2011 ANNUAL REPORT

TALENTS FIRST

才先行

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)

Contents

Talents First

Antonoil believes in “Talents First”. 2011 is the Year of Talents for Antonoil. We insist on building a combination of young talents and mature professionals, to make the best of the entrepreneurial spirit of young people and leverage top-class industry experts and high-end technical and management professionals to drive our business growth. We will persist in large-scale talent acquisition to maintain the Group’s competitiveness. The Group also discovers and develops its own talents internally, thus building a solid foundation of its talent reserves.

About Antonoil

Anton Oilfield Services Group (“Antonoil” or the “Company”), together with its subsidiaries (collectively known as the “Group”), is a leading independent oilfield services provider offering one-stop oil and gas field development technical services to oil companies. Its services and solutions cut across the drilling, well completion, down-hole operations, and oil production stages during the development cycle. Its fast growth benefits from the fast-growing development of natural gas in China and the Group's increasing presence in the overseas markets. The Group’s strategic objective is to become a world-leading oilfield services provider with a solid foothold in China.

Antonoil is committed to continuously strengthening its R&D capabilities and making additions to its talent reserves. As of December 31, 2011, the Group employs 1,262 people. Antonoil is headquartered in Beijing with sales offices and operations bases across China's major onshore oil and natural gas basins. The Group also has an international headquarters in Dubai with an extensive network across the Middle East, Central Asia, Africa, and Americas.

About Antonoil

BUSINESS

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

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

DRILLING TECHNOLOGY CLUSTER

Drilling technology cluster provides engineering technical services and products during the drilling stage to solve problems encountered in directional drilling, drilling assessment, drilling acceleration, enhanced reservoir contact and integrated drilling. The Group is a leading drilling technical service provider in China and its services include directional drilling 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 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 production and extending the life of production. The Group is a leading screen well completion service and tool provider in China and is equipped with the most comprehensive series of screen well completion technologies and tools able to be used in vertical wells and horizontal wells. The screen well completion tools of the Group include composite screens, punched slotted screens, sand screens, pack screens, wire wrapped screens, slotted screens and innovative water control screens.

Gravel packing well completion

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

Oil production tools

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

DOWN-HOLE OPERATION CLUSTER

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

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 tubular

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

Strategic Framework

LONG-TERM STRATEGIC OBJECTIVE

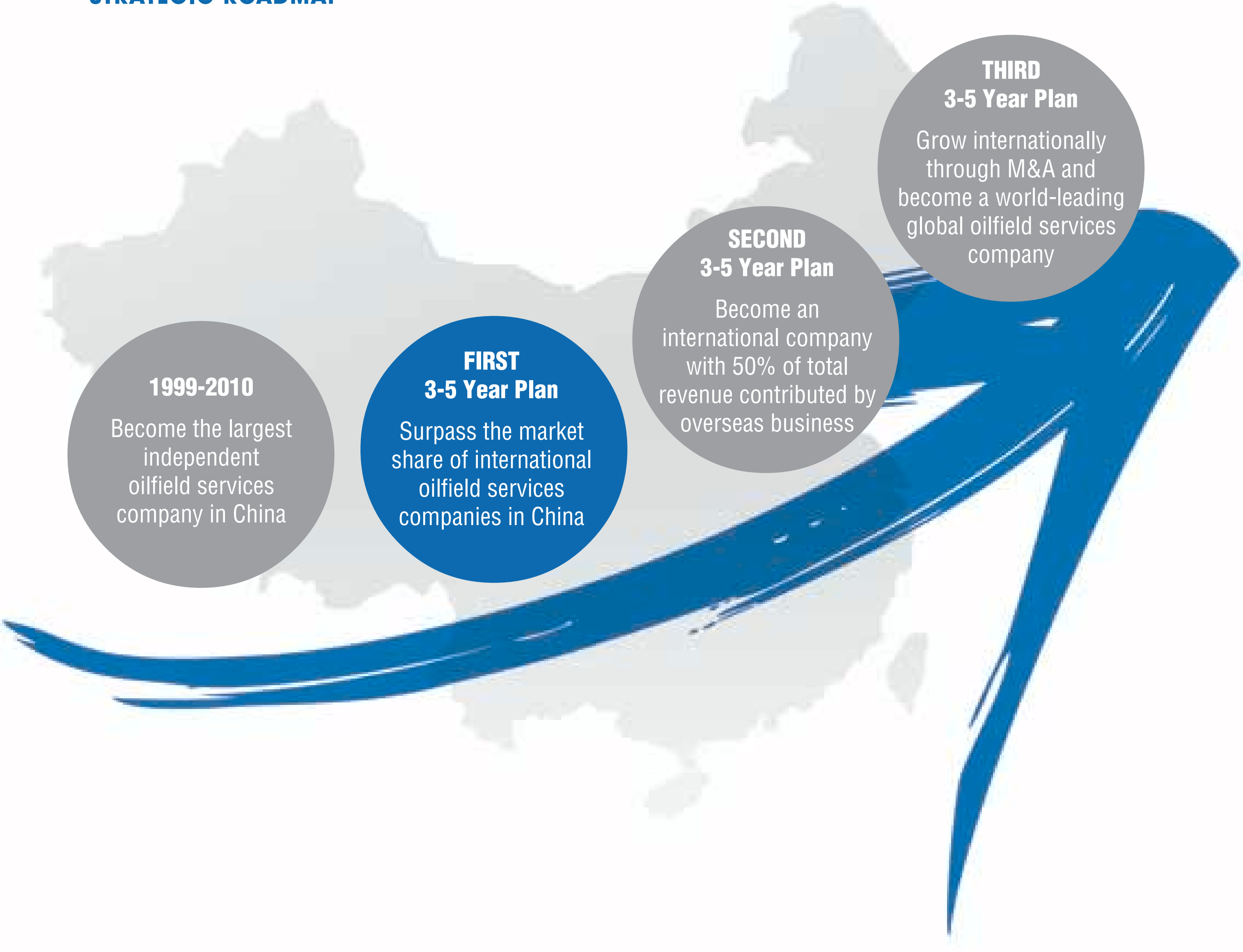
To be a leading global oilfield services company with a strong foothold in China

One-stop services:
to provide one-stop oilfield technical solutions, establishing a leadership position in one-stop services

Globalized:
to aim at the global markets

Strong foothold in China:
to supply technical and operational support from China

STRATEGIC ROADMAP



In order to fulfill the long-term strategic objective, the Group has laid out the development strategies in the areas of market, product, talents, technologies and investment:

Long-term Market Strategy

NOW: Parallel development of both domestic and international markets. In China, focus on the high-end natural gas market and develop strategic partnerships with clients. In the overseas markets, provide"follow-up"services for Chinese investors

STEP 2: Develop the National Oil Companies (NOC) markets in the Middle East and South America, etc.

STEP 3: Develop the International Oil Companies (IOC) markets

Long-term Product Strategy

NOW: Focus on providing one-stop oilfield services at the development stage, speicializing in oilfield development services covering drilling, well-completion, down-hole operation, oil production and tubular services

FUTURE: Develop into a fully-fledged oilfield services provider with one-stop services in the exploration and production cycle, covering oilfield exploration services, oilfield development services and oilfield management services

Long-term Talent Strategy

NOW: Continue to build up talent reserves by hiring high-end talents from the industry, developing young talents internally, while beginning to recruit international talents

NEXT: Develop a global base of international talents by introducing team acquisitions and accelerating the recruitment of international talents

Long-term Technology Strategy

NOW: Mainly acquire new technologies by learning foreign advanced technical know-how quickly and introduce them into the domestic market, while developing our own technologies in certain areas. Ensure to be the first in China to introduce new and advanced overseas technologies and to achieve the same technical standards with international companies in the local market

NEXT: Develop a global base of technical supplies, acquisitions, and development capabilities, to be established as a technical leader in the global industry

Long-term Investment Strategy

NOW: Investments focused on service-oriented equipments to satisfy current business growth and mid- to long-term business development. Develop strategic partnerships with facilities developers and logistics providers to reduce investments in non-core assets and allocate more resources to invest in core assets.

NEXT: Investments to focus on both organic growth and M&A, with more emphasis on global M&A

Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENTS

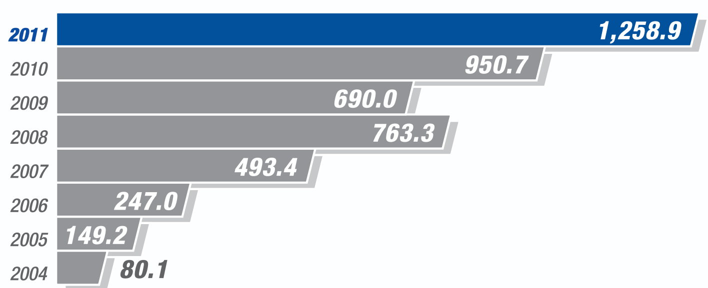
RMB ('000)	2007	2008	2009	2010	**2011**
	For the year ended 31 December				
Revenue	493,434	763,266	690,030	950,715	**1,258,909**
Other gains/(losses), net	888	(14,551)	3,748	575	**2,155**
Operating costs	(360,951)	(606,965)	(656,287)	(805,874)	**(1,086,209)**
Operating profit	133,371	141,750	37,491	145,416	**174,855**
Finance (costs)/income, net	(6,546)	(37,683)	1,801	(2,697)	**(16,094)**
Profit before income tax	127,314	105,418	38,331	142,295	**112,517**
Profit for the year	113,157	72,145	37,606	125,926	**91,668**
Attributable to:					
Equity holders of the Company	113,000	68,463	32,020	116,655	**77,344**
Non-controlling interests	157	3,682	5,586	9,271	**14,324**
Dividends	—	57,000	18,000	39,400	**35,700**
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)					
Basic	0.0718	0.0327	0.0153	0.0557	**0.0369**
Diluted	0.0714	0.0325	0.0153	0.0557	**0.0365**

Financial Summary

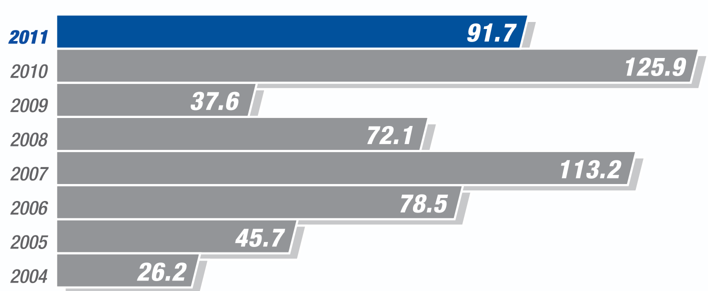
CONDENSED CONSOLIDATED BALANCE SHEETS

RMB ('000)	As at 31 December 2007	2008	2009	2010	**2011**
Assets					
Non-current assets	298,480	617,863	723,685	844,067	**956,922**
Current assets	1,542,495	1,307,459	1,067,795	1,346,847	**1,540,698**
Total Assets	1,840,975	1,925,322	1,791,480	2,190,914	**2,497,620**
Total Equity	1,389,769	1,550,614	1,546,079	1,650,561	**1,740,097**
Liabilities					
Non-current liabilities	42,545	5,407	2,479	2,150	**15,804**
Current liabilities	408,661	369,301	242,922	538,203	**741,719**
Total liabilities	451,206	374,708	245,401	540,353	**757,523**
Total equity and liabilities	1,840,975	1,925,322	1,791,480	2,190,914	**2,497,620**
Nent current assets	1,133,834	938,158	824,873	808,644	**798,979**
Total assets less current liabilities	1,432,314	1,556,021	1,548,558	1,652,711	**1,755,901**

REVENUE *(RMB million)*

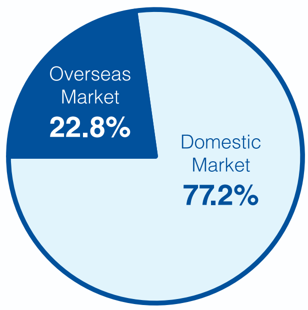


PROFIT FOR THE YEAR *(RMB million)*

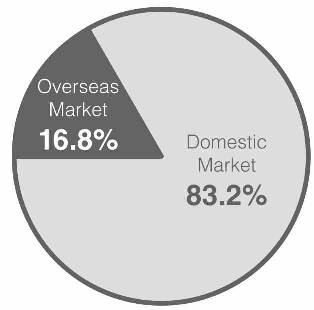


Financial Highlights

REVENUE BREAKDOWN BY REGION

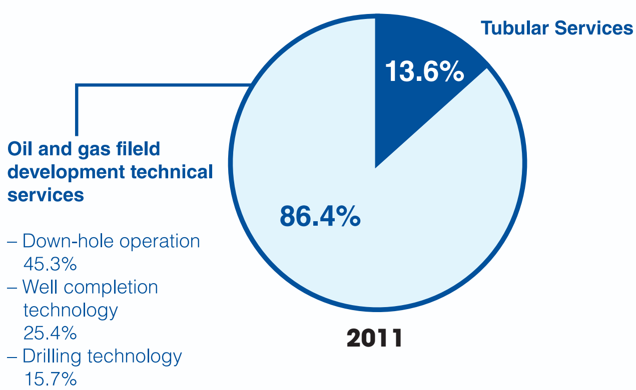


2011

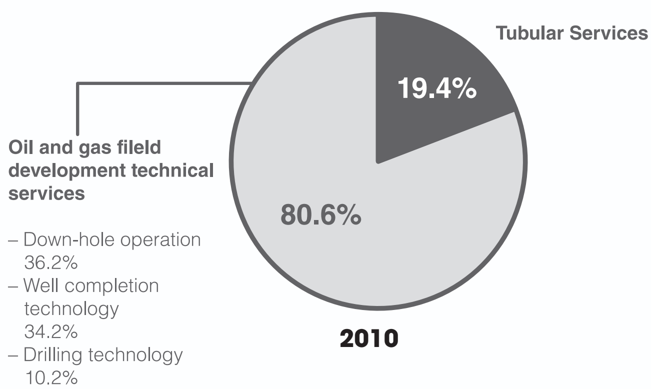


2010

REVENUE BREAKDOWN BY BUSINESS CLUSTERS



2011



2010

ACCOUNTS RECEIVABLES TURNOVER DAYS

ACCOUNTS PAYABLES TURNOVER DAYS

INVENTORY TURNOVER DAYS

Chairman's Statement

Chairman
LUO LIN

Dear Shareholders,

The year 2011 was a meaningful year for Antonoil. Since 2010, China has overtaken the US as the world's biggest energy consumer. With the accelerating growth of natural gas development in the domestic market and the growing appetite for Chinese investors to acquire overseas oil and gas resources, we are compelled to believe that China, driven by its tremendous demand for energy, is building its oil industry at a pace that can influence the world. As such, there is no doubt that at least one world-leading oilfield services company will emerge from China.

Antonoil has set its strategic objective to become the leading global oilfield services company with a strong foothold in China – with an emphasis on the provision of integrated services, the globalization of its markets and with technical and operational support based in China. This objective will be accomplished by achieving various milestones along our strategic roadmap. In the first decade since our founding, we experienced a metamorphosis from a startup to a listed company and through introducing talents, technologies and capital, we successfully accomplished the first milestone of becoming the largest independent oilfield services company in China. The Group will then set out to accomplish the second milestone of achieving a market share that exceeds the global oilfield services companies in China in the next three to five years. Upon that, the Group will have to speed up its pace of internationalization so that its sales in the overseas markets will account for half of its total sales. Finally, we can carry out large-scale cross-border mergers and acquisitions so as to become a leading global oilfield services company.

REVIEW

In 2011, the Group engaged in its second phase of development. The Group maintained strong growth throughout the year, with revenue reaching RMB1.26 billion, representing an increase of 32.4% compared to 2010. The revenue structure reflected the satisfactory execution of the Group's strategies. First, domestic revenue accounted for 77.2% of the Group's revenue, up 22.9% year-on-year. The performance of the natural gas operation was particularly outstanding. The Group not only cemented its leadership position in conventional gas and tight gas development, but also stood out as the technical services provider in multistage fracking for the first shale gas horizontal well, reinforcing the Group's reputation as a leading player in natural gas development. Meanwhile, overseas revenue already amounted to 22.8% of the total revenue, up 79.6% year-on-year, as the Group reaps the early success of the "follow-up" overseas market strategy. The Group is on its road to internationalization.

