book value	79,780	199,665	21,314	8,713	24,768	334,240
As at 31 December 2009						
Cost	88,762	241,185	30,855	15,105	24,768	400,675
Accumulated depreciation	(8,982)	(41,520)	(9,541)	(6,392)	—	(66,435)
Net book value	79,780	199,665	21,314	8,713	24,768	334,240
Year ended 31 December 2010						
Opening net book value	79,780	199,665	21,314	8,713	24,768	334,240
Additions	1,424	49,555	6,445	6,109	69,511	133,044
Transfer in/(out)	5,789	15,428	62	136	(21,415)	—
Depreciation charge	(5,673)	(29,474)	(6,748)	(2,635)	—	(44,530)
Disposals	—	(3,280)	(3)	—	—	(3,283)
Closing net book value	81,320	231,894	21,070	12,323	72,864	419,471
As at 31 December 2010						
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

As at 31 December 2010 and 2009, there were no property, plant and equipment secured for borrowings.

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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 31 December 2008	
Cost	26,653
Accumulated amortisation	(581)
Net book value	26,072
Year ended 31 December 2009	
Opening net book value	26,072
Additions	537
Amortisation charge	(558)
Closing net book value	26,051
As at 31 December 2009	
Cost	27,190
Accumulated amortisation	(1,139)
Net book value	26,051
Year ended 31 December 2010	
Opening net book value	26,051
Amortisation charge	(565)
Closing net book value	25,486
As at 31 December 2010	
Cost	27,190
Accumulated amortisation	(1,704)
Net book value	25,486

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8. INTANGIBLE ASSETS - GROUP

	Patents	Goodwill	Computer software	Total
As at 31 December 2008				
Cost	25,334	265,697	4,956	295,987
Accumulated amortisation and impairment	(4,794)	—	(7)	(4,801)
Net book value	20,540	265,697	4,949	291,186
Year ended 31 December 2009				
Opening net book value	20,540	265,697	4,949	291,186
Additions	24,935	—	566	25,501
Amortisation charge	(4,109)	—	(491)	(4,600)
Closing net book value	41,366	265,697	5,024	312,087
As at 31 December 2009				
Cost	50,269	265,697	5,522	321,488
Accumulated amortisation and impairment	(8,903)	—	(498)	(9,401)
Net book value	41,366	265,697	5,024	312,087
Year ended 31 December 2010				
Opening net book value	41,366	265,697	5,024	312,087
Additions	38,979	—	524	39,503
Amortisation charge	(5,235)	—	(497)	(5,732)
Closing net book value	75,110	265,697	5,051	345,858
As at 31 December 2010				
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

Goodwill is allocated to the cash-generating units (CGUs) of the Group identified according to their operations. Before 2009, the carrying amount of goodwill is allocated to 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 Huarme Petroleum Technology Co., Ltd. (北京華瑞美爾石油科技有限公司, 'Huarme'), Jilin Dongxin Oil Engineering Technology Co., Ltd. (吉林省東新石油工程技術有限公司, 'Jilin Dongxin') and Shandong Precede Petroleum Technology Co., Ltd. (山東普瑞思德石油技術有限公司, 'Shandong Precede'). As the related businesses developed since 2009, the carrying amount of goodwill of Hinen-Hitech and Huarme has been reallocated to screen business.

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8. INTANGIBLE ASSETS - GROUP *(Continued)*

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

As at 31 December 2010 and 31 December 2009	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 a CGU 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 of the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using zero growth rate.

The key assumptions used for value-in-use calculations in 2010 are as follows:

As at 31 December 2010	Jilin Dongxin	Shandong Precede	Screen business
Gross margin	**14.74%**	**51.49%**	**35.83%**
Discount rate	**13.00%**	**13.00%**	**15.00%**

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 2010.

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9. INVESTMENT IN SUBSIDIARIES - COMPANY

	As at 31 December	
	2010	2009
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	**2,757**	2,757
	3,551,412	3,551,412

* 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.