The year 2011 also saw the growing prominence of the Group's core business - oil and gas field development technical services, which contributed 86.4% of total revenue with 41.9% year-on-year growth. Integrated technical services were established to cover the entire cycle of development – from drilling, well-completion, down-hole operation to oil production – effectively addressing the stimulation and construction challenges. The Group's supplementary business, tubular services, saw a further reduction in its share of total revenue to 13.6% and completed the restructuring for the sake of its independent development. Let me also talk about the execution of our technology strategy. In 2011, the three key technical services were multistage fracking services, coiled tubing services and directional drilling services. These services, accounting for 48.3% of the Group's income, an increase of 72.1% year-on-year, were the fruits of the Group's efforts to quickly absorb advanced technologies from abroad and convert them for local application. By becoming a pioneer in introducing, converting and promoting foreign advanced technologies for domestic application, the Group has already attained equal or perhaps superior technology leadership compared with its global peers that operate in China.

In 2011, profit attributable to the equity holders of the Company declined by 33.8%, mainly due to the investment loss brought by a joint venture (JV) - Northern Heavy Anton Machinery Manufacturing Co.,Ltd - under the supplementary business' tubular services. After a drastic provision for the impairment loss of the JV to reflect our very prudence in its treatment, it should not constitute a burden to us in the future. The operating profit of the JV grew by 20.3% compared to 2010. Looking back to the days before our listing, our scale was smaller and therefore we could largely focus on pursuing high profitability. Following the listing, the Group has to primarily build up its long-term competitiveness by stepping up its investment in R&D, talents while expanding its overseas marketing network and building up its service capacity so as to ensure stable revenue growth and sustainable profitability. In 2011, the Group made further investments in its R&D, people, service capacity and overseas expansion, all of which created the Group's unique competitiveness. In the meantime, we've been seeking to facilitate faster growth through acquisition as we intensify our efforts to seek potential M&A targets with outstanding technologies. We have growing confidence in the Group's future growth momentum.

The year 2011 also marked a turning point in Antonoil's working capital management. Driven by the self-imposed pressure of the management, we launched a company-wide campaign to boost the collection of receivables in the fourth quarter in which our compensation and personal reputation were tied up with the delivery of the performance target of the accounts receivables. Consequently, for the first time since our IPO, the Group achieved a year-on-year reduction of accounts receivables turnover days for the year, from 195 days the previous year to 178 days in 2011. Net cash generated from operating activities grew by 7.5 times to RMB220 million.

As the Group has scaled up its business while fundamental problems are being tackled, it is on the track to sound development of high growth and high profitability.

Admittedly, for the Group to accomplish its long-term objective, forming its own talent pool is crucial. The year 2011 was the year of talents for Antonoil. We nurtured and discovered a batch of talents, over half of whom were young talents. Young people, in our view, are in nature strongly entrepreneurial, and Antonoil will count on them to grow further. Antonoil unleashes great value through its capability in nurturing more talents on an ongoing basis.

At the end of 2011, we were honored to be conferred "The Directors of the Year" Award by the Hong Kong Institute of Directors – to the Board and to me. These awards serve to remind us that we must always optimize our corporate governance structure to ensure its effectiveness in decision-making and risk management, thereby better protecting our shareholders' interests.

OUTLOOK

Looking ahead to 2012, the market conditions are promising. China has just entered its golden age of natural gas – production at a number of natural gas basins hit record highs yet again, and the development of unconventional gas has exceeded expectations. In order to tackle the stimulation and engineering challenges in the development process, oil companies are more willing to adopt new technologies and new concepts, thereby creating huge business opportunities for the Group's specific solutions to these problems. In 2012, the Group will continue to expand its market share of the three key technical services, and it will also launch a few new services, including oil-based drill fluid and integrated pressure pumping services, which are expected to be our future growth engines. In the overseas market, the Group

spent the past two years to fully introduce its entire product lines abroad. Now that Chinese investors are accelerating the pace of commencing and increasing production at their overseas oilfields, the Group is well poised to win more businesses with its exceptional responsiveness, cost competitiveness and integrated services for its overseas clients. Overseas revenue is likely to maintain its strong growth momentum.

In 2012, the Group will place strong emphasis on boosting profitability and enhancing the efficiency of asset use. Tough financial targets have been set for all responsible departments, whereby sales, profit, accounts receivables, cashflow, costs and expenses are among the comprehensive performance indicators in their daily management. An effective incentive scheme is in place to motivate staff to achieve their targets. In terms of profitability, the Group will use other means to boost profitability such as requesting stricter billing and settlement with clients, having better control of procurement costs, and using more self-made tools to reduce purchasing. In terms of the collection of receivables, the Group has set out a further reduction target of the receivables and through an incentive system that incorporates both reward and penalties, every single person in the Group is encouraged to commit themselves to fulfilling the goals of enhancing profitability and the efficiency of asset use.

The long-term objective of the Group is to become a global oilfield services company. Informatization and corporate culture will thus be items on our long-term management agenda. For us to achieve internationalization, we must have an effective information system to ensure high standards in the performance of service and technologies anywhere. A special unit has been established to allow the Group to activate its full-scale informatization campaign in 2012. Also, as the Group already has a strong talent base, we must strengthen our corporate culture to bind our people together. We have proposed a framework for our initial corporate culture, specifying our values and principles. The Group will mobilize the entire workforce to learn and discuss the framework in 2012.

ACKNOWLEDGMENTS

I would like to express my gratitude to our clients, whose long-term trust is much appreciated; to our shareholders and partners for their generous support; and to all Directors for their valuable contributions. I'd also like to thank all the employees of the Group for their passion and selfless commitment, with which we can be confident that Antonoil is ready to seize opportunities and tackle challenges in the new year, thereby creating more value to our clients and shareholders.

Chairman
LUO Lin
March 23rd, 2012

Corporate Milestones

FEB · APR · JUL · AUG · OCT · NOV · DEC

FEBRUARY
Certified as "Beijing Enterprise Technology Center"

APRIL
Kicked off 2011 "Top 10 Talents" Challenge Campaign

JULY
Completed the landmark multistage fracking operation of the first shale gas horizontal well in China

AUGUST
Antonoil and Schlumberger renewed the strategic partnership agreement

Initiated the investment in pressure pumping equipment

OCTOBER
Fully rolled out a company-wide campaign to boost the collection of receivables

NOVEMBER
Made donations to support Sichuan earthquake relief work to share the Group's corporate social responsibilities

DECEMBER
Named Winner of "Directors of the Year Awards 2011" by Hong Kong Institute of Directors

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Luo Lin
Mr. Wu Di
Mr. Liu Enlong

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
Dr. Ngai Wai Fung

COMPANY SECRETARY
Dr. Ngai Wai Fung (FCIS, FCS (PE), CPA, ACCA)

COMPANY'S WEBSITE
www.antonoil.com

INVESTOR RELATIONS HOTLINE
+86 10 57397788-7584
+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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
PO Box 75
George Town
Grand Cayman KY1-1107
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 Islands law:
Maples and Calder

PRINCIPAL BANKS
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

Management Discussions and Analysis

The Group's market strategies yielded significant results in 2011. In the domestic market, the Group mainly focused on the natural gas sector, including conventional gas and unconventional gas. In major natural gas exploration and development areas such as the Erdos Basin, the Sichuan Basin, the Tarim Basin and the Songliao Basin, the Group continued to increase its market share, and has established a high-end brand image of solving natural gas production enhancement and engineering difficulties. In the overseas market, the Group focused on oilfields operated by Chinese investors and established long-term strategic partnership with customers based in countries and regions in Middle East. The Group's services have gained full access to the overseas market.

Antonoil restlessly pursues better performance to seize the tremendous opportunities in the fast-growing oilfield services market.

BUSINESS REVIEW

Market Environment

China entering the golden age of natural gas development

Since the Twelfth Five-Year Plan defined the strategic position of natural gas supply in the national energy structure, China witnessed a series of market changes beneficial to the natural gas industry over the past year, including continued increase in consumption of natural gas, accelerated construction of natural gas pipelines, and initiation of pilot reform for market-oriented price of natural gas. China is entering the golden age of natural gas development.

To cope with the escalating natural gas consumption, China's oil companies actively strengthened their natural gas exploration and development activities. Conventional gas and tight gas had a dominant position in the development activities and output. Main growth areas include the Erdos Basin, the Sichuan Basin, the Tarim Basin and the Songliao Basin, which have relatively complex geological environment and high demand for more advanced development technologies, especially horizontal well technology. Meanwhile, the Chinese shale gas sector is also poised for further development as the exploration activities of shale gas increases during the Twelfth Five-Year Plan period and resources are reserved for future scalable development. In 2011, oil companies started experimental exploitation of shale gas by referring to the successful experiences of their US peers and advanced techniques. Upon approval by the central government, shale gas has become an independent mineral resource, which will open up the policy channel for a variety of capital sources to invest in the exploitation and development of shale gas and further facilitate the future revolution in the shale gas sector.

The Group has always been targeting at the development opportunities in the domestic natural gas market, providing high-end technical services in response to the development needs of natural gas wells and emphasizes on the overall solution of production enhancement and engineering difficulties encountered in natural gas development through horizontal well techniques and integrated services. Up to now, the Group has broadly applied its technologies in the development of conventional gas, tight gas, shale gas and coal-bed methane ("CBM") gas. As the golden age of natural gas development approaches, the Group faces tremendous market opportunities.

Chinese investors accelerated overseas mergers & acquisition activities

In response to the tremendous demand for energy in the domestic market, Chinese investors accelerated their mergers & acquisition ("M&A") activities in oilfield resources worldwide in recent years. A variety of investors have participated in overseas M&A activities. In addition to the three major oil companies (including PetroChina, Sinopec and CNOOC), ZhenHua Oil, Sinochem, CITIC Resources and other independent investors also actively participated in the acquisition of overseas oilfields.

Due to the fact that service prices in the international market are higher than those in the domestic market and Chinese investors have a stronger demand for tailor-made services, Chinese investors tend to select Chinese service providers who can rapidly build up service capability for them and offer more competitive prices. In 2008 when the Group started to enter the overseas market, the Group formulated the "follow-up" strategy for the first phase of overseas development. Pursuant to this strategy, the Group will provide Chinese investors with necessary technologies, materials, equipment and relevant staff for their needs in overseas markets. To quickly respond to investors' development needs, the Group constructs on-site service bases and provides timely, reliable and competitive technical services for them. It also establishes strategic partnership with the customers. This way, the Group emerges to be their indispensible technical partners.

Business Performance

The Group continued to maintain its full-year rapid growth in 2011. Total revenue increased by RMB308.2 million or approximately 32.4% to RMB1,258.9 million from RMB950.7 million in 2010. The increase in revenue was due to the steady growth in the domestic natural gas market, high-speed growth in the overseas market and the expansion of market share of the Group's core products and services.

Operating profit of the Group amounted to RMB174.9 million, representing an increase of RMB29.5 million or approximately 20.3% as compared with RMB145.4 million in the same period of 2010. Net profit amounted to RMB91.7 million, representing a decrease of RMB34.2 million or approximately 27.2% as compared with RMB125.9 million in the same period of 2010. Profit attributable to equity holders amounted to RMB77.3 million, representing a decrease of RMB39.4 million or approximately 33.8% as compared with RMB116.7 million in the same period of 2010. Such decrease was mainly due to the investment loss of RMB14.3 million resulting from the loss attributable to Northern Heavy Anton Machinery Manufacturing Co., Ltd. (北重安東機械製造有限公司, "Northern Heavy Anton"), the Group's joint-venture ("JV") company engaging in tubular manufacturing and the provision for impairment loss of RMB31.9 million made to reduce risk exposure. Such losses and provision amounted to RMB46.2 million in total, representing a substantial increase from a loss of RMB0.4 million in 2010. In 2011, the Group voluntarily adjusted its financial structure through an increase in bank borrowings, thereby increased the Group's finance costs.

The Group's market strategies yielded significant results in 2011. In the domestic market, the Group mainly focused on the natural gas sector, including conventional gas and unconventional gas. In major natural gas exploration and development areas such as the Erdos Basin, the Sichuan Basin, the Tarim Basin and the Songliao Basin, the Group continued to increase its market share, and has established a high-end brand image of solving natural gas production enhancement and engineering difficulties. In the overseas market, the Group focused on oilfields operated by Chinese investors and established long-term strategic partnership with customers based in countries and regions in the Middle East. The Group's services have gained full access to the overseas market.

In 2011, the Group continued to focus on its core product strategy coupled with a supplementary business, whereby the Group made every effort to develop its principal business of oil and gas field development technical services and independently develop its supplementary business of tubular services. In the field of oil and gas field development technical services, the Group continued to focus on building up integrated service capacity covering the whole process of drilling, well completion, down-hole operation and oil production, and has developed a series of core technologies aiming at production enhancement. In 2011, the Group's three major services comprised multistage fracking services and coiled tubing services in the down-hole operation cluster, and directional well drilling services in the drilling technology cluster, all of which are enhancement technologies that effectively ensure the increase in oil and gas output.

In 2011, the Group outperformed general expectation in terms of receivables collection. For the year ended 31 December 2011, the Group's cashflow from operating activities amounted to RMB220.4 million, an increase of RMB194.4 million as compared with last year, reflecting the significant effectiveness of the Group's campaign to enhance the collection of trade receivables widely implemented since the fourth quarter and the increased confidence from the management in improving the working capital management. The campaign well demonstrated the determination of the entire management due to self-imposed pressure, to lay down the targets of trade receivables in the year and give their full commitment to accomplish these targets. It requests company-wide participation of all staff in the campaign while each employee will share his/her responsibilities in delivering the assigned targets as personal salary and recognition are pegged with the achievement of the targets. The Group will consider working capital turnover days as one of its main financial indicators and establish a long-lasting effective mechanism for working capital management started from this campaign and strive to realize its long-term goal.

Geographical Market Analysis

In 2011, the Group's revenue from the domestic market was RMB971.6 million, representing an increase of approximately RMB180.9 million or approximately 22.9% from approximately RMB790.7 million last year. Revenue from the domestic market accounted for approximately 77.2% of the Group's total revenue. Revenue from the overseas markets was RMB287.3 million, representing an increase of approximately RMB127.3 million or approximately 79.6% from approximately RMB160.0 million last year. Revenue from the overseas markets accounted for approximately 22.8% of the Group's total revenue.

Comparison of revenue from domestic and overseas markets

	2011 (RMB' million)	2010 (RMB' million)	Change (%)	**Revenue from the respective market as a percentage of total revenue 2011**	Revenue from the respective market as a percentage of total revenue 2010
Domestic	971.6	790.7	22.9%	77.2%	83.2%
Overseas	287.3	160.0	79.6%	22.8%	16.8%
Total	**1,258.9**	**950.7**	**32.4%**	**100.0%**	**100.0%**

Analysis of revenue from the domestic market

	2011 (RMB' million)	2010 (RMB' million)	Change (%)	**Revenue from the respective region as a percentage of revenue from the domestic market 2011**	Revenue from the respective region as a percentage of revenue from the domestic market 2010
Northwest China	321.2	298.8	7.5%	33.1%	37.8%
Northeast China	307.9	174.0	77.0%	31.7%	22.0%
North China	205.5	185.8	10.6%	21.1%	23.5%
Southwest China	137.0	130.5	5.0%	14.1%	16.5%
Others	—	1.6	-100.0%	0.0%	0.2%
Total	**971.6**	**790.7**	**22.9%**	**100.0%**	**100.0%**

Analysis of revenue from overseas markets

	2011 (RMB'million)	2010 (RMB' million)	Change (%)	**Revenue from the respective region as a percentage of revenue from overseas markets 2011**	Revenue from the respective region as a percentage of revenue from overseas markets 2010
The Middle East	227.5	107.6	111.4%	79.2%	67.2%
Central Asia	40.3	26.0	54.4%	14.0%	16.3%
America	0.6	13.6	-95.6%	0.2%	8.5%
Africa	18.9	12.8	47.7%	6.6%	8.0%
Total	**287.3**	**160.0**	**79.6%**	**100.0%**	**100.0%**

Domestic revenue with a strong characteristic in natural gas development

In 2011, the Group actively expanded its market share in the natural gas sector of the domestic market and provided technical services addressing production enhancement and engineering difficulties of natural gas, especially enhancement difficulties of tight gas with low pressure, low permeability and low output, horizontal drilling difficulties of high temperature and high pressure natural gas wells and difficulties of gas storage facilities well cementation and completion which have rigid sealing requirements. During the year ended December 31, 2011 (the "reporting period"), the Group recorded strong and rapid business growth in major gas-producing basins, including Southwest China, Northwest China and Northeast China which cover the Erdos Basin, the Sichuan Basin, the Tarim Basin and the Songliao Basin. Revenue from these regions accounted for approximately 78.9% of the revenue from the domestic market in 2011, up from 76.3% in 2010.

Major business development in the domestic market

- The Sichuan Basin is a major exploration and development area of conventional natural gas, while the large amount of shale gas contained in this basin will become the key exploitation resources in the future. However, due to its complex geological environment, exploitation in this basin requires the development of a series of technologies that tackle production enhancement and engineering difficulties. Therefore, demands for the Group's integrated drilling services, directional drilling services and multistage fracking services grew significantly. During the reporting period, the Group signed a series of annual service contracts with its customers to secure long-term stable orders. The Group also successfully completed production enhancement services for the first shale gas horizontal well in China.

- The Erdos Basin is the second largest tight gas basin in the world and is positioned by our customers as the strategic base to take over oil and gas fields in East China. Due to the low permeability and pressure of tight gas, exploitation in this basin requires the development of specifically designed enhancement technologies. Therefore, demand for production enhancement technologies of horizontal well multistage fracking increased significantly. During the reporting period, the Group made greater efforts in promoting its horizontal well multistage fracking services and signed long-term strategic agreements with its customers, thereby enhancing its market position.

- The Tarim Basin is the strategic energy base for the West-East Gas Transmission Program of China and is the future strategic base to take over oil and gas fields in East China. Due to the unusual depth, high down-hole temperature and high pressure of wells in this basin, it is considered to be one of the most difficult basins to be exploited and developed in the world. In view of engineering difficulties including unusual well depth and high temperature and pressure, the Group offers integrated drilling and directional drilling services to help customers effectively shorten the drilling cycle and enhance drilling success rate with its integrated drilling mode and advanced directional drilling technologies. An overall output growth target has been set for this basin, but the application of advanced drilling fluid technology is essential to ensuring the drilling efficiency and the improvement in drilling quality. To meet this demand, the Group actively established its presence in the drilling fluid service market and established strategic cooperation with the Chinese JV company of MI-SWACO, a leader in drilling fluid technologies in the world. By leveraging on advanced international oil-based drilling fluid technologies, the Group is poised to provide technical services for the development needs in the Tarim Basin, so as to help customers fulfill their strategic targets.

- The Songliao Basin is the main supply base of crude oil in East China. As the age of natural gas development approaches, the Songliao Basin also begins to actively exploit natural gas resources and widely applies horizontal well technologies which can increase daily yield per well. The Group grasped the opportunity by rapidly promoting directional drilling technology and horizontal well completion technology in this basin, thereby propelling the Group's growing market position in this region.

- Following the construction of gas storage facilities in areas including Xinjiang, Southwest China and Liaohe, the Group signed long-term cooperation agreements with its customers in order to roll out full-scale cooperation and application in the areas of tubular helium testing for gas storage facilities, flexible cement slurry and well cementing tools and laid a solid foundation for the future increase in market share of gas storage facilities in China.

Overseas markets grew rapidly and substantially

In overseas markets, the Group unrelentingly pursued its "follow-up" strategy by providing Chinese investors investing in overseas markets with oilfield development technical services, with a focus on oilfields requiring rapid recovery of production capacity. In 2011, revenue from overseas markets amounted to RMB287.3 million, representing a rapid and strong growth of approximately 79.6% from that of the same period last year. In the Middle East where Chinese investors operate, the demand for production recovery is extremely strong, e.g. the Al-Ahdab Oilfield and the Halfaya Oilfield in Iraq. The Group and provided customers with integrated technical services (entered into long-term service agreements). In 2011, revenue from the Middle East amounted to RMB227.5 million, representing an increase of approximately 111.4% from that of the same period last year. Revenue from the Middle East accounted for approximately 79.2% of revenue from overseas markets. The Middle East has become the Group's largest overseas market.

Main business development in overseas market

- Iraq Al-Ahdab Oilfield, with a very strong demand for production recovery, is developed by the Iraqi government in cooperation with Chinese investors, which is also the first oil project open to foreign cooperation. In 2010, addressing the characteristics of carbonate rock in the oilfield, the Group launched a production enhancement technology applicable to this type of rock - coiled tubing acidization technology to help customers quickly achieve their objectives. In 2011, on the basis of good results achieved by the technology, the Group fully expanded the technology application in local areas and invested in service capacity improvement. Meanwhile, the Group launched its services such as directional drilling and well completion in the market to help customers comprehensively solve technical problems and to achieve production growth target. In the Oilfield, the Group had signed long-term technical service contract with customers, and constructed an on-site service base in the local area, therefore a number of technologies have been steadily promoted with the support of the Group's base platform and thus its market position has been further consolidated.
- Iraq Halfaya Oilfield is developed jointly by the Iraqi government in cooperation with a joint operating company headed by the Chinese investors. It has completed the preparation of large-scale development in 2011, for which, the Group has been selected as the main technical services provider and will work in conjunction with international technical service companies to jointly develop this oilfield. Halfaya Oilfield will become another growth engine of the Group in the overseas markets after the Al-Ahdab project.
- During the reporting period, the Group continued to steadily develop the Central Asian and African market as it promoted directional drilling, well completion and tubular service in Central Asia, and promoted oil production gas lift service in Africa. Chinese investors have long-term development plan in the South American market and have completed a number of M&A transactions. They are planning to increase investment in exploration and development. In view of this, the Group intends to actively develop the South American market and already achieved a breakthrough in Colombia.

Business Cluster Analysis

In 2011, oil and gas field development technical services as the main business of the Group (including drilling technology, well completion and down-hole operation clusters) continued to maintain a rapid growth, with its revenue reaching RMB1,087.6 million, representing an increase of RMB320.9 million or approximately 41.9% compared to RMB766.7 million in 2010. Revenue as a percentage of the Group´s total revenue amounted to approximately 86.4%, representing an increase of approximately 5.8% from approximately 80.6% in 2010. In they oil and gas field development technical services area, the Group has developed three leading technical services, which were multistage fracking services, coiled tubing services and directional drilling services, and the revenue from these three core technical services amounted to RMB608.0 million, representing an increase of RMB254.7 million or approximately 72.1% from RMB353.3 million in 2010. These technical services as a percentage of the Group´s revenue amounted to approximately 48.3%, representing an increase of approximately 11.1 percentage points from approximately 37.2% in 2010. The revenue from the tubular services cluster, the Group's ancillary business, was RMB171.3 million, representing a decrease of RMB12.7 million or approximately 6.9% from RMB184.0 million in 2010. The proportion of its revenue to the total revenue of the Group continued to drop from approximately 19.4% in 2010 to approximately 13.6% in 2011.

Business cluster as a percentage of revenue (%)

	2011 (RMB Million)	2010 (RMB Million)	Change (%)	As a percentage of total revenue 2011	2010
Oil and gas field development technical service	**1,087.6**	**766.7**	**41.9%**	**86.4%**	**80.6%**
Down-hole operation cluster	570.3	343.9	65.8%	45.3%	36.2%
Well completion cluster	319.8	325.3	-1.7%	25.4%	34.2%
Drilling technology cluster	197.5	97.5	102.6%	15.7%	10.2%
Tubular service	**171.3**	**184.0**	**-6.9%**	**13.6%**	**19.4%**
Total	**1,258.9**	**950.7**	**32.4%**	**100.00%**	**100.00%**

Oil and gas field development technical services
Revenue of top three types services and its proportion to total revenue (%)

Service	Business Cluster	2011 (RMB Million)	2010 (RMB Million)	Change (%)	As a percentage of total revenue 2011	2010
Multistage fracking service	Down-hole operation	272.1	221.4	22.9%	21.6%	23.3%
Coiled tubing service	Down-hole operation	193.3	61.2	215.8%	15.4%	6.4%
Directional drilling service	Drilling technology	142.6	70.7	101.7%	11.3%	7.5%
Total		**608.0**	**353.3**	**72.1%**	**48.3%**	**37.2%**

Down-hole Operation Cluster

In 2011, the down-hole operation cluster achieved outstanding results with revenue contribution of RMB570.3 million, representing an increase of approximately 65.8% from RMB343.9 million of last year. The cluster´s product development strategy is in the well completion and oil production stage, based on the requirements for natural gas development and quick recovery of production capacity in overseas oilfields, providing customers with advanced production enhancement concept and solutions, then implementing the solution through equipment, tools and chemicals to achieve production enhancement target. The cluster greatly meets the needs of the market, and successfully develops two best-performing businesses in the Group's oil and gas field development technical services , i.e. multistage fracking services and coiled tubing services, which propels the Group's rapid growth.

The down-hole operation cluster includes three business departments, representing 1) production enhancement operation department taking multistage fracking services as its main technical service, which recorded a revenue of RMB272.1 million, representing a growth of approximately 22.9% from RMB221.4 million in 2010; 2) equipment service department including coiled tubing operation service and tubular helium testing services, which recorded a revenue of RMB243.1 million in 2011, representing an increase of approximately 170.1% from RMB90.0 million in 2010 and a significant development; 3) oil production service department including chemical EOR (enhanced oil recovery), well flushing services and gas lift services, which recorded revenue of RMB55.1 million in 2011, representing an increase of approximately 69.5% from RMB32.5 million in 2010. EBITDA for the down-hole operation cluster increased from RMB138.8 million in 2010 to RMB258.7 million in 2011, representing a significant growth of approximately 86.4%. In 2011, EBITDA margin 45.4% representing an increase of 5.0 percentage points from 40.4% in 2010.

Major development of down-hole operation cluster

- Multistage fracking service has become a necessary means to developing tight gas and shale gas. Application of this technology in China has gained market recognition. The Group is the first company to promote the application of this technology in the domestic market, and realizes the independence of the technology through its own research and development. The Group becomes the mainstream service provider of the technology and has a leading position in the market. In 2011, revenue from multistage fracking service was RMB272.1 million, representing an increase of RMB50.7 million or approximately 22.9% from RMB221.4 million in 2010. The Group operated 79 wells of multistage fracking services during the year, representing an increase of 23 wells or 41.1% from 56 wells in 2010. The main operations were performance in the Erdos Basin concentrated with tight gas and the Sichuan Basin which has complex geological environment. Meanwhile, the Group also made a number of breakthroughs in the technology: 1) the Group' multistage fracking technology being applied in the first shale gas horizontal well in China as a landmark case, obtaining technical implementation success as it achieved a stable production, marking the milestone in the history of shale gas development in China; 2) successful completion of several super long horizontal wells multistage fracking projects, constantly breaking the record number of stages being fracked, which further expanded the production enhancement achievement effectiveness of the technology.
- In 2011, revenue from coiled tubing service and ancillary materials was RMB193.3 million, representing an increase of RMB132.1 million or approximately 215.8% from RMB61.2 million in 2010. The revenue increase of coiled tubing services was mainly due to its large scale application in Iraq Al-Ahdab Oilfield to recover the production capacity quickly. Based on the consistent solid development of the Al-Ahdab market, the technology has been extended to the Iraq Halfaya Oilfield. At the same time, the application of coiled tubing technology was expanded continuously in China. The Group had 4 sets of coiled tubing units being put into operation throughout the year, among which two sets were put into use in China and two sets in Iraq. To meet the rising domestic and overseas demand, the Group had placed further orders for three sets of equipment for the domestic and foreign markets. Meanwhile, the Group continued to develop ancillary tools of coiled tubing to fully realize its multiple functions in a variety of operations, and acquire more market share with a leading competitive advantage.
- The effect of the Group's tubular helium testing services to enhance the safety of natural gas development has received wide recognition from the market, in particular for the enhanced safety of high pressure wells and gas storage facilities. The business continued to grow steadily in 2011. With the full application of the service in natural gas fields in northwest, southwest, northern and northeast China and gas storage facilities around the country, it achieved a revenue of RMB 49.9 million, representing an increase of RMB 21.1 million or approximately 73.3% from RMB 28.8 million in 2010. During the reporting period, the Group continued as the exclusive technical service provider in China, with 15 sets of tubular helium equipment, and actively preparing for the needs of market development.

- With the arrival of the natural gas era, pressure pumping service has converted from an auxiliary means of production enhancement into a necessary means of production in China, and is known as the world's second largest oilfield technical service market. In view of this, the Group began to actively build its integrated pressure pumping service capacity, including equipment, chemical materials and tools to meet the overall needs of pressure pumping services from customers. The Group had ordered 10 sets of pressure pumping equipment and ancillary equipment in August 2011. All equipment will be in place in the second half of 2012, then the Group will have 20,000 hydraulic horsepower ("HHP") of pressure pumping capacity. Meanwhile, the Group was preparing to build the capability to supply its own tools and chemical materials, and introduced strategic talent in the industry to build an integrated fracturing service capacity in pressure pumping, upon the completion of which, pressure pumping services will gradually become the Group´s future growth engine.
- The Group's oil production service continued to expand the application in existing markets and explore new markets. In 2011, revenue from oil production service was RMB55.1 million, representing an increase of RMB22.6 million or 69.5% from RMB32.5 million in 2010.

Well Completion Cluster

In 2011, the well completion cluster contributed revenue of RMB319.8 million, a decrease of RMB5.5 million or approximately 1.7% from RMB325.3 million in 2010. The cluster's product development strategy is in the well completion and oil production stage, based on customer's well cementing and completion difficulties and the requirements in the production process that for production enhancement in well completion, thereby providing comprehensive services covering well cementing and completion, production well completion, sandscreen well completion, gravel packing completion and intelligent well completion. During the reporting period, due to market competition and the longer development cycles in the techniques prior to well completion in projects including gas storage facilities, the cluster failed to achieve growth. However, the Group has set up an oil and gas well tool center to further increase the types of self-developed well completion tools and is actively preparing for the establishment of an international brand in overseas markets, in order to reduce the cost of completion tools and enhance the brand image internationally. The well completion cluster currently includes two business departments, which are 1) well completion integration, including well cementing and completion product and service, sandscreen well completion and oil production tool products and services, which recorded revenue of RMB184.2 million in 2011, representing a decrease of 11.3% from RMB207.6 million in 2010; and 2) Shandong Precede, a subsidiary which the Group acquired in 2008 and provided gravel packing well completion products and services, which recorded revenue of RMB135.6 million in 2011, representing an increase of 15.2% from RMB117.7 million in 2010. EBITDA of the well completion cluster decreased from RMB140.3 million in 2010 to RMB109.8 million in 2011, representing a decrease of about 21.7%; in 2011, EBITDA margin was 34.3%, representing a decrease of 8.8 percentage points from 43.1% in 2010, which was mainly due to the decrease of gross margin as a result of rising raw materials cost and the increase in R&D expense in well completion technology.

Major development of well completion cluster

- In 2011, revenue from well cementing and completion products and services was RMB114.4 million, representing a decrease of RMB7.5 million or 6.2% from RMB121.9 million in 2010, which was mainly due to market competition and several longer cycles of technique before well completion of certain project such as gas storage facilities. Nevertheless, well completion integration department continued to increase the application of existing well cementing and completion technology, providing suitable cementing and completion technologies according to the different geological environments to provide customers with optimized cementing and completion solutions and tools. At the same time, the Group reduces its costs through self-development, and has successfully developed a series of independent products including liner hanger, special drill-free blinding plate, drifting float collar and liquid expansion packer.

- In 2011, revenue from sandscreen well completion and oil production tools was RMB69.8 million, representing a decrease of RMB15.9 million or 18.6% from RMB85.7 million in 2010. Revenue from the sandscreen business was RMB50.6 million, representing a decrease of RMB8.1 million or 13.8% from RMB58.7 million in 2010. The sandscreen used amounted to 32,920 meters throughout the year, representing a decrease of 10,724 meters or 24.6% from 43,644 meters in 2010, which was mainly because of market competition. In response to the changing competition, the Group has already prepared for building up the technology pipeline. After several years of development, water control screen well completion technology has been successfully developed to become a major breakthrough of this technical area, which will see full-scale promotion and application in 2012.