As at 31 December 2010, 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:				
Hinen-Hitech	Beijing, the PRC, 18 September 2000	RMB500,000	100%	Manufacturing and sales of petroleum drilling and sand control equipment
Beijing Foyou Engineering Technology Limited (北京佛友工程技術有限責任公司 'Foyou Tech')	Beijing, the PRC, 12 December 2000	RMB5,100,000	100%	Oilfield services

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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)*				
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 Limited (安東通奧科技產業有限公司, 'Anton Tong'ao')	Xinjiang Uygur Autonomous Region, the PRC, 15 December 2005	RMB60,000,000	100%	Manufacturing of rod casing
Huarme	Beijing, the PRC, 17 April 2006	RMB500,000	100%	Manufacturing and sales of petroleum drilling and sand control equipment

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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)*				
Cangzhou Hinen-Hitech Petroleum Technology Development Co., Ltd. (滄州海能海特石油科技發展有限公司, 'Cangzhou Hinen-Hitech')	Cangzhou, Hebei Province, the PRC, 22 June 2006	RMB3,500,000	66.67%	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
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 (東營市普瑞斯德寶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

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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)*				
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	RMB30,000,000	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	Kish Island, Iran 1 February 2010	—	99%	Oilfield services
Anton Oil Technical Group (International) Limited （安東石油技術集團（國際）有限公司）	British Virgin Islands 15 April 2010	US$10,000,000	100%	Import and export petroleum machinery and tools
RockWell Energy Services Ltd.	British Virgin Islands 15 April 2010	US$50,000	100%	Oilfield technology consulting services

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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.	British Virgin Islands 15 April 2010	US$10,000,000	100%	Import and export petroleum machinery and tools
Anton Oilfield Technology, Inc.	USA 3 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)	Beijing, the PRC, 19 October 2010	RMB7,500,000	100%	Software services, sales of electronic products

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 on 30 October 2007 in the PRC.

	2010	2009
As at 1 January	**50,668**	51,629
Share of loss	**(424)**	(961)
As at 31 December	**50,244**	50,668

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

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10. INVESTMENT IN A JOINTLY CONTROLLED ENTITY - GROUP *(Continued)*

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

	As at 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
Assets:		
Non-current assets	**75,830**	78,462
Current assets	**143,988**	125,432
	219,818	203,894
Liabilities:		
Non-current liabilities	**—**	798
Current liabilities	**117,860**	96,105
	117,860	96,903
Non-controlling interests	**3,839**	5,655
Net assets	**101,958**	106,991
Revenue	**603,524**	514,335
Expenses	**(605,107)**	(516,411)
Loss after income tax	**(1,583)**	(2,076)
Non-controlling interests	**(734)**	(154)
Joint venture's commitments	**—**	14,277

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

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11. INVENTORIES - GROUP

	As at 31 December	
	2010	2009
Raw materials	**35,235**	70,436
Work-in-progress	**47,455**	12,836
Finished goods	**180,925**	127,221
Spare parts and others	**1,808**	1,120
	265,423	211,613

As at 31 December 2010 and 2009, all inventories were stated at cost.

12. TRADE AND NOTES RECEIVABLES - GROUP

	As at 31 December	
	2010	2009
Trade receivables, net (a)	**663,354**	417,974
Trade receivables from a related party (Note 32 (c))	**1,175**	—
Notes receivable (b)	**7,464**	12,011
	671,993	429,985

Note:

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

	As at 31 December	
	2010	2009
1 - 6 months	**460,154**	232,790
6 months - 1 year	**119,785**	87,181
1 - 2 years	**71,420**	99,297
2 - 3 years	**19,627**	3,604
Over 3 years	**4,217**	2,319
Trade receivables, gross	**675,203**	425,191
Less: Impairment of receivables	**(10,674)**	(7,217)
Trade receivables, net	**664,529**	417,974

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

Note: *(Continued)*

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

(c) As at 31 December 2010, RMB579,402,000 (31 December 2009: RMB410,877,000) and RMB92,591,000 (31 December 2009: RMB19,108,000) of trade and notes receivables were denominated in RMB and US$, respectively.