- Shangdong Precede, a subsidiary of the Group, continued to grow steadily. While maintaining solid development in Shengli, Henan and Jidong markets, it has expanded into Liaohe and Xinjiang oilfields. Under the overseas market strategy of the Group, Shangdong Precede has also developed the complementing overseas development strategy. The Group intends to promote gravel packing technology, an effective technology to develop heavy oil, to Chinese investors who invested in South America to assist them in developing the heavy oil in local area.

Drilling Technology Cluster

In 2011, the drilling technology cluster contributed a revenue of RMB197.5 million due to strong growth, which represented a growth of 102.6% from RMB 97.5 million in 2010. The development strategy of this product cluster focuses on the drilling stage to provide high-end directional drilling technology service and integrated drilling service to solve the customer's technical problems in relation to directional drilling and drilling engineering problems under special circumstances. Due to the urgency of the domestic natural gas development, customer's demands for horizontal well technologies to effectively increase production and enhance efficiency became increasingly stronger. The directional drilling technical service of the drilling technology cluster grew rapidly, which drove the growth of the Group's full-year results, and became the third best performing business in the Group's oil and gas field development technical service. The drilling technology cluster comprises two business departments: 1) the directional drilling department mainly providing measurement while drilling ("MWD"), logging while drilling ("LWD"), rotary steerable drilling and geological steerable drilling. The revenue of this department reached RMB 142.6 million in 2011, representing a growth of 101.7% from approximately RMB 70.7 million in 2010; 2) the integrated drilling department which is engaged in single well general contracting and block general contracting in relation to drilling, mud and cementing service. The revenue of this department reached RMB 54.9 million in 2011, representing a growth of 104.9% from approximately RMB 26.8 million in 2010. EBITDA of the drilling technology cluster increased to approximately RMB 45.4 million in 2011 from approximately RMB 34.4 million in 2010, representing an increase of approximately 32.0%. In 2011, EBITDA margin was 23.0%, representing a decrease of 12.3 percentage points from 35.3% in 2010, mainly due to the increase in the materials costs and in the proportion of drilling rig outsourcing services for integrated drilling.

Major development of drilling technology cluster

- In 2011, as major natural gas basins increased the number of directional and horizontal wells drilled, the Group's directional drilling business registered a strong growth, not only in the Tarim Basin and the Sichuan Basin, but also extended to the Daqing and Jilin regions, reaching a saturated workload. The Group's directional drilling business has formed two characteristics: MWD and LWD technologies applicable in the high-temperature environment and the international advanced rotary steerable drilling and geological steerable drilling technologies, assisting the customers to accurately and effectively complete the creation of a drilling track and deepen the understanding of the strata while drilling to effectively shorten the drilling cycle so as to lay a good foundation for the well completion, and oil production in the later stage. Meanwhile, the Group also actively expanded into the overseas markets by leveraging on this technology and successfully entered the Iraq and Kazakhstan markets. Currently, the Group possesses 12 sets of directional drilling apparatus, and will continue to increase investment in this area and expand the service capacity. The Group believes that the directional drilling business will continue to support its high-speed development.

- Since the establishment of the Group's integrated drilling department in 2011, the integrated drilling service continued to develop. On the one hand, the customers constantly demanded for integrated drilling from the Group, including CBM, low efficient natural gas, and deep well projects, demonstrating the large market demands for the Group's integrated service mode. On the other hand, the Group also actively consolidated different resources necessary for integrated drilling, including drilling rigs, drilling fluid and other equipment and materials to satisfy the integrated market demands. In 2011, the tight drilling rig resources in the market resulted in the rise of the service cost of outsourcing drilling rigs and the inability to secure stable supply. Therefore, the Group adjusted the strategy to establish equity investment or strategic cooperation relationship with drilling companies or drilling equipment providers, pursuant to which they will allocate drilling rig resources to the Group to support the integrated service development. The said strategy secured the Group's role as a technical service company, rather than a drilling company, while it ensured steady supply of resources to develop the integrated services.

- The demand for drilling fluid is increasingly higher due to the full-scale development of the natural gas resources. In view of the greater difficulties in natural gas development, water-based drilling fluid can hardly satisfy the technical requirements. As a result, the more expensive oil-based drilling fluid technology applied only offshore in the past will become an important technology for natural gas development. In light of such demand, the Group actively prepared for the drilling fluid service market and established strategic partnership with the Chinese JV company of MI-SWACO, the world leader of the drilling fluid technology, through which the Group will leverage on the world-leading oil-based drilling fluid technology to provide technical services to address the development requirements in the Tarim Basin, assisting the customers to overcome their drilling engineering problems, in order to achieve the strategic objective to increase the output.

Tubular Services Cluster

In 2011, revenue of the tubular services cluster was RMB171.3 million, a decrease of RMB12.7 million or 6.9% from RMB 184.0 million in 2010, primarily due to the falling sales of tubular products. The strategy of this cluster is to provide one-stop third-party tubular service, covering tubular inspection and evaluation, wear-resistant belt welding, tubular repair, tubular coating, leasing and tubular operation management based on the customers' requirements for tubular application. Therefore, during the recent two years, the Group's operation of tubular service put an increasing emphasis on providing services while decreasing the proportion of product sales. Meanwhile, given the different business models, service values and service objectives between the tubular service cluster and oil and gas field development technical services, the Group has formulated a strategy to develop the tubular services cluster independently. In 2011, the EBITDA of the tubular service cluster was RMB 40.3 million, representing a decrease of 32.2% from RMB 59.4 million in 2010, while the EBITDA margin decreased to 23.5% from 32.3% in 2010, representing a decrease of 8.8 percentage points, mainly attributable to the increase in the material cost necessary for the service and the fees resulted from organisation restructuring to develop the business independently. In addition, since the overcapacity in the area of tubular product sales led to heightened competition, the revenue of Northern Heavy Anton, a JV company invested by the Group, which is principally engaged in the production of drill pipes and drill collars, dropped significantly and incurred a loss of RMB 28.6 million, as a result the Group suffered a loss of RMB 14.3 million for its 50% equity interest in Northern Heavy Anton. To handle it more prudently, the management drew a provision for an impairment loss of RMB 31.9 million for this investment, consequently the book value of the Group in Northern Heavy Anton decreased to RMB4.0 million from RMB50.2 million in 2010.

Major development of tubular service cluster

- In 2011, the Group completed an independent structure reorganization, established an independent management team, sales network, R&D system and formed a financially independent business.
- Several businesses of this cluster expanded into overseas markets, including Turkmenistan and Kazakhstan, maintaining a steady growth throughout the year. Meanwhile, this cluster has completed the preparation for entering the North America market to provide services for Chinese investors in North America in 2012.
- The Group and another shareholder of Northern Heavy Anton, Inner Mongolian North Heavy Industry Group Company Limited, convened a general shareholder meeting to request Northern Heavy Anton take all the necessary austerity measures to reduce the overall loss. Meanwhile, the Group has made preparation to dispose of the asset in the event that it cannot achieve the target of reducing the loss.

Construction of Service Capacity

In 2011, the Group continued to establish service capacity through investment, R&D and introduction of strategic talents based on the development strategy. The Group's core product service capacity together with its integrated service capacity were enhanced to lay a solid foundation for the subsequent development. As at 31 December 2011, the Group's capital expenditure for service capacity amounted to RMB 198.6 million, representing an increase of approximately 44.4% as compared to approximately RMB 137. 5 million during the corresponding period last year. Out of the capital expenditure, investments in fixed assets were RMB158.5, representing an increase of 77.1% as compared to the corresponding period last year; investments in intangible assets were approximately RMB36.1 million, representing a decrease of 8.6% as compared to the corresponding period last year; the balance payment for equity investments of prior years was approximately RMB4.0 million, representing a decrease of 52.9% as compared to the corresponding period last year.

Investment

The Group made its investments on the basis of its integrated service strategy for oil and gas field development centred around well-bore technologies. On the one hand, investments were made to fully build up an integrated value chain along the drilling, well completion, down-hole operation and oil production areas. On the other hand, investments were made to integrate the supply chain for the operation, including the combination of design, tools, chemical materials and equipment.

The Group's full-year industry investments focused on the directional drilling, drilling fluid, coiled tubing, tubular helium testing and pressure pumping service capacity as one of the core businesses in the future, with the objectives to increase the production and solve the engineering problems of the customers so as to develop the construction of integrated services during the stage of drilling and completion.

Major investment projects

- In the area of directional drilling, the Group in 2011 made investment in building up 3 directional well operation service units. As at the end of the financial year, the Group built up 10 directional well operation service units, of which 7 units operated in the PRC, 2 units in the Middle East and 1 unit in Central Asia.
- In the area of coiled tubing equipment, the Group in 2011 made investment in building up 1 coiled tubing operation unit. As at the end of the financial year, the Group built up 4 coiled tubing operation units, of which 2 units operated in the PRC, 2 units in the Middle East. In order to satisfy the demand for the domestic and overseas coiled tubing operation, the Group entered into purchase contracts with suppliers to build up 3 additional coiled tubing units in the future.
- In the area of tubular helium testing, the Group in 2011 made investment in building up 2 tubular helium testing operation units. As at the end of the financial year, the Group had built up 9 tubular helium testing operation units.

- In order to fully enter the pressure pumping service market with huge potentials, the Group actively formed integrated pressure pumping services capacity. We purchased 10 pressure pumping equipment in August, which will be delivered in the second half of 2012. By then the Group will possess the service capacity of 20,000 HHP and complete the preparation for the establishment of two operation teams. In addition to the equipment, the Group was actively seeking to build up its own supplies of pressure pumping materials to become one of the few domestic pressure pumping service providers with an integrated capacity of design, tools, materials and equipment.

- Meanwhile, the domestic and overseas infrastructure was constructed according to the planned schedule, including the down-hole operation industrial base in Suining, Sichuan, the well completion tool industrial base in Binhai New Area, Tianjin, tubular services industrial base in the Korla region, Xinjiang and Al-Ahdab Oilfield base and Halfaya oilfield base in Iraq. All these bases would provide strong support for the Group's business development.

Research and Development

At the present stage, the technical development strategy of the Group is to combine self development with introduction and learning of international advanced technical concepts, and convert them into the Group's own services, so as to be the first to apply international advanced technologies in China, ensuring the same technical status in the domestic market with global technical service companies. In 2011, the Group continued to invest in the research and development in critical technologies necessary for natural gas and horizontal well development to enhance production efficiency, development safety and reduce the overall development cost. In 2011, the Group invested approximately RMB 70.3 million in research and development, representing an increase of 36.2% as compared to approximately RMB 51.6 million during the corresponding period last year, of which investments in intangible assets were approximately RMB28.4 million, investments in research and development were approximately RMB41.9 million. During the reporting period, the Group obtained a total of 31 patent rights, with the total number of the Group's patent rights increased to 325.

Major R&D projects

- Horizontal well open hole staged fracturing tools and technical research: We developed whole sets of series tools with two specifications that are 5 1/2" and 4 1/2"(10 pieces for one whole set of each specification), possessing the optimal structure tools with independent intellectual property right, the material quality of excellent performance and its anticorrosive technology, which has formed standardized technical achievements and commenced mass production. We have successfully implemented 12 staged fracturing technology with a complete set of self-developed tools and obtained 4 patent rights.

- Research and development in well cementing and completion series of tools: the Company owns special drilling-free blind plates, drifting floating hoops, rotary steering floating shoes, special tie back craft and construction technology, high-temperature wells and long section cementing sealing technology, 270˚c resistant liner hanger and hydraulic releasing tools with independent property rights, formed a mature special erosion proof technology and materials for cementing and completion tools. The erosion proof technology has been commonly used in the well completion tools, greatly improved the service capability of cementing and completion tools and created obvious economical benefits, obtained 6 patent rights.

- Research in fluid expandable packer: The Group has developed a mature compound formula for water and oil self-expanded packer and three kinds of rate controllable fluid self-expandable packers with fast, medium and slow expansion speed separately. The Group has further formed mature scale production capability with rubber modeling craft and good production quality control system.

- Research and development in "Anton PBL Intelligent well completion technology". The Group self-developed this new technology with well completion tools for oil and water controlling. It can decrease 20% water content of produced oil by using semi-permeable packer ring to effectively reduce axial channeling. Currently, we are going to conduct industry experiment of 300m horizontal segment semi-permeable sealing. The Advanced technology and well cementing tools will show brand new water controlling well completion technology and effects for the oil and gas field development.

In addition to the aforesaid research and development projects with significant breakthroughs, during the reporting period, the Group also made investment in other research and development projects, including CCS pilot trial technology, deep well casing window sidetracking technology, coiled tubing operation ancilliary technology, hydraulic auto-pressure adjusting device, branch hole drilling and completion technology, which have substantially enhanced our capacities of drilling, well completion and down-hole operation.

Human Resources

The Group insisted on the philosophy of 'Talents First' when constructing its service capacity. To highlight the significance of talents, the year of 2011 was determined as a year of talents. At the beginning of the year, the Group formulated a mid-to-long term strategic plan for human resources development with a view to continuously enhancing the organisational structure and human resources structure, and devised correponding recruitment strategies for different levels of talents. For high-end talents, the Goup strengthened the introduction of industry leaders, high-end technical experts and internationalized talents from the society; for young talents with great potential, the group sourced them from campus and discovered internal talents to accumulate the talent reserves for the long-term development of the Group in different phases; for low-leveled and auxiliary workforce, the Group employed them by labor outsourcing. The overall stucture was designed to increase the percentage of technical service and marketing staff; increase the percentage of high-end staff; increase the percentage of core positions and technicians; and increase the talent reserves.

At the end of the financial year, the total number of contract-based employees of the Group was 1,262, representing an increase of 21.6% from 1,038 last year, among which 514 were engineer, 447 were on-site servicemen, 178 were marketing personnel and 123 were management personnel. The employees at the 5th rank and above (the Group's employees (saved for the Chief Executive Officer) have been classified into 8 ranks, and the 8th rank was executive vice president and senior vice-president and the 5th rank was senior engineers) accounted for about 25.0% of the Group's total number of employees, representing an increase from 23.4% last year. In addition, outsourced labour amounted to 763 persons, an increase of 39% compared to last year.

Major development in human resources

- The number of overseas staff increased to 169 from 136 in 2011, which made a contribution to the rapid growth of the overseas business through successful transfer of core staff abroad.

- The organizational structure of the Group was greatly enhanced. The total number of technical service and marketing staff as a percentage of the Group's total number of employees reached 90.3% and the percentage of high-end staff and core positions continued to increase. Non-core staff were substaintially converted to outsourcing contracts, leading to greater efficiency in human resources.

- The Group's talent reserves became more enriched and diversified. The Group was able to recruit 191 young talents from campus and 183 staff from the society at large during the year, among which 31 were at or above the 6th rank, achieving successful introduction of high-end professionals in the industry. The Group improved the system to discover and nurture internal talents and therefore, identified more talents with great potential through comprehensive perfomance evaluation, talents screening, recommandation and self-introduction, and focused on training those high-performing staff and core staff and also gave them reasonable promotion.

- The Group had adhered to a remuneration policy composed of wages and salaries, staff benefits and share options.The Group strengthened the tie-up of remuneration with performance assessment and encouraged the long-term growth of staff with the Group by providing them with long-term incentive mechanism in the form of share options. During the year, the Group granted a total of 41,350,000 ordinary share options of the Company to 120 high-performing talents and core staff, among which a total of 39,850,000 share options may be exercisable at a price of HKD1.45 each and the remaining 1,500,000 share options may be exercisable at a price of HKD1.506 each. The share options will be 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 19 May 2015 and 24 July 2015 respectively.

- The Group demonstrated a satisfactory talent retention rate. Among 316 staff at or above the 5th rank, 171 persons served the Group for more than three years and 77 persons served more than five year or above.

Outlook

In 2012, the Group is confident in the development of both domestic and overseas markets. Domestically, in order to meet the growing demand for natural gas as a clean energy development strategy under the Twelve Five-Year Plan, oil companies are expected to increase the development of natural gas and increase the use of horizontal well techniques in order to speed up the natural gas production capacity. Abroad, Chinese investors will expedite the commencement of production of invested projects and continue to actively seek new investment projects around the world.

In this regard, for the domestic market, the Group will provide services to address the needs of conventional and unconventional gas development, and strengthen market presence in major natural gas basins, as well as to establish long-term strategic partnership with clients in order to increase the market share. For overseas markets, the Group will continue to adhere to its "follow-up" strategy as it provides services to customers who need to establish their production capacity and expedite the commencement of production, not only to focus on growing the present Middle East market and stabilizing the Central Asia and African markets, but also to nurture the new market in South America.

The Group will maintain the product strategy that emphasizes growing the oil and gas field development technical services while independently developing the tubular services. During the oil and gas field development process, the Group will resolve the production enhancement and engineering difficulties encountered by its customers by providing customized solutions and in integrated services. The Group will continue to develop its three core services, multistage fracking services, coiled tubing services and directional drilling services, and it will also launch the drilling fluid service, well cementing service, integrated drilling general contracting service and intelligent well completion service, in order to deliver an integrated value chain structure.

In respect of the development of service capacity, the Group will continue to pursue its investment and R&D and the acquisition of strategic talents on the basis of its development strategy. In the area of investment, the Group will focus on investments in directional drilling, drilling fluid service system, coiled tubing equipment, pressure pumping equipment and other service-oriented equipment. It will also accelerate the construction of industrial bases including the well completion tool base in Binhai New Area, Tianjin, that integrates tool design, development, testing and assembly; the industrial base and new materials production base in Sichuan; the tubular service industrial base in the Korla region, Xinjiang and various on-site service bases in overseas markets. In the meantime, the Group will increase its M&A efforts and actively look for outstanding technical services companies both domestically and abroad as M&A targets. In the area of R&D, the Group will continue to focus on a development strategy that combines self development with introduction and learning of advanced technologies. It will put an emphasis on the practicality of the technologies, encourage to build more self-owned service capacity constantly, and extend the network of technical resources from both overseas and locally.

In the area of financial strategy, the Group set objectives to improve profitability and enhance the efficiency of asset use. In order to increase profitability, the Group will continue to promote more business growth and develop more quality income from quality clients. It will also request the management to share responsibilities, set performance indicators, establish incentive scheme, and reduce the procurement costs and other expenses. It also strives to reduce the overall tax rate through enhanced tax planning.

In order to increase the efficiency of asset use, the Group will enhance the management of cash, accounts receivables, inventory and long-term assets. In these regards, the Group will further control the management of accounts receivables and inventory by delivering the turnover days targets to each level of departments, and set the targets as a crucial performance assessment indicator so that it can enhance the efficiency of working capital management. The Group will also strengthen the investment of core assets, dispose of non-performing assets, and increase the efficiency of long-term assets. The Group will reasonably control the use and size of loans based on its capital planning, increase the overall efficiency of the Group's capital, and reduce the financing costs.

Looking forward, in view of the strong growth momentum of natural gas development in China and overseas expansion by Chinese investors, the Group has to fully realize the advantages of the flexibility and fast learning ability of independent technical services companies. Externally, the Group will be steadfast to deliver differentiated and competitive services to target customers and establish service capacity that can provide for future developments. Internally, the Group has to put a management focus on enhancing corporate information management and strengthening the corporate culture. An efficient corporate information system with bring higher management efficiency; a sound corporate culture will bring people together. Altogether, the Group will have a strong and solid foundation to develop in the long term.

FINANCIAL REVIEW

Revenue

The Group's revenue in 2011 amounted to RMB1,258.9 million, representing an increase of RMB308.2 million or 32.4% as compared to the same period of 2010. The increase of the Group's revenue was mainly attributable to the steady growth of the natural gas development market in China, high-speed growth of overseas markets, and the enlarged market share of the Group's core products and services.

Materials and Services Costs

The costs of materials and services in 2011 increased to RMB571.9 million, representing an increase of 44.7%, from RMB395.1 million in the same period of 2010. The increase was mainly due to the increase in sales.

Staff Costs

Staff costs amounted to RMB135.9 million in 2011, representing an increase of RMB12.4 million or 10.0% from RMB123.5 million in the same period of 2010. This was mainly due to an increase in the number of staff.

Operating Lease Expenses

Operating lease expenses in 2011 were RMB12.7 million, which was flat compared with the same period of 2010.

Depreciation and Amortisation

Depreciation and amortisation in 2011 amounted to RMB59.0 million, representing an increase of approximately RMB8.2 million or 16.1% from RMB50.8 million in the same period of 2010. 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 2011 were RMB28.0 million, representing an increase of RMB9.4 million or 50.5% as compared with RMB18.6 million in 2010, mainly due to an increase in sales tax taxable income.

Other Operating Costs

Other operating costs in 2011 amounted to RMB278.8 million, representing an increase of RMB73.7 million or 35.9% as compared with RMB205.1 million in the same period of 2010. The increase was mainly attributable to an increase in research and development expenses and the addition for impairment loss of receivables.

Operating Profit

As a result of the foregoing, the operating profit in 2011 amounted to approximately RMB174.9 million, representing an increase of approximately RMB29.5 million or 20.3% as compared with RMB145.4 million in the same period of 2010. The operating profit margin was 13.9% in 2011, representing a decrease of 1.4 percentage points from 15.3% in 2010.

Share of Loss of a Jointly Controlled Entity

The share of loss of a jointly controlled entity was RMB14.3 million in 2011, representing an increase of RMB13.9 million as compared to 2010. This is due to the loss incurred by Northern Heavy Anton, a joint venture of the Group engaging in the manufacture of tubular products, in 2011.

Impairment Loss of Long-term Investment in a Jointly Controlled Entity

The impairment loss of long-term investment in a jointly controlled entity was RMB31.9 million in 2011. There was no such loss in 2010. This is because the Group made a provision for impairment loss of equity investment in a jointly controlled entity.

Finance Costs (Net)

Net finance costs in 2011 was approximately RMB16.1 million, up RMB13.4 million compared to the same period of 2010. The increase was mainly due to the increase in finance costs arising from bank borrowings for investments in fixed assets, R&D, and the building up of service capacity.

Income Tax Expense

Income tax expense in 2011 amounted to RMB20.8 million, representing an increase of approximately RMB4.4 million from the same period of 2010, mainly due to an increase in average tax rate because the Group grew more business in overseas markets and some of them have higher tax rate.

Profit for the Year

As a result of the foregoing, the Group's profit for 2011 was approximately RMB91.7 million, representing a decrease of approximately RMB34.2 million or 27.2% from the same period of 2010.

Profit Attributable to Equity Holders of the Company

The Group's profit attributable to equity holders of the Company in 2011 amounted to approximately RMB77.3 million, representing a decrease of RMB39.4 million or 33.8% from the same period of 2010.

Trade and Notes Receivables

As at 31 December 2011, the Group's net trade and notes receivables were approximately RMB671.0 million, representing a decrease of RMB1.0 million as compared to the same period of 2010. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in 2011 were 178 days, representing a decrease of 17 days as compared to the same period of 2010. This was mainly attributable to the Group's strengthened management of receivables collection.

Inventory

As at 31 December 2011, the Group's inventory was RMB271.4 million, representing an increase of RMB6.0 million as compared to the same period of 2010, mainly due to the higher inventory of some tools as a result of an increase in transaction volume.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, the Group's cash and bank deposits amounted to approximately RMB477.5 million (included: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing an increase of RMB138.2 million as compared to the same period of 2010, mainly due to a substantial increase in cashflow from operating activities and an increase in bank borrowings.

As at 31 December 2011 the Group's outstanding short term bank loans amounted to RMB315.0 million and the Group's outstanding long term bank loans due within one year amounted to RMB5.0 million. Credit facilities granted to the Group by domestic banks in China amounted to RMB953.1 million, of which approximately RMB592.3 million were not used.

As at 31 December 2011, the gearing ratio of the Group was 24.9%, representing an increase of 4.9 percentage points from the gearing ratio of 20.0% in the same period of 2010. 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 RMB1.67 billion in 2011 from RMB1.61 billion in the same period of 2010. The increase was mainly due to the increase in profit for the year.

EXCHANGE RISK

The Group mainly conducts its business in RMB. Some imported and exported goods require to be settled in foreign currencies. The Group considers that the exchange risk involved in the settlement amounts being denominated in foreign currencies is insignificant. The exchange risk of the Group mainly comes from its foreign currency deposits and trade receivables denominated in foreign currencies. Any fluctuations in RMB exchange rate against US dollars may have a negative impact on the Group's operating results and financial position. During the reporting period, the Group borrowed some US dollars for payment of purchases made in daily operations and for balancing the risk exposures of our assets in US dollars so as to mitigate the Group's exchange risk.

CASHFLOW FROM OPERATING ACTIVITIES

Cashflow from operating activities of the Group reached record high of RMB220.4 million, representing an increase of 7.5 times from RMB26.0 million as compared to 2010. This was due to a greater increase in recovered receivables as compared to the increase in purchase costs and various costs and expenses.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for 2011 was approximately RMB198.6 million, of which, investments in fixed assets were approximately RMB158.5 million, investments in intangible assets were approximately RMB36.1 million and the payment for the equity investments of prior years were approximately RMB4.0 million.

In 2012, the budgeted capital expenditure is approximately RMB400.0 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 mainly consist of payment obligations under the Group's operating lease arrangements for offices and certain equipment and machinery. As at 31 December 2011, the Group's operating lease commitments amounted to approximately RMB9.3 million. As at the balance sheet date (31 December 2011), the Group had capital commitments of approximately RMB222.8 million, which was not provided for in the balance sheet.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liabilities or guarantees.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2011, 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 2011.

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 2011 are set out in pages 62 to 124 of this Annual Report.

FIVE YEAR FINANCIAL SUMMARY

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

DIVIDENDS

At the Board meeting held on 23 March 2012, the Board recommended a payment of a final dividend for the year ended 31 December 2011 of RMB0.0170 per share, totaling RMB35.7 million (2010: RMB0.0188 per share, totaling RMB39.4 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 10.4% and 29.9% respectively of the Company's revenues for the year ended 31 December 2011.

For the year ended 31 December 2011, the total amount of purchases made by the Company from its five largest suppliers amounted to RMB239.0 million, and accounted for 36.1% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB80.9 million, and accounted for 12.2% 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.

PROPERTY, PLANT AND EQUIPMENT

Additions to the property, plant and equipment of the Company for the year ended 31 December 2011 totaled RMB166.2 million. Details of movements are shown under Note 6 to the financial statements of this Annual Report.

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

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

For the year ended 31 December 2011, 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 2011 are set out in Note 16 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the aggregate amount of reserves which is available for distribution to the equity shareholders of the Company was RMB517.0 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. Wu Di	(appointed on 22 March 2010)
Mr. Liu Enlong	(appointed on 16 May 2011)
Mr. Ma Jian	(resigned on 16 May 2011)
Independent Non-executive Directors	
Mr. Zhang Yongyi	(appointed on 17 November 2007)
Mr. Zhu Xiaoping	(appointed on 17 November 2007)
Mr. Wang Mingcai	(appointed on 17 November 2007)

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

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

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

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

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

DIRECTORS' INTEREST IN MATERIAL CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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 27 to the financial statements of this Annual Report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2011, 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	691,546,150	32.91%

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 691,546,150 shares of the Company. Mr. Luo Lin and his family members are the beneficiaries of the Loles 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 2011, 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 2011, 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	691,546,150	32.91%
Seletar Limited	1	Trustee	691,546,150	32.91%
Serangoon Limited	1	Trustee	691,546,150	32.91%
Avalon Assets Limited	1	Trustee	691,546,150	32.91%
Pro Development Holdings Corp.	1	Beneficial owner	691,546,150	32.91%
China Harvest Fund, L.P.	2	Interest of controlled corporation	375,000,000	17.84%
China Renaissance Capital Investment, L.P.	2	Interest of controlled corporation	375,000,000	17.84%
China Renaissance Capital Investment GP	2	Interest of controlled corporation	375,000,000	17.84%
Erdos Holding Company Limited	2	Beneficial owner	375,000,000	17.84%
Chengwei Anton Holdings Inc.	3	Beneficial owner	162,350,740	7.73%
Chengwei Ventures Evergreen Fund, LP	3	Interest of controlled corporation	162,350,740	7.73%
Chengwei Ventures Evergreen Management, LLC	3	Interest of controlled corporation	162,350,740	7.73%
EXL Holdings, LLC	3	Interest of controlled corporation	162,350,740	7.73%
Li Eric Xun	3	Interest of controlled corporation	162,350,740	7.73%
Li Zhu Yi Jing	3, 4	Interest of spouse	162,350,740	7.73%

Notes:

1. The 691,546,150 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 2011, so far was known to the Directors, no other persons (other than the Directors or chief executives) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

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

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

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

As at the date of this annual report, the number of shares available for issue and remained outstanding under the share option scheme was 165,010,067 shares (2010: 134,625,400 shares) representing 7.85% (2010: 6.43%) 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 2011, the Directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company under the Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company of HK$0.10 each.

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share HK$	Note	Number of share options as at 1 January 2011	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 2011
Directors										
Zhang Yongyi	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	1,400,000					1,400,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 6	600,000		600,000			0
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2, 9		500,000				500,000
				Sub total:	2,000,000	500,000	600,000			1,900,000
Zhu Xiaoping	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	1,200,000					1,200,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 6	600,000		300,000			300,000
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2, 9		500,000				500,000
				Sub total:	1,800,000	500,000	300,000			2,000,000
Wang Mingcai	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	1,000,000					1,000,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2012	0.684	2, 6	600,000					600,000
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2, 9		500,000				500,000
				Sub total:	1,600,000	500,000				2,100,000
Luo Lin	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 6	2,000,000					2,000,000
	9 Apr 2010	9 Apr 2011 to 8 Apr 2014	0.750	1, 7	80,000					80,000
	20 May 2011	20 May 2012 to 19 May 2015	1.450	1, 9		2,000,000				2,000,000
				Sub total:	2,080,000	2,000,000				4,080,000
Wu Di	20 May 2011	20 May 2012 to 19 May 2015	1.450	1, 9		1,100,000				1,100,000
				Sub total:		1,100,000				1,100,000
Liu Enlong	20 May 2011	20 May 2012 to 19 May 2015	1.450	1, 9		1,100,000				1,100,000
				Sub total:		1,100,000				1,100,000
Employees in aggregate	3 Feb 2008	3 Feb 2009 to 2 Feb 2012	1.634	1, 5	5,500,000				250,000	5,250,000
	29 Apr 2009	29 Apr 2010 to 28 Apr 2013	0.684	1, 6	22,150,000		4,361,333		1,210,667	16,578,000
	9 Apr 2010	9 Apr 2011 to 8 Apr 2014	0.750	1, 7	32,400,000		3,136,000		2,884,000	26,380,000
	23 Nov 2010	23 Nov 2011 to 22 Nov 2014	0.760	4, 8	10,000,000					10,000,000
	20 May 2011	20 May 2012 to 19 May 2015	1.45	1, 9		34,150,000			1,000,000	33,150,000
	25 July 2011	25 July 2012 to 24 July 2015	1.506	3, 10		1,500,000			1,000,000	500,000
				Sub total:	70,050,000	35,650,000	7,497,333		6,344,667	91,858,000
				Total:	77,530,000	41,350,000	8,397,333		6,344,667	104,138,000

Notes:

1. The option period for the share options granted above commences on the date of grant and ends on the last day of forty-eight months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to one-third of their share options during the option period commencing from each of first, second and third anniversaries of the date of grant.

2. The option period for the share options granted above commences on the date of grant and ends on the last day of thirty-six months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to 50% of their share options during the option period commencing from each of first and second anniversaries of the date of grant.

3. The option period for the share options granted above commences on the date of grant and ends on the last day of forty-eight months counting respectively from the said date. The grantees are vested with, and entitled to exercise all of their share options during the period commencing from the first anniversary of the date of grant until the expiry date.