(d) The fair values of trade and notes receivables approximated their carrying values due to the short maturity.

(e) Most of the trade receivables are with credit terms of six months, 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 above receivables. The Group dose not hold any collateral as security.

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

	2010	2009
As at 1 January	**7,217**	3,700
Additions	**4,843**	9,261
Dispose of a subsidiary	**—**	(1,982)
Written off	**(1,386)**	(3,762)
As at 31 December	**10,674**	7,217

13. PREPAYMENTS AND OTHER RECEIVABLES - GROUP AND COMPANY

	As at 31 December			
	Group		**Company**	
	2010	2009	**2010**	2009
Advances to suppliers	**30,082**	56,297	**—**	—
Other receivables	**34,175**	26,212	**395**	476
Amounts due from subsidiaries (a)	**—**	—	**145,848**	120,311
Amounts due from a related party (Note 32 (c))	**5,861**	—	**—**	—
	70,118	82,509	**146,243**	120,787

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

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

	As at 31 December			
	Group		Company	
	2010	2009	**2010**	2009
1 - 6 months	**25,830**	50,824	**145,848**	100,476
6 months - 1year	**31,115**	19,568	**—**	20,311
1 - 2 years	**7,268**	6,701	**395**	—
2 - 3 years	**7,664**	6,354	**—**	—
Over 3 years	**2,166**	1,552	**—**	—
Prepayments and other receivables, gross	**74,043**	84,999	**146,243**	120,787
Less: Impairment of prepayments and other receivables (b)	**(3,925)**	(2,490)	**—**	—
Prepayments and other receivables, net	**70,118**	82,509	**146,243**	120,787

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

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

	2010	2009
As at 1 January	**2,490**	—
Additions	**1,435**	2,490
As at 31 December	**3,925**	2,490

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14. CASH AND BANK – GROUP AND COMPANY

	As at 31 December			
	Group		Company	
	2010	2009	**2010**	2009
Restricted bank deposits (a)	**144,353**	3,120	**—**	—
Term deposits with initial terms of				
over three months (b)	**6,000**	67,609	**—**	—
Cash and cash equivalents				
- Cash on hand	**655**	630	**—**	—
- Deposits in bank	**188,305**	272,329	**1,476**	27,524
	339,313	343,688	**1,476**	27,524

Notes:

(a) As at 31 December 2010, bank deposits amounting to RMB37,197,000 and RMB102,500,000 were held as securities for long-term and short-term borrowings, respectively (31 December 2009:Nil) (Note 17).

As at 31 December 2010, bank deposits amounting to RMB4,656,000 were held as securities for letter of guarantee and for issuance of notes payable (31December 2009: RMB3,120,000 were pledged for letter of credit and for issuance of notes payable.).

(b) As at 31 December 2010, the effective interest rate on term deposits with initial terms of over three months ranged from 1.71% to 2.25% per annum (31 December 2009: 1.71% to 2.25% per annum); and these deposits have an average maturity of 337 days (31 December 2009: 216 days).

Cash and bank were denominated in the following currencies:

	As at 31 December			
	Group		Company	
	2010	2009	**2010**	2009
RMB	**321,583**	292,560	**—**	—
US$	**9,344**	43,815	**1,381**	26,465
HK$	**251**	1,068	**95**	1,059
Others	**8,135**	6,245	**—**	—
	339,313	343,688	**1,476**	27,524

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15. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	Authorised Number of shares	HK$'000
As at 31 December 2009	3,500,000,000	350,000
As at 31 December 2010	**3,500,000,000**	**350,000**

	Number of shares issued and fully paid of HK$0.1 each	HK$'000	Share capital RMB'000
As at 31 December 2008	2,093,054,000	209,305	197,411
As at 31 December 2009	2,093,054,000	209,305	197,411
Addition	100,000	10	9
As at 31 December 2010	**2,093,154,000**	**209,315**	**197,420**

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

(b) Share options

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 2008		104,025
Granted (on 29 April 2009)	0.684	31,100
Forfeited		(18,421)
Expired		(75,000)
As at 31 December 2009		41,704
Granted (on 9 April 2010)	0.75	33,080
Granted (on 23 November 2010)	0.76	10,000
Exercised		(100)
Forfeited		(3,400)
Cancelled		(300)
Expired		(3,454)
As at 31 December 2010		**77,530**

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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 2009
2 February 2012	1.634	9,100
28 April 2013	0.684	25,950
8 April 2014	0.75	32,480
22 November 2014	0.76	10,000
		77,530

The fair value of the options granted during the year ended 31 December 2010 is determined using the Black-Scholes Option Pricing Model. The major assumptions used in the pricing model for options granted on 9 April 2010 were the exercise price shown above; current stock price of HK$0.75 per share; expected dividend yield of 1.0%; maturity years ranging from 2.5 to 3.5 years, risk-free rate ranging from 1.10% to 1.54%; annualised volatility ranging from 65.56% to 71.39%. The major assumptions used in the pricing model for options granted on 23 November 2010 were the exercise price shown above; current stock price of HK$0.76 per share; expected dividend yield of 1.0%; maturity years ranging from 2.5 to 3.5 years, risk-free rate ranging from 0.67% to 0.96%; annualised volatility ranging from 61.71% to 63.40%.

The total expense recognised in the income statement for the year ended 31 December 2010 for share options amounted to RMB7,307,000 (year ended 31 December 2009: RMB15,357,000), with a corresponding amount credited in capital reserve.

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16. RESERVES

(a) Reserves

	Share premium	Capital reserve	Statutory reserve	Group Hedging reserve	Retained earnings	Exchange differences	Total
As at 31 December 2008	686,918	301,673	24,951	—	308,873	(331)	1,322,084
Profit for the year	—	—	—	—	32,020	—	32,020
Share option scheme	—	15,357	—	—	—	—	15,357
Capital injection by minority shareholders(a)	—	1,576	—	—	—	—	1,576
Transfer to statutory reserves (b)	—	—	5,817	—	(5,817)	—	—
Dividends (Note 29)	(57,000)	—	—	—	—	—	(57,000)
Exchange differences	—	—	—	—	—	(83)	(83)
As at 31 December 2009	629,918	318,606	30,768	—	335,076	(414)	1,313,954
Profit for the year	—	—	—	—	116,655	—	116,655
Exchange differences	—	—	—	—	—	(2,270)	(2,270)
Cash flow hedges	—	—	—	(1,102)	—	—	(1,102)
Share option scheme (Note15(b))	—	7,307	—	—	—	—	7,307
Share option exercised (Note15(b))	117	(67)	—	—	—	—	50
Transfer to statutory reserves (b)	—	—	5,742	—	(5,742)	—	—
Dividends (Note 29)	(18,000)	—	—	—	—	—	(18,000)
As at 31 December 2010	612,035	325,846	36,510	(1,102)	445,989	(2,684)	1,416,594

(a) The capital injection in 2009 represents the additional capital injections in Shandong Precede made by minority shareholders in the form of property, plant and equipment.

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16. RESERVES *(Continued)*

(b) 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 balance of such reserve fund reaches 50% of each entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, except for offsetting prior years' losses, such statutory reserve fund must be maintained at a minimum of 25% of share capital after such usage. For the year ended 31 December 2010, 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**	**Retained earnings**	**Total**
As at 31 December 2008	686,918	2,908,501	(105,901)	3,489,518
Share option scheme	—	15,357	—	15,357
Proft for the year	—	—	34,738	34,738
Dividends	(57,000)	—	—	(57,000)
As at 31 December 2009	629,918	2,923,858	(71,163)	3,482,613
Share option scheme (Note 15(b))	—	7,307	—	7,307
Share option exercised (Note 15(b))	117	(67)	—	50
Proft for the year	—	—	(19,024)	(19,024)
Dividends (Note 29)	(18,000)	—	—	(18,000)
As at 31 December 2010	612,035	2,931,098	(90,187)	3,452,946

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17. BORROWINGS

	As at 31 December	
	2010	2009
Long-term borrowings		
– Secured bank borrowings (a)	**34,822**	—
Less: Amount due within one year under current liabilities	**(34,822)**	—
	—	—
Short-term borrowings		
– Unsecured bank borrowings (b)	**50,000**	50,000
– Secured bank borrowings (b)	**100,000**	—
	150,000	50,000

(a) As at 31 December 2010, long-term bank borrowings were denominated in US$ and secured by bank deposits of the Group (Note 14), bearing floating interest rates at LIBOR plus 2.25% per annum. The long-term borrowings will be matured in May and August 2011.