4. The grantee may not exercise the options to purchase shares until after 12 months from 23 November 2010. If the grantee has worked for less than 12 months, all options of the grantee will lapse automatically and will no longer be exercisable. If the grantee has worked for 36 months or above, the grantee can exercise all options. If the grantee has worked for 12 months or above but less than 36 months, the number of effective options the grantee actually obtains is "the number of options granted X the number of working quarters of the grantee/12 (only the number of full quarters is counted). The remaining options will lapse automatically. All options are entitled to be exercised before 22 November 2014.

5. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.63.

6. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.63.

7. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.75.

8. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.76.

9. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.440.

10. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.30.

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 2011, 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 2011, the Company contributed a total of RMB 2.52 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 2011 are set out in Note 33 to the Financial Statements of this Annual Report.

POST BALANCE SHEET EVENTS

At a meeting held on 23 March 2012, 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 2011 of RMB0.0170 per share, totaling RMB35.7 million (2010: RMB0.0188 per share, totaling RMB39.4 million). This dividend is subject to the approval of shareholders at the AGM to be held on 25 May 2012, and compliance with the Companies Law of the Cayman Islands.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

At the annual general meeting held on 16 May 2011, a special resolution was adopted to amend the memorandum and articles of association of the Company, in order to conform to the amendments to the Listing Rules relating to the use of electronic means or website for communication with shareholders which became effective on 1 January 2009 and the Companies Law (2010 Revision) of the Cayman Islands which came into effect in July 2010.

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 2011.

AUDITORS

The Company has appointed PricewaterhouseCoopers as the auditors of the Company for the year ended 31 December 2011. 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 2012 will be proposed at the forthcoming AGM.

By the order of the Board

Luo Lin
Chairman

23 March 2012

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

LUO Lin (羅林), aged 45, is the Chairman and Chief Executive Officer and the founder of the Group and is responsible for the overall strategy of the Group. Prior to establishing the Group, Mr. Luo worked at the Tarim Basin and was the Deputy General Manager of a subsidiary of the Southwest Petroleum Bureau (西南石油局) responsible for marketing from 1992 to 1999. Mr. Luo has 20 years of experience in the petroleum industry. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西石油學院). Mr. Luo is also qualified as a lawyer and a chartered accountant in the PRC.

WU Di (吳迪), aged 45, 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 22 years of experience in the petroleum industry. Mr. Wu has a master's degree in oil and gas field development engineering from China University of Petroleum, Beijing and a bachelor's degree in oil reservoir engineering from Southwest Petroleum Institute (西南石油學院), and is also a senior engineer with professorship.

LIU Enlong (劉恩龍), aged 50, is an Executive Director of the Company. Mr. Liu joined the Group in 2010. He is responsible for management of the drilling technology cluster and technology cooperation of the Group. Prior to joining the Group, Mr. Liu was employed by 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 Tarim Oil Field No.4 Exploration Corporation (塔里木油田第四勘探公司) in 1997. He has more than 30 years of experience in the petroleum industry. Mr. Liu has a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院) and is also a senior engineer in well bore engineering.

INDEPENDENT NON-EXECUTIVE DIRECTRORS

ZHANG Yongyi (張永一), aged 76, 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 63, is an Independent Non-executive Director of the Company. Mr. Zhu has extensive experience in corporate finance and is currently an Accounting Professor of the Renmin University of China (中國人民大學). He has served as the Director of the China Accounting Society (中國會計學會理事) and Director of the China Audit Society (中國審計學會理事). Mr. Zhu is also a Director of 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 67, is an Independent Non-executive Director of the Company. Mr. Wang has extensive experience in the petroleum industry, and is the General Manager and Chairman of the board of directors of Sino-U.S. Oil Development Corporation (中美石油開發公司). Mr. Wang has previously worked as the Vice Chief Engineer of Exploring and Development Bureau of China National Petroleum Company (中國石油天然氣總公司). He also held positions such as Vice General Manager of China National Oil & Gas Exploration and Development Corporation (中國石油天然氣堪探開發公司), President of CNPC Venezuela Corporation (中油國際委內瑞拉公司), Executive Director of CNPC (Hong Kong) Limited (中國(香港)石油有限公司) (Stock Code: 0135), a company that has been listed on the Main Board of the Stock Exchange since 2001.

SENIOR MANAGEMENT

MA Jian (馬健), aged 44, is an Executive Vice-president of the Company. Mr. Ma joined the Group in 2002. He is responsible for marketing in the overseas market. He was responsible for business development of the Group in the early stage and marketing in the domestic market and various management operations. Prior to joining the Group, Mr. Ma worked at Halliburton China from 2000 to 2002 as a well bore Projects Manager. From 1991 to 1999, he worked as a Petroleum Engineer at the drilling company in Jianghan Oilfield (江漢油田鑽井工程處), and has 21 years of experience in the petroleum industry. Mr. Ma has a doctoral degree of China University of Petroleum and is a guest professor at Yangtze University (長江大學). Mr. Ma has a master's degree in business administration from the Huazhong University of Science and Technology (華中科技大學) and a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

LI Bingnan (李冰南), aged 43, is an Executive Vice-president of the Company. Mr. Li joined the Group in 2002. He is responsible for the management of the well completion cluster of the Group and was responsible for the business development of the Group in the early stage 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 21 years of experience in the petroleum industry. Mr. Li has an Executive Master of Business Administration (EMBA) degree at China Europe International Business School (CEIBS) and has a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

FAN Yonghong (范永洪), aged 41, is an Executive Vice-president of the Company. Mr. Fan joined the Group in 2004. He is responsible for the operation management 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 16 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 43, 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 22 years of experience in the petroleum industry. Mr. Shen has a Master of Business Administration degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院), and is also a senior engineer in well bore engineering.

CHEN Wei (陳偉), aged 47, is an Executive Vice-president of the Company. Mr. Chen joined the Group in 2000. He is responsible for the management of the down-hole operation cluster 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 28 years of experience in the petroleum industry. Mr. Chen has a bachelor's degree in well bore engineering from Southwestern Petroleum Institute (西南石油學院).

MA Enhai (馬恩海), aged 48, 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 21 years of experience in financial accounting and management. Mr. Ma has an Executive Master of Business Administration degree from Tsinghua University.

YAN Wenrong (晏文榮), aged 63, is a Chief Supervisor of the Company. Mr. Yan joined the Group in 2000. He is responsible for risk management of the Group. He was responsible for the business development of the Group in the early stage and human resources. 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 43 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 34, is an Executive Vice-president of the Company. Mr. Pi joined the Group in 2004. He is responsible for strategic development management of the Group. He was responsible for private equity financing, initial public offering in Hong Kong of the Group. Prior to joining the Group, Mr. Pi was the general manager of the investment banking department of China Chengxin Financial Consultancy Co., Ltd (中誠信財務顧問有限公司). He has 11 years of experience in investment and capital market operation. Mr. Pi has a Master of Business Administration degree from the University Of Chicago Booth School Of Business in the U.S.

ZENG Bin (曾斌), aged 38, is an Executive Vice-president of the Company. Mr. Zeng joined the Group in 2007. He is responsible for service operation and supply chain management 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 (中國石油勘探開發研究院廊坊分院) between 1998 and 2007. He has 14 years of experience in the petroleum industry. Mr. Zeng has a Master of Business Administration degree from Asia International Open University (Macau), and a bachelor's degree in petroleum engineering from Southwest Petroleum Institute (西南石油學院) and is also a senior engineer in production engineering.

COMPANY SECRETARY

Dr. NGAI Wai Fung (魏偉峰), aged 50, is the Company Secretary of the Company. Dr. Ngai currently is the director and chief executive officer of SW Corporate Services Group Limited. He is the vice president of the Hong Kong Institute of Chartered Secretaries. Dr. Ngai has over 20 years' experience and knowledge in senior management and professional matters in listed companies, including IPO, Merger and Acquisition, corporate financing, internal control, governance and company secretary etc. Dr. Ngai is a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom. He also is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants in the United Kingdom. Dr. Ngai obtained a Doctorate in Finance from the Shanghai University of Finance and Economics, a Master's degree in Corporate Finance from the Hong Kong Polytechnic University, a Master's degree in Business Administration (MBA) from Andrews University of the United States and a Bachelor's degree (Honours) in Law from the University of Wolverhampton, the United Kingdom.

Corporate Governance Report

Since the listing of its shares on 14 December 2007 on the Stock Exchange, the Company has been implementing the principles of the Code 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.

CORPORATE GOVERANCE STRUCTURE

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

- Formulating long term strategies and supervising their execution of the Group, its subsidiaries and associated companies
- Approval of operational plan and financial budget
- Approval of the relevant annual and interim results
- 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.

BOARD OF DIRECTORS

BOARD COMPOSITION

The constitution of Board of Directors adheres strictly to the principle of ensuring balance, fairness and diversity in the backgrounds of our Board members, and the Board strives to recruit the most suitable candidates to lead the Group towards a rapid and healthy growth. As at the date of this Annual Report, the Board currently comprises three Executive Directors namely, Mr. Luo Lin, Mr. Liu Enlong and Mr. Wu Di 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 biographical information of all Directors are set out under the section "Profiles of Directors and Senior Management" of this Annual Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

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

In 2011, the Company has complied with the requirements of Rule 3.10 of the Listing Rules and has at least three Independent Non-executive Directors, including one Independent Non-executive Director, Mr. Zhu Xiaoping, with appropriate professional qualifications or accounting or related financial management expertise.

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

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The term of the appointment for Executive Directors 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.

During the reporting year, Mr. Ma Jian has resigned as an Executive Director of the Company with effect from 16 May 2011 and Mr. Liu Enlong has been appointed as an Executive Director of the Company on the same day.

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.

BOARD AND COMMITTEE MEETINGS

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.

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

	Meeting attendance/number of meetings			
Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**
Executive Director				
Mr. Luo Lin (Chairman of the Board of Directors and Chief Executive Officer)	6	N/A	1	1
Mr. Wu Di	6	N/A	N/A	N/A
Mr. Liu Enlong (appointed on 16 May 2011)	4	N/A	N/A	N/A
Mr. Ma Jian (resigned on 16 May 2011)	3	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

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

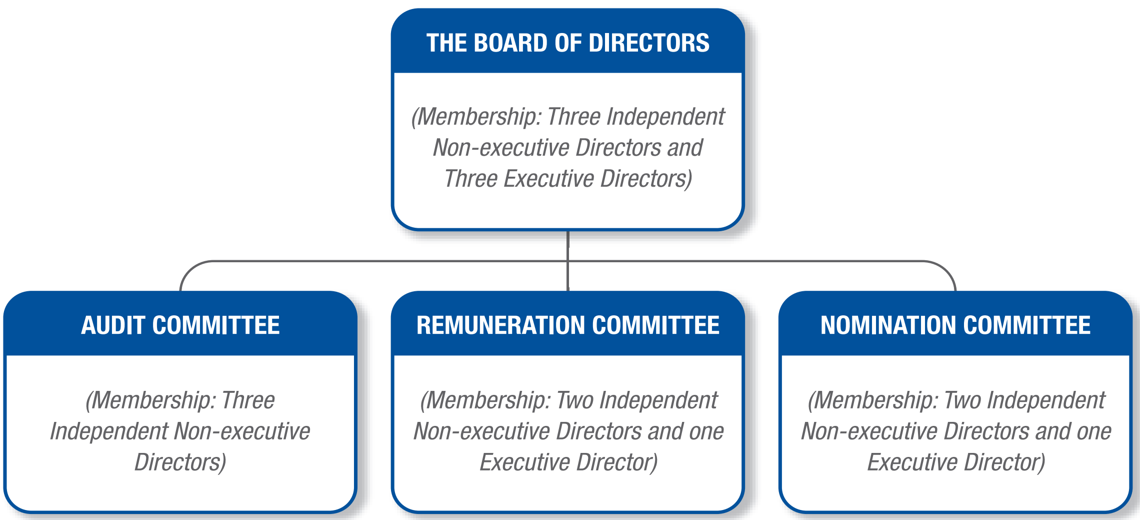
Date	**1st Quarterly Meeting March 19, 2011**	**2nd Quarterly Meeting May 16, 2011**	**3rd Quarterly Meeting July 11, 2011**	**4th Quarterly Meeting October 8, 2011**
Discussion Topics				
Review of strategic plan and budget for the previous quarter	√	√	√	√
Set out the strategic plan and budget forthe next quarter	√	√	√	√
Specific Management Topics	2011 Human Resources Development Planning	Strategic Planning for Building Brand Recognition in the Capital Market	Strategic Planning for the Construction of Service Capacity	Strategic Planning for International Market Development

MONTHLY MANAGEMENT REPORT

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

BOARD COMMITTEES

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



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

AUDIT COMMITTEE

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

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.

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 Director, Mr. Luo Lin. Mr. Wang Mingcai is the Chairman of the Remuneration Committee.

During the year, the Remuneration Committee 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 convened one meeting.

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 60 and 61 of the Independent Auditor's Report.

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

During the year, the Group had reviewed its internal control system. Based on the review, the Board was satisfied with the effectiveness of the current internal control system of the Group.

AUDITORS' REMUNERATION

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

	2011 **RMB '000**	2010 RMB `000
Audit services	**3,400**	3,400
Non-audit services	**—**	—
Total	**3,400**	3,400

CORPORATE GOVERNANCE AWARD

During the reporting period, the Company won the "Directors Of the Year" Awards for 2011 in two categories - Listed Companies (SEHK- Non Hang Seng Index Constituents) Boards and Directors - conferred by Hong Kong Institute of Directors. The "Directors Of The Year" Awards have been honoring listed companies for exemplary performance in corporate governance since 2001. The theme of the award in 2011, "Enhancing Director Professionalism through Board Self-Appraisal", aimed to recognize individual directors and company boards who demonstrated exceptional performance in self-appraisal.

SHAREHOLDERS' RIGHTS

The Company encourages shareholders to attend shareholders' meetings. 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 in accordance with the memorandum and articles of association of the Company. 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 in accordance with the memorandum and articles of association of the Company.

In 2011, the Company had convened one annual general meeting (the "2011 AGM"). The 2011 AGM provided an ideal chance for communication between the Board and the shareholders. The chairmen of the Board, audit committee, remuneration committee and nomination committee and the Company's external auditor were all present at the AGM held on 16 May 2011, to answer shareholders' inquiries.

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 relevant provisions of the Company's memorandum and articles of association had been amended to conform to such amendments to the Listing Rules. The 2011 AGM of the Company held on 16 May 2011 approved by way of special resolution to make necessary amendments to the Company's memorandum and articles of association (details can be referred to in the circular dated 11 April 2011 published by the Company).

Following the shareholders' approval of the aforesaid special resolution at the 2011 AGM, the Company made an arrangement for shareholders to choose to receive corporate communications via electronic means in order to promote effective communication (details can also be referred to in the announcement dated 22 February 2012 published by the Company).

The 2012 annual general meeting of the Company will be held at No.8 Pingcui West Road, Donghuqu Chaoyang District, Beijing, China on Friday, 25 May 2012 at 10 a.m..

FINANCIAL CALENDAR 2012

Announcement of 2011 Results

23 March 2012

Last Day to Register for Attending 2012 Annual General Meeting

22 May 2012

Annual General Meeting

25 May 2012

Last Day to Register for Receiving 2011 Final Dividends

30 May 2012

2011 Final Dividend Payment Date

Around 13 June 2012

Investor Relations

Since its listing, the Group has been placing considerable importance on ensuring reliable, effective and timely two-way communications with the investor community. The Group embraces a strong culture of disclosure to keep the investing public informed of its business development. While the Group believes that helping the investor community fully understand its current position and future direction is vital to its long-term success, it also highly values investor feedback and comments which are important for the formulation of the Company's growth strategies to enhance shareholder values.

PROACTIVE INVESTOR RELATIONS

The Group takes a proactive approach to reaching the investor community comprising shareholders, institutional investors, investing public, sell-side analysts, media and financial institutions. It actively attends investor conferences, one on one meetings with investors, industry forums, global roadshows, and organizes analyst briefings, reverse roadshows and site visits, conference calls, media interviews and press conferences. These programmes enable the management to introduce the dynamics of the oilfield services industry in China and the Group's fundamentals, financials and growth prospects to a variety of audience. The Company's website provides an investor calendar to update the year's investor relations activities

During the reporting period, the Group made no less than 780 counts of investor communications. It also gathered a strong analyst and media coverage by high-profile banks and media respectively.