(b) As at 31 December 2010, short-term bank borrowings were all denominated in RMB, bearing interest rate ranging from 4.779% to 5.355% per annum (31 December 2009: 4.779%). Short-term borrowing amounting to RMB100,000,000 were secured by bank deposit of the Group (Note 14) (31 December 2009: Nil) .

As at 31 December 2010, the undrawn bank facilities of the Group amounted to approximately RMB481million (31 December 2009: RMB436 million).

18. DERIVATIVE FINANCIAL LIABILITIES

	As at 31 December	
	2010	2009
Interest rate swaps	**609**	—
Forward foreign exchange contracts	**493**	—
	1,102	—

Anton Oilfield Services (Group) Limited, a subsidiary of the Group, entered into an interest rate swap contract and a foreign exchange forward contract with Hang Seng Bank (China) Limited Beijing Branch in May 2010, for the purpose of hedging the cash flow interest rate risk and foregin exchange risk associated with its long-term borrowing (Note 17). Both derivative contracts have been designated for cash flow hedge.

The derivative financial liabilities were classified as current liabilities due to the associated long-term borrowings expiring within 12 months.

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19. TRADE AND NOTES PAYABLES - GROUP

	As at 31 December	
	2010	2009
Trade payables	**190,994**	78,921
Trade payables to a related party (Note 32(c))	**9,223**	9,693
Notes payables	**18,199**	14,524
	218,416	103,138

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

	As at 31 December	
	2010	2009
Less than 1 year	**202,207**	93,763
1 - 2 years	**13,114**	6,961
2 - 3 years	**1,294**	1,406
Over 3 years	**1,801**	1,008
	218,416	103,138

20. ACCRUALS AND OTHER PAYABLES – GROUP AND COMPANY

	As at 31 December			
	Group		Company	
	2010	2009	**2010**	2009
Customer deposits and receipts in advance	**18,806**	1,952	**—**	—
Accrued expenses	**5,860**	5,619	**2,589**	2,300
Payroll and welfare payable	**12,119**	8,542	**66**	31
Taxes other than income taxes payable (a)	**22,737**	26,867	**—**	—
Consideration for acquisition of subsidiaries	**17,960**	17,960	**—**	—
Amounts due to subsidiaries (b)	**—**	—	**44,828**	15,729
Others	**35,489**	16,955	**1,282**	1,639
	112,971	77,895	**48,765**	19,699

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

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

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21. DEFERRED INCOME TAX - GROUP

Deferred income tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes related to the same tax authorities.

	As at 31 December	
	2010	2009
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**3,008**	639
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**1,525**	1,782
– Deferred tax liabilities to be settled within 12 months	**625**	697
	2,150	2,479

Deferred tax liabilities:

	Acquisition of subsidiaries	**Withholding tax from investment income**	**Total**
As at 31 December 2008	2,407	3,000	5,407
Payment of withholding Tax	—	(3,000)	(3,000)
(Credited) / Charged to the income statement	(625)	697	72
As at 31 December 2009	1,782	697	2,479
(Credited) / Charged to the income statement	(626)	297	(329)
As at 31 December 2010	1,156	994	2,150

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21. DEFERRED INCOME TAX - GROUP *(Continued)*

Deferred tax assets:

	Tax losses	Impairment provision of receivables and inventories	Total
As at 31 December 2008	—	532	532
Credited to the income statement	—	107	107
As at 31 December 2009	—	639	639
Credited to the income statement	749	1,620	2,369
As at 31 December 2010	749	2,259	3,008

Deferred income tax assets are recognised for tax loss carry-forward 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 RMB1,669,000(31 December 2009: RMB2,389,000) in respect of losses amounting to RMB7,101,000 (31 December 2009: RMB13,049,000) that can be carried forward against taxable income as the Group is going to close the relevant subsidiaries.

22. REVENUE

Revenue by category is analysed as following:

	Year ended 31 December	
	2010	2009
Sales of goods	**554,061**	493,369
Sales of services	**396,654**	196,661
	950,715	690,030

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23. EXPENSE BY NATURE

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

	Year ended 31 December	
	2010	2009
Gains on disposal of property, plant and equipment	**(341)**	(126)
Addition for impairment of receivables	**6,278**	11,751
Written off trade receivables	**—**	(3,762)
Sales tax and surcharges	**18,619**	13,547
Depreciation	**44,530**	29,389
Amortisation of intangible assets and land use rights	**6,297**	5,158
Auditor's remuneration	**3,400**	3,300

24. OTHER GAINS , NET

	Year ended 31 December	
	2010	2009
Government grants and subsidies	**646**	1,632
Fair value loss on financial assets at fair value through profit or loss	**—**	(441)
Income from entrusted loans and structured deposits	**—**	3,068
Others	**(71)**	(511)
	575	3,748

25. FINANCE INCOME / (COSTS), NET

	Year ended 31 December	
	2010	2009
Interest income	**3,119**	3,403
Interest expenses on bank borrowings	**(3,597)**	(474)
Exchange loss, net	**(1,590)**	(683)
Bank surcharges and others	**(629)**	(445)
	(2,697)	1,801

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26. STAFF COSTS

	Year ended 31 December	
	2010	2009
Wages, salaries and allowances	**99,522**	92,812
Housing subsidies (a)	**2,563**	2,130
Contributions to pension plans (b)	**4,937**	4,027
Share option costs (Note 15(b))	**7,307**	15,357
Welfare and other expenses	**9,204**	814
	123,533	115,140

(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.

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26. STAFF COSTS *(Continued)*

(c) Emoluments of directors and five highest paid individuals

The remuneration of every director for the year ended 31 December 2010 is set out below:

	For the year ended 31 December 2010				
Directors	**Fees**	**Basic Salaries and Allowances**	**Bonus**	**Retirement benefits and others**	**Total**
Luo Lin	**—**	**845**	**—**	**15**	**860**
Ma Jian	**—**	**754**	**—**	**21**	**775**
Wu Di	**—**	**480**	**—**	**16**	**496**
Wang Mingcai*	**300**	**—**	**—**	**—**	**300**
Zhu Xiaoping*	**300**	**—**	**—**	**—**	**300**
Zhang Yongyi*	**300**	**—**	**—**	**—**	**300**
	900	**2,079**	**—**	**52**	**3,031**

	For the year ended 31 December 2009				
Directors	Fees	Basic Salaries and Allowances	Bonus	Retirement benefits and others	Total
Luo Lin	—	845	—	15	860
Ma Jian	—	754	—	21	775
Pan Weiguo	—	754	—	21	775
Wang Mingcai*	300	—	—	—	300
Zhu Xiaoping*	300	—	—	—	300
Zhang Yongyi*	300	—	—	—	300
	900	2,353	—	57	3,310

* 5,400,000 share options were granted to three independent non-executive directors in February 2008 and April 2009, respectively with total expense recognised in the income statement for the year ended 31 December 2010 amounted to RMB420,000 (for the year ended 31 December 2009: RMB782,000) which are not included in this summary.

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26. STAFF COSTS *(Continued)*

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2009: three) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the other two (2009: two) individuals during the year are as follows:

	Year ended 31 December	
	2010	2009
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,271**	1,343
Contributions to pension schemes	**19**	18
	1,290	1,361

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Emoluments bands		
RMB nil - RMB 1,000,000	**2**	2
RMB 1,000,000 - RMB 1,500,000	**—**	—
	2	2

(e) During the years ended 31 December 2010 and 2009, 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.