TIMELY INFORMATION DISCLOSURE

The Group recognizes that the investor community should have reasonable access to the latest information about the Group to make informed decisions in a timely manner. Apart from complying with the Listing Rules and other regulatory requirements in relation to the disclosure of price-sensitive information, the Group also discloses further business information including new business initiatives and key developments to ensure a higher level of transparency to investors.

The Group distributes its corporate information through announcements, email alerts, news releases and updates on the company website. It also presents clear and comprehensive information on the Group's results through the publication of annual and interim reports. Investors can find more corporate information such as presentations, reports, transcripts, and webcasts on the website of the Company (www.antonoil.com).

INVESTOR RELATIONS ACTIVITIES FOR 2011

March

- Announced annual results for 2010
    - Held analyst briefing in Hong Kong
    - Held press conference in Hong Kong

April

- Participated in "Industrial Corporate Day" organized by CCBI in Hong Kong
- Participated in "Emerging Corporates Conference 2011" organized by Standard Chartered Bank in Hong Kong and Singapore

May

– Participated in "Asia Access Day" organized by Mirae Assets Securities in the UK and New York
– Attended NDR organized by CCB International in New York
– Participated in "Asia Stars 2011 Conference" organized by BofA Merrill Lynch in Singapore
– Annual General Meeting held in Beijing

June

– Attended Non-deal Roadshow ("NDR") in Taipei jointly organized by Yuanta Securities, Core Yamaichi and Shneyin Wanguo
– Participated in "2011 Mid-year Strategic Investment Conference" organized by Everbright Securities in Shanghai
– Hosted Reverse Roadshow for analysts in Beijing

August

– Announced interim results for 2011
    • Held analysts meeting in Hong Kong
    • Held press conference in Hong Kong
– Conducted post interim results roadshow in Hong Kong

September

– Conducted post interim results roadshow in Beijing, Shanghai and Shenzhen
– Attended Reverse Roadshow organized by Sinolink Securities

October

– Participated in Citi Greater China Investor Conference in Macau
– Attended Reverse Roadshow Organized by Core Yamaichi in Beijing

November

- Attended Reverse Roadshow organized by BofA Merrill Lynch in Beijing
- Participated in BoA Merrill Lynch 2011 Investor Conference in Beijing
- Participated in CICC Investor Forum 2012 in Beijing
- Participated in UBS Asia Oil, Gas and Chemicals Conference 2011 in Hong Kong
- Attended the ceremony of "Directors of the Year Awards 2011 " by Hong Kong Institute of Directors in Hong Kong

December

- Participated in Shenyin Wanguo Overseas Listed Chinese Companies Annual Conference in Shenzhen
- Participated in Hong Kong Securities Market Investment Strategy Conference Organized by Guoyuan Securities in Shenzhen
- Particpated in Reverse Roadshow by Japanese and American investors in Beijing

Employee Relations

TEAM

At the end of the financial year, the total number of long-term employees of the Group was 1,262, representing an increase of 21.6% from 1,038 last year, among which 514 were engineers, 447 were on-site servicemen, 178 were marketing personnel and 123 were management personnel. The employees at the 5th rank and above (the Group's employees (saved for the Chief Executive Officer) have been classified into 8 ranks, and the 8th rank was executive vice-president and senior vice-president and the 5th rank was senior engineer) accounted for about 25.0% of the Group's total number of employees, representing an increase of 23.4% from last year. In addition, outsourced labour amounted to 763 persons, representing an increase of 39% as compared to last year.

RECRUITMENT AND DISCOVERY OF TALENTS

The Group adopted a combination of campus recruitment and public recruitment approaches to attract a large number of talents. The campus recruitment in 2011 was opened for a period of 6 months to 14 cities in the northeast, northern, southwest, northwest and central regions of China, covering over 60 famous universities and institutions including major petroleum colleges, Peking University, Tsinghua University, Renmin University, Nankai University, Harbin Institute of Technology, Wuhan University, Xi'an Jiaotong University and institutions of foreign languages, etc. and recruited 191 university graduates. Meanwhile, a total of 183 employees were recruited through public recruitment in 2011 of which 31 employees were high-end technical and management staff.

The Group also selected a large number of outstanding employees through internal training. A total of 63 employees were promoted during the year. Talent development programs such as the "Outstanding Employee Program" and "Enhanced Cadre Management and Training Program" were fully implemented.

TRAINING

The Group established a comprehensive three-tier training system to facilitate employee and corporate growth. 58 training programs at the group level were completed on a cumulative basis during the year with a total of 1,989 participants. The Group's training programs include collective training categories such as "Cadre Training Camp", "Lion Training Camp", and "Battalion Ants". The Group's various departments also established their respective internal training programs.

EMPLOYEE RELATIONS

Antonoil strives to create a strong and dedicated team similar to a battalion of ants, and established a platform for employees to keep fit and display their personal strengths. We have established different types of teams, such as the Anton arts group, basketball team, soccer team, table-tennis team, badminton team, billiard team, etc. for employees to choose and participate according to their own interest and personal strengths. During 2011, the various teams on ball games have organized and participated in friendly tournaments such as the badminton tournament, table-tennis tournament, etc. which have significantly enhanced the corporate team spirit and sense of belonging among employees.

Independent auditor's report

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Anton Oilfield Services Group ("the Company") and its subsidiaries (together, the "Group") set out on pages 62 to 124, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

羅兵咸永道

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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, 23 March 2012

Balance sheets

As at 31 December 2011
(Amounts expressed in thousands of RMB)

		As at 31 December			
		Group		Company	
	Note	**2011**	2010	**2011**	2010
ASSETS					
Non-current assets					
Property, plant and equipment	6	**538,576**	419,471	**—**	—
Land use rights	7	**31,281**	25,486	**—**	—
Intangible assets	8	**365,422**	345,858	**—**	—
Investment in subsidiaries	9	**—**	—	**3,558,342**	3,551,412
Investment in a jointly controlled entity	10	**4,000**	50,244	**—**	—
Deferred income tax assets	22	**17,643**	3,008	**—**	—
		956,922	844,067	**3,558,342**	3,551,412
Current assets					
Inventories	11	**271,411**	265,423	**—**	—
Trade and notes receivables	12	**670,959**	671,993	**—**	—
Prepayments and other receivables	13	**120,794**	70,118	**102,727**	146,243
Restricted bank deposits	14	**10,380**	144,353	**—**	—
Term deposits with initial terms of over three months	14	**5,000**	6,000	**—**	—
Cash and cash equivalents	14	**462,154**	188,960	**1,188**	1,476
		1,540,698	1,346,847	**103,915**	147,719
Total assets		**2,497,620**	2,190,914	**3,662,257**	3,699,131
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	15	**198,115**	197,420	**198,115**	197,420
Reserves					
– Proposed final dividend	30	**35,700**	39,400	**35,700**	39,400
– Others	16	**1,432,315**	1,377,194	**3,377,907**	3,413,546
		1,666,130	1,614,014	**3,611,722**	3,650,366
Non-controlling interests		**73,967**	36,547	**—**	—
Total equity		**1,740,097**	1,650,561	**3,611,722**	3,650,366

(Amounts expressed in thousands of RMB)

		As at 31 December			
		Group		Company	
	Note	**2011**	2010	**2011**	2010
LIABILITIES					
Non-current liabilities					
Other long-term payable	21	**14,847**	—	**—**	—
Deferred income tax liabilities	22	**957**	2,150	**—**	—
		15,804	2,150	**—**	—
Current liabilities					
Short-term borrowings	17	**315,000**	150,000	**—**	—
Current portion of long-term borrowings	17	**5,003**	34,822	**—**	—
Current portion of other long-term payable	21	**10,896**	—	**—**	—
Derivative financial liabilities	18	**—**	1,102	**—**	—
Trade and notes payables	19	**257,791**	218,416	**—**	—
Accruals and other payables	20	**123,852**	112,971	**50,535**	48,765
Current income tax liabilities		**29,177**	20,892	**—**	—
		741,719	538,203	**50,535**	48,765
Total liabilities		**757,523**	540,353	**50,535**	48,765
Total equity and liabilities		**2,497,620**	2,190,914	**3,662,257**	3,699,131
Net current assets		**798,979**	808,644	**53,380**	98,954
Total assets less current liabilities		**1,755,901**	1,652,711	**3,611,722**	3,650,366

The notes on page 68 to 124 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 March 2012 and were signed on its behalf.

LUO Lin
Executive Director

WU Di
Executive Director

Consolidated income statement

For the year ended 31 December 2011
(Amounts expressed in thousands of RMB, except per share data)

	Note	Year ended 31 December 2011	2010
Revenue	23	**1,258,909**	950,715
Other gains, net	25	**2,155**	575
Operating costs			
Materials and services cost		**(571,878)**	(395,050)
Staff costs	27	**(135,852)**	(123,533)
Operating lease expenses		**(12,721)**	(12,741)
Depreciation and amortisation		**(58,996)**	(50,827)
Sales tax and surcharges		**(28,005)**	(18,619)
Others		**(278,757)**	(205,104)
		(1,086,209)	(805,874)
Operating profit	24	**174,855**	145,416
Interest income	26	**2,254**	3,119
Finance expenses	26	**(18,348)**	(5,816)
Finance costs, net		**(16,094)**	(2,697)
Share of loss of a jointly controlled entity	10	**(14,320)**	(424)
Impairment loss of long-term investment in a jointly controlled entity		**(31,924)**	—
Profit before income tax		**112,517**	142,295
Income tax expense	28	**(20,849)**	(16,369)
Profit for the year		**91,668**	125,926
Profit attributable to:			
Equity holders of the Company		**77,344**	116,655
Non-controlling interests		**14,324**	9,271
		91,668	125,926
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic	29	**0.0369**	0.0557
– Diluted	29	**0.0365**	0.0557
Dividends	30	**35,700**	39,400

The notes on page 68 to 124 are an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011
(Amounts expressed in thousands of RMB)

	Note	Year ended 31 December 2011	2010
Profit for the year		**91,668**	125,926
Other comprehensive income/(loss), net of tax:			
Cash flow hedges	18	**1,102**	(1,102)
Currency translation differences		**(6,813)**	(2,270)
Other comprehensive loss, net of tax for the year		**(5,711)**	(3,372)
Total comprehensive income for the year		**85,957**	122,554
Attributable to:			
– Equity holders of the Company		**71,633**	113,283
– Non-controlling interests		**14,324**	9,271
Total comprehensive income for the year		**85,957**	122,554

The notes on page 68 to 124 are an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011
(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
Balance at 1 January 2010		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:											
Cash flow hedges	18	—	—	—	—	(1,102)	—	—	(1,102)	—	(1,102)
Currency translation differences		—	—	—	—	—	—	(2,270)	(2,270)	—	(2,270)
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	30	—	(18,000)	—	—	—	—	—	(18,000)	(7,438)	(25,438)
Balance 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
Profit for the year		—	—	—	—	—	77,344	—	77,344	14,324	91,668
Other comprehensive income:											
Cash flow hedges	18	—	—	—	—	1,102	—	—	1,102	—	1,102
Currency translation differences		—	—	—	—	—	—	(6,813)	(6,813)	—	(6,813)
Total comprehensive income		—	—	—	—	1,102	77,344	(6,813)	71,633	14,324	85,957
Share option scheme	15(b)	—	—	9,870	—	—	—	—	9,870	—	9,870
Share option exercised	15(b)	695	6,992	(2,756)	—	—	—	—	4,931	—	4,931
Disposal of subsidiaries	16(a)	—	—	4,590	(2,496)	—	297	—	2,391	23,255	25,646
Transfer to statutory reserves	16(b)	—	—	—	6,632	—	(6,632)	—	—	—	—
Dividends	30	—	(39,426)	—	—	—	—	—	(39,426)	(1,064)	(40,490)
Other		—	—	2,717	—	—	—	—	2,717	905	3,622
Balance at 31 December 2011		**198,115**	**579,601**	**340,267**	**40,646**	**—**	**516,998**	**(9,497)**	**1,666,130**	**73,967**	**1,740,097**

The notes on page 68 to 124 are an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2011
(Amounts expressed in thousands of RMB)

	Note	Year ended 31 December 2011	2010
Cash flows from operating activities			
Net cash inflows from operations	31	**260,543**	36,254
Interest paid		**(14,031)**	(2,896)
Interest received		**2,254**	2,661
Income tax paid		**(28,392)**	(10,062)
Net cash generated from operating activities		**220,374**	25,957
Cash flows from investing activities			
Purchase of property, plant and equipment		**(159,509)**	(93,071)
Proceeds from disposal of property, plant and equipment		**960**	3,624
Purchase of land use rights		**(8,000)**	—
Purchase of intangible assets		**(28,100)**	(39,503)
Payment of acquisition considerations		**(4,000)**	(8,500)
Proceeds from disposal of term deposits with initial terms of over three months		**1,000**	61,609
Net cash used in investing activities		**(197,649)**	(75,841)
Cash flows from financing activities			
Proceeds from long-term borrowings		**5,003**	34,822
Proceeds from short-term borrowings		**377,000**	202,000
Proceeds from sale and leaseback		**27,000**	—
Repayments of short-term borrowings		**(212,000)**	(102,000)
Repayments of long-term borrowings		**(34,822)**	—
Repayments of sale and leaseback		**(5,456)**	—
Proceeds from share options exercised	15(b)	**4,931**	59
Dividends distribution		**(39,426)**	(25,438)
Decrease/(Increase) of deposits pledged for borrowing		**135,646**	(139,697)
Net cash generated from/(used in) financing activities		**257,876**	(30,254)
Net increase/(decrease) in cash and cash equivalents		**280,601**	(80,138)
Cash and cash equivalents, at beginning of the year		**188,960**	272,959
Exchange loss on cash and cash equivalents		**(7,407)**	(3,861)
Cash and cash equivalents at end of the year		**462,154**	188,960

The notes on page 68 to 124 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

These financial statements have been approved for issue by the Board of Directors on 23 March 2012.

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.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

- Amendments to IFRS 7, 'Financial instruments: disclosures'. The amendments were as a result of the May 2010 Improvements to IFRSs (the 'May 2010 Improvements') (effective for financial year beginning 1 January 2011). The May 2010 Improvements clarified certain quantitative disclosures and removed the disclosure requirements on financial assets with renegotiated terms. The Group adopted the May 2010 Improvement on IFRS 7 on 1 January 2011. These amendments have no material impact on the Group's financial statements.

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

2.1 Basis of preparation *(Continued)*

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

The Group's assessment of the impact of these new and amended standards is set out below.

- IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 11 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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

2.1 Basis of preparation *(Continued)*

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted. *(Continued)*

- IAS 1 (Amendment) 'Presentation of financial statements' resulted a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to consolidated statement of comprehensive income subsequently (reclassification adjustments). The amendments do not address which items are presented in 'other comprehensive income'. The amendment should be applied for annual periods beginning on or after 1 July 2012 and early adoption is permitted.

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

2.2 Subsidiaries

2.2.1 Consolidation

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

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.

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

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

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Business combination

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred 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.

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 2.8).

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

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

(c) Disposal of subsidiaries

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

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

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

2.3 Jointly controlled entities

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

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

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ('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.

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'Functional Currency'). The financial statements are presented in Renminbi ('RMB'), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

(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.

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

2.6 Property, plant and equipment

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

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

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

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

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

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

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

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

2.7 Land use rights

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

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

2.8 Intangible assets

(a) Goodwill

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

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

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

(b) Computer software

Computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, ranging from 5 to 10 years.

(c) Patents

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

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

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

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

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

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

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

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

(b) Loans and receivables

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

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on 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 gains, net', in the period in which they arise.

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

2.10 Financial assets *(Continued)*

2.10.3 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.

2.10.4 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Gain or loss arising from subsequent change in the fair value of derivatives is recognised in 'other gains/losses, net' 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 gains/losses, 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'.