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27. 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 2010 (for the year ended 31 December 2009: 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.

Pursuant to Chao Guo Shui Bei Zi [2009] No. 12300079 issued by the State Administration of Taxation of Beijing Chaoyang District, Anton Oil, being a high technology enterprise, has been granted a preferential rate of 15% during 2008 to 2010.

Pursuant to Hai Guo Shui Zi No.200906JMS1600136 issued by the State Administration of Taxation of Beijing Haidian District, Thongsheng Well, being a high technology enterprise and domiciled in new and high technology areas, has been granted a preferential rate of 15% with a 50% reduction during 2008 to 2010.

Being a high technology enterprise certified by Beijing Municipal Science & Technology Commission and other local finance and taxation administrations, Hinen-Hitech has been granted a preferential rate of 15% which should be filed and approved by Beijing Local Taxation Bureau annually.

Pursuant to Ba Kai Guo Shui Ban [2008] No. 1 issued by the State Administration of Taxation, Bazhou Technical Economic Development Area, Korla, Xinjiang Uygur Autonomous Region, Anton Tong'ao, as a newly set up enterprise in the western area of the PRC, is exempt from EIT during 2006 to 2010.

Pursuant to Lun Guo Shui Jian Tong Zi [2009] No. 1 issued by the State Administration of Taxation, Luntai County office, Xinjiang Tong'ao, as a enterprise set up in the western area of the PRC, has been granted a preferential rate of 15% during 2007 to 2010.

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

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27. INCOME TAX EXPENSE *(Continued)*

The applicable EIT tax rates of the Group companies during the years ended 31 December 2010 and 2009 are detailed as follows:

	Year ended 31 December	
	2010	2009
The Company	**—**	—
Anton Oil	**15%**	15%
Foyou Tech	**25%**	25%
Xinjiang Tong'ao	**15%**	15%
Tongsheng Well	**7.5%**	7.5%
Anton Tong'ao	**—**	—
Anton Machine	**25%**	25%
Xinjiang Foyou	**Note**	Note
Hinen-Hitech	**15%**	15%
Cangzhou Hinen-Hitech	**25%**	25%
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	**25%**	25%
Anton Sudan	**—**	—
Roxxon Hong Kong	**16.5%**	16.5%
RockWell Energy Services Ltd.	**—**	N/A
T&C International Trading Ltd.	**—**	N/A
Anton Oil Technical Group(International) Limited	**—**	N/A
Anton Software Technology Ltd.	**25%**	N/A
Anton Oilfield Technology, Inc.	**15%**	N/A
Anton Oilfiled Services Oversea Kish LLC	**25%**	N/A

Note: Pursuant to Guo Shui Zi [2008] No. 001 issued by the State Administration of Taxation Bazhou Technical Economic Development Area, Korla, Xinjiang Uygur Autonomous Region, the EIT of Xinjiang Foyou is levied at 25% of the approved taxable income which is calculated as total revenue multiplied by 8%.

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27. INCOME TAX EXPENSE *(Continued)*

	Year ended 31 December	
	2010	2009
Current income tax		
– PRC income tax	**16,467**	(669)
– Other	**2,600**	1,429
Deferred income tax (Note 21)		
– Deferred tax relating to the origination and reversal of temporary differences	**(2,698)**	(35)
	16,369	725

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	
	2010	2009
Profit before income tax	**142,295**	38,331
Tax calculated at applicable tax rates	**27,428**	15,790
Preferential tax rates and tax exemption on the income of certain subsidiaries	**(10,307)**	(6,362)
Gains incurred by a company registered in Cayman Islands with zero tax rate	**—**	(5,566)
Income not subject to taxation	**(3,306)**	(3)
Expenses not deductible for taxation purposes	**2,138**	4,139
Additional deduction of research and development expense	**(2,392)**	(756)
Tax losses for which no deferred income tax asset was recognised	**1,669**	2,389
Utilisation of previously unrecognised tax losses	**(891)**	—
EIT refund due to prior year tax holiday approved in current year	**—**	(9,602)
Withholding tax from investment income	**297**	696
Withholding tax from overseas income	**2,310**	—
Others	**(577)**	—
Income tax expense	**16,369**	725

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28. 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	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**116,655**	32,020
Weighted average number of ordinary shares in issue (thousands of shares)	**2,093,079**	2,093,054
Basic earnings per share (expressed in RMB per share)	**0.0557**	0.0153

(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 2010, 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 2010 to 31 December 2010) 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	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**116,655**	32,020
Weighted average number of ordinary shares in issue (thousands of shares)	**2,093,079**	2,093,054
Adjustments for assumed conversion of share options (thousands of shares)	**1,110**	—
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	**2,094,189**	2,093,054
Diluted earnings per share (expressed in RMB per share)	**0.0557**	0.0153

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29. DIVIDENDS

The dividends paid in 2009 and 2010 were RMB57,000,000 (RMB0.0272 per ordinary share) and RMB18,000,000 (RMB0.0086 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 2010 of RMB0.0188 per ordinary share, amounting to a total dividend of RMB39,400,000, is recommended by the directors on 20 March 2011, which is to be paid out of the share premium account of the Company. 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.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31 December	
	2010	2009
Profit for the year	**125,926**	37,606
Adjustments for:		
Property, plant and equipment		
–depreciation charge (Note 23)	**44,530**	29,389
–net gain on disposals (Note 23)	**(341)**	(126)
Amortisation of land use rights and intangible assets (Note 23)	**6,297**	5,158
Addition of impairment of receivables (Note 23)	**6,278**	7,989
Charge of share option scheme (Note 15(b))	**7,307**	15,357
Fair value loss on financial assets at fair value through profit or loss	**—**	441
Investment gains from entrusted loans and structured deposits	**—**	(3,068)
Share of loss of a jointly controlled entity	**424**	961
Net foreign exchange loss (Note 25)	**1,590**	683
Interest income (Note 25)	**(3,119)**	(3,403)
Interest expenses on bank borrowings (Note 25)	**3,597**	474
Income tax expense	**16,369**	725
Changes in working capital:		
Inventories	**(53,810)**	(12,229)
Trade and notes receivables	**(246,851)**	14,685
Prepayments and other receivables	**3,349**	5,943
Trade and notes payables	**83,371**	(2,663)
Accruals and other payables	**42,873**	(31,715)
Restricted bank deposits	**(1,536)**	—
Net cash inflows from operations	**36,254**	66,207

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31. 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	
	2010	2009
Contracted but not provided for		
– Property, plant and equipment	**45,400**	—
	45,400	—

(b) Operating lease commitments – where the Group is the leasee:

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	
	2010	2009
No later than 1 year	**7,597**	5,819
1 to 2 years	**5,440**	6,097
2 to 3 years	**1,644**	3,940
3 to 4 years	**800**	611
4 to 5 years	**533**	—
	16,014	16,467

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32. 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 2010 and 2009:

Names of related parties	Nature of relationship
Northern Heavy	Jointly controlled entity of Anton Oil

(b) Transactions with related parties

	Year ended 31 December	
	2010	2009
Purchases of goods		
Northern Heavy	**53,674**	71,316
Sales of goods		
Northern Heavy	**620**	1,791

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

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32. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

	As at 31 December			
	Group		Company	
	2010	2009	**2010**	2009
Prepayments and other receivables				
Northern Heavy (Note 13)	**5,861**	—	**—**	—
Trade and notes receivables				
Northern Heavy (Note 12)	**1,175**	—	**—**	—
Trade payable				
Northern Heavy (Note 19)	**9,223**	9,693	**—**	—

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

(d) Key management compensation

	Year ended 31 December	
	2010	2009
Salaries and other short-term employee benefits	**6,472**	5,549
Pension scheme	**93**	74
Share-based payments	**128**	988
	6,693	6,611

33. SUBSEQUENT EVENTS

On 20 March 2011, the directors of the Company proposed to distribute RMB39,400,000 dividend for the year ended 31 December 2010. This dividend is subject to the approval of shareholders at the annual general meeting.