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

2.11 Inventories

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

2.12 Trade and other receivables

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

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

2.13 Cash and cash equivalents

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

2.14 Share capital

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

2.15 Trade payables

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

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

2.16 Borrowings

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

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

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

2.17 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 or directly in equity. In this case, the tax is also recognised in other comprehensive income or 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 and jointly controlled entity, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.18 Employee benefits

(a) Pension and other social obligations

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

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

2.18 Employee benefits *(Continued)*

(b) Share-based compensation

The Group operates a number of equity-settled share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date:

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

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 in the Company separate financial statements. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.19 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

2.19 Revenue recognition *(Continued)*

(a) Sales of goods

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

(b) Sales of services

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

(c) Lease income

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

(d) Interest income

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

2.20. Borrowing costs

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

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

2.21 Leases

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

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

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

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

2.22 Sale and lease back transactions

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

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

2.23 Government grants

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

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

2.24 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 2011, the Group developed its businesses overseas with most of the transactions denominated and settled in US$. Foreign exchange risk also arise from certain bank deposits and borrowings denominated in US$. The Group is exposed to foreign currency exchange risk primarily with respect to US$.

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

As at 31 December 2011, if RMB had strengthened/weakened by 3% (2010:3%) against the US$ with all other variables held constant, profit for the year and profit attributable to equity holders of the Company would have been RMB7,024,000 (2010: RMB1,916,000) lower/higher mainly as a result of foreign exchange losses/gains on translation of US$-denominated cash and cash equivalent, trade receivables and accruals, other payables and loans.

(ii) Cash flow interest rate risk

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

(b) Credit risk

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

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

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

Group

As at 31 December 2011

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

Group

As at 31 December 2010

	Within 1 year	1-2 years	>2 years
Short-term borrowings	154,204	—	—
Trade and notes payables	218,416	—	—
Accruals and other payables	112,971	—	—
Current income tax liabilities	20,892	—	—
Long-term borrowings	35,217	—	—
	541,700	—	—

(Amounts expressed in thousands of RMB unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

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

The gearing ratios 31 December 2011 and 2010 are as follows:

	As at 31 December	
	2011	2010
Total borrowings	**577,794**	403,238
Total equity	**1,740,097**	1,650,561
Total capital	**2,317,891**	2,053,799
Gearing ratio	**25%**	20%

The increase in gearing ratio in 2011 was mainly due to the increase in short-term borrowings for operating needs.

3.3 Fair value estimation

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

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

The following table presents the Group's liabilities that are measured at fair value at 31 December 2011 and 31 December 2010:

	As at 31 December	
	2011	2010
Liabilities		
– Derivatives used for hedging (level 2)	**—**	1,102

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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

The specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of foreign exchange forward 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8). Based on management's assessment results, there was no impairment of goodwill as at 31 December 2011 and 2010 and no reasonable change to the assumptions would lead to an impairment.

(b) Useful lives of patents

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

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

(c) Impairment of trade receivables

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

(d) Fair value of share options

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

5. SEGMENT INFORMATION

The CODM has been identified as the Chief Executive Officer, directors of the Company and vice presidents 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. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
For the year ended 31 December 2011					
Revenue	**570,328**	**319,758**	**197,527**	**171,296**	**1,258,909**
EBITDA	**258,704**	**109,828**	**45,372**	**40,333**	**454,237**
Depreciation and amortisation	**(15,346)**	**(12,773)**	**(5,456)**	**(20,517)**	**(54,092)**
Interest income	**303**	**452**	**54**	**264**	**1,073**
Finance expenses, net	**(486)**	**(4)**	**(115)**	**(567)**	**(1,172)**
Share of loss from a jointly controlled entity	**—**	**—**	**—**	**(14,320)**	**(14,320)**
Impairment loss of long-term investment in a jointly controlled entity	**—**	**—**	**—**	**(31,924)**	**(31,924)**
Income tax expense	**(14,618)**	**(9,703)**	**(1,085)**	**4,557**	**(20,849)**
For the year ended 31 December 2010					
Revenue	343,952	325,333	97,464	183,966	950,715
EBITDA	138,791	140,280	34,362	59,413	372,846
Depreciation and amortisation	(7,582)	(9,913)	(4,857)	(21,233)	(43,585)
Interest income	15	268	—	16	299
Finance expenses, net	(1)	(4)	—	(96)	(101)
Share of loss from a jointly controlled entity	—	—	—	(424)	(424)
Income tax expense	(2,696)	(11,547)	(579)	(1,547)	(16,369)

(Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
As at 31 December 2011					
Total assets	**577,089**	**882,670**	**198,773**	**334,836**	**1,993,368**
Total assets include:					
Investments in a jointly controlled entity	**—**	**—**	**—**	**4,000**	**4,000**
Additions to non-current assets (other than deferred tax assets)	**158,407**	**9,777**	**29,451**	**25,329**	**222,964**
As at 31 December 2010					
Total assets	500,289	756,801	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)	63,366	23,783	33,763	40,633	161,545

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

	Year ended 31 December 2011	2010
EBITDA for reportable segments	**454,237**	372,846
Corporate overheads	**(241,285)**	(186,740)
Depreciation	**(46,725)**	(37,778)
Amortisation	**(7,367)**	(5,807)
Interest income	**1,073**	299
Finance expenses, net	**(1,172)**	(101)
Share of loss of a jointly controlled entity	**(14,320)**	(424)
Impairment loss of long-term investment in a jointly controlled entity	**(31,924)**	—
Profit before income tax	**112,517**	142,295

(Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

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

	As at 31 December	
	2011	2010
Assets for reportable segments	**1,993,368**	1,769,001
Corporate assets for general management	**504,252**	421,913
Total Assets	**2,497,620**	2,190,914

Geographical Information

	Revenue		Non-current Assets	
	2011	2010	**2011**	2010
PRC	**971,642**	790,715	**881,642**	812,245
Iraq	**171,963**	107,573	**71,926**	27,540
Other countries	**115,304**	52,427	**3,354**	4,282
Total	**1,258,909**	950,715	**956,922**	844,067

(Amounts expressed in thousands of RMB unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

Client Information

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

As at 31 December 2011

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

Note: Client 1, 3, 4 and 6 are entities controlled by one major oilfield operator.

As at 31 December 2010

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
Client 1	—	—	14,808	—	14,808
Client 2	—	—	13,250	—	13,250
Client 3	—	47,776	—	—	47,776
Client 4	71,190	—	—	—	71,190
Client 5	36,576	—	—	—	36,576
Client 6	—	—	—	65,532	65,532
Client 7	—	—	—	19,098	19,098
Total	107,766	47,776	28,058	84,630	268,230

Note: Client 1, 4, 5 and 6 are entities controlled by one major oilfield operator.

(Amounts expressed in thousands of RMB unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT - GROUP

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and others	Construction-in-progress	Total
As at 1 January 2010						
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
Year ended 31 December 2011						
Opening net book value	**81,320**	**231,894**	**21,070**	**12,323**	**72,864**	**419,471**
Additions	**3,349**	**74,804**	**15,266**	**3,561**	**69,171**	**166,151**
Additions due to sale and leaseback (a)	**—**	**38,198**	**—**	**—**	**—**	**38,198**
Transfer in/(out)	**37,312**	**20,142**	**—**	**1,393**	**(58,847)**	**—**
Disposal of subsidiaries	**—**	**(3,436)**	**(173)**	**(7)**	**—**	**(3,616)**
Depreciation charge	**(4,368)**	**(34,109)**	**(7,504)**	**(3,948)**	**—**	**(49,929)**
Disposals	**—**	**(297)**	**(363)**	**(64)**	**—**	**(724)**
Disposals due to sale and leaseback (a)	**—**	**(30,975)**	**—**	**—**	**—**	**(30,975)**
Closing net book value	**117,613**	**296,221**	**28,296**	**13,258**	**83,188**	**538,576**
As at 31 December 2011						
Cost	**136,636**	**381,252**	**49,420**	**25,576**	**83,188**	**676,072**
Accumulated depreciation	**(19,023)**	**(85,031)**	**(21,124)**	**(12,318)**	**—**	**(137,496)**
Net book value	**117,613**	**296,221**	**28,296**	**13,258**	**83,188**	**538,576**

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

(Amounts expressed in thousands of RMB unless otherwise stated)

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

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

	As at 31 December	
	2011	2010
Cost - capitalised sale and leasebacks	**38,198**	—
Accumulated depreciation	**(1,890)**	—
	36,308	—

(b): As at 31 December 2011, buildings amounting to RMB37,742,000 were pledged as counter-guarantee for short-term borrowings (Note 17).

7. LAND USE RIGHTS - GROUP

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

As at 1 January 2010	
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
Year ended 31 December 2011	
Opening net book value	**25,486**
Additions	**8,000**
Disposal of subsidiaries	**(1,673)**
Amortisation charge	**(532)**
Closing net book value	**31,281**
As at 31 December 2011	
Cost	**33,405**
Accumulated amortisation	**(2,124)**
Net book value	**31,281**

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

(Amounts expressed in thousands of RMB unless otherwise stated)

8. INTANGIBLE ASSETS - GROUP

	Patents	Goodwill	Computer software	Total
As at 1 January 2010				
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
Year ended 31 December 2011				
Opening net book value	**75,110**	**265,697**	**5,051**	**345,858**
Additions	**28,434**	**—**	**811**	**29,245**
Amortisation charge	**(9,028)**	**—**	**(653)**	**(9,681)**
Closing net book value	**94,516**	**265,697**	**5,209**	**365,422**
As at 31 December 2011				
Cost	**117,682**	**265,697**	**6,857**	**390,236**
Accumulated amortisation and impairment	**(23,166)**	**—**	**(1,648)**	**(24,814)**
Net book value	**94,516**	**265,697**	**5,209**	**365,422**

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

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

As at 31 December 2011 and 31 December 2010	Down-hole operation	Well completion	Total
Jilin Dongxin Oil Engineering Technology Co., Ltd. (吉林省東新石油工程技術有限公司，'Jilin Dongxin')	26,325	—	26,325
Shandong Precede Petroleum Technology Co., Ltd. (山東普瑞思德石油技術有限公司，'Shandong Precede')	—	132,486	132,486
Screen business	—	106,886	106,886
	26,325	239,372	265,697

(Amounts expressed in thousands of RMB unless otherwise stated)

8. INTANGIBLE ASSETS - GROUP *(Continued)*

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

The key assumptions used for value-in-use calculations in 2011 are as follows:

As at 31 December 2011	**Jilin Dongxin**	**Shandong Precede**	**Screen business**
Gross margin	**29.26%**	**58.08%**	**34.35%**
Discount rate	**13.00%**	**13.00%**	**13.00%**

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

Based on the assessments, no goodwill was impaired as at 31 December 2011.

9. INVESTMENT IN SUBSIDIARIES - COMPANY

	As at 31 December	
	2011	2010
Unlisted shares, at cost	**2,862,439**	2,862,439
Amounts due from a subsidiary*	**686,216**	686,216
Share option granted to employees of subsidiaries	**9,687**	2,757
	3,558,342	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.

(Amounts expressed in thousands of RMB unless otherwise stated)

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

As at 31 December 2011, the Company directly or indirectly held equity interests in the following subsidiaries, all of which are unlisted and limited liability companies:

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Directly held:				
Pure Energy Investments Limited ('Pure Energy')	Hong Kong, 17 August 2007	HK$100	100%	Investment holding
Anton Oilfield Services International Company Limited ('Anton International')	Hong Kong , 17 July 2008	HK$10,000	100%	Oilfield services and sales of equipment
Indirectly held:				
Beijing Hinen-Hitech Petroleum Technology Development Co., Ltd. (北京海能海特石油科技發展有限公司, 'Hinen-Hitech')	Beijing, the PRC, 18 September 2000	RMB500,000	100%	Manufacturing and sales of petroleum drilling and sand control equipment
Jilin Dongxin	Jilin Province, the PRC, 1 September 2001	RMB5,500,000	100%	Oilfield services and sales of production equipment
Anton Oilfield Services (Group) Limited (安東石油技術（集團）有限公司, 'Anton Oil')	Beijing, the PRC, 28 January 2002	US$131,000,000	100%	Oilfield services and sales of equipment
Xinjiang Tong'ao Oilfield Services Limited (新疆通奧油田技術服務有限公司, 'Xinjiang Tong'ao')	Xinjiang Uygur Autonomous Region, the PRC, 21 February 2002	RMB51,000,000	100%	Oilfield services

(Amounts expressed in thousands of RMB unless otherwise stated)

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

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Indirectly held: *(Continued)*				
Beijing Tongsheng Well Engineering and Technology Limited (北京通盛威爾工程技術有限公司, 'Tongsheng Well')	Beijing, the PRC, 24 December 2004	RMB11,000,000	100%	Oilfield services
Anton Tong'ao Technological Products Co., Limited. (安東通奧科技產共股份有限公司, 'Anton Tong'ao')	Xinjiang Uygur Autonomous Region, the PRC, 15 December 2005	RMB90,000,000	90%	Manufacturing of rod casing
Beijing Huarme Petroleum Technology Co., Ltd. (北京華瑞美爾石油科技有限公司, 'Huarme')	Beijing, the PRC, 17 April 2006	RMB500,000	100%	Manufacturing and sales of petroleum drilling and sand control equipment
Beijing Anton Oil Machine Technology Limited (北京安東石油機械技術有限公司, 'Anton Machine')	Beijing, the PRC, 29 September 2006	RMB10,000,000	100%	Research and development of new materials and technology
Xinjiang Foyou Oil Engineering Construction Limited (新疆佛友石油工程建設有限責任公司, 'Xinjiang Foyou')	Xinjiang Uygur Autonomous Region, the PRC, 22 December 2006	RMB35,000,000	100%	Oilfield services
Anton Energy Services Corp	Canada, 14 August 2007	USD$100,000	100%	Sales and leasing of drilling equipments
Shandong Precede	Shandong Province, the PRC, 2 September 2008	RMB12,000,000	75%	Oilfield services and sales of equipment
Roxxon Industry Group Limited ('Roxxon Hong Kong')	Hong Kong, 11 September 2008	HK$10,000	100%	Oilfield services
Dongying Precede Well Completion and Sand Prevention Engineering Technology Research Centre (東營市普瑞斯德完井防砂工程技術研究中心, 'Dongying Research Centre')	Shandong Province, the PRC, 10 November 2008	RMB100,000	100%	Research and development of oilfield well completion technology

(Amounts expressed in thousands of RMB unless otherwise stated)

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

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Indirectly held: *(Continued)*				
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. ('Anton Iran')	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). (Anton Oil Tech')	British Virgin Islands, 15 April 2010	US$10,000,000	100%	Import and export petroleum machinery and tools
RockWell Energy Services Ltd. ('Rockwell')	British Virgin Islands, 15 April 2010	US$50,000	100%	Oilfield technology consulting services
T&C International Trading Ltd. ('T&C')	British Virgin Islands, 15 April 2010	US$ 10,000,000	100%	Import and export petroleum machinery and tools
Anton Oilfield Technology, Inc. ('Anton Houston')	United States of America, 5 May 2010	US$500,000	100%	Oilfield technology research and consulting service
Anton Software Technology Ltd. (北京安東軟件技術有限公司, 'Anton Software')	Beijing, the PRC, 19 October 2010	RMB7,500,000	100%	Software services, sales of electronic products

(Amounts expressed in thousands of RMB unless otherwise stated)

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

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Indirectly held: *(Continued)*				
Tianjin Antonoil Machinery Manufacture Co., Ltd. (天津安東石油機械製造有限公司, 'Tianjin Machine')	Tianjin, the PRC, 27 January 2011	RMB50,000,000	100%	Oilfield services, sales of production equipment and consulting service
Anton Oilfield Services DMCC. ('DMCC')	The United Arab Emirates, 28 March 2011	US$545,140	100%	Oilfield services
Tianjin Antonoil Investment & Management Co., Ltd. (天津安東投資管理有限公司, 'Tianjin Investment')	Tianjin, the PRC, 23 May 2011	RMB10,000,000	100%	Consulting service on corporation management
Tianjin Antonoil Import and Export Trading Co.,Ltd. (天津安東進出口貿易有限公司, 'Tianjin Trading')	Tianjin, the PRC, 13 July 2011	US$5,000,000	100%	Oilfield services, sales of production equipment and consulting service
Andes Petroleum Company SAS ('SAS')	Bogota, Columbia, 27 October 2011	US$100,000	100%	Oilfield services

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. (北重安東機械制造有限公司, 'Northern Heavy'), which is unlisted and a limited liability company established in the PRC.

	2011	2010
As at 1 January	**50,244**	50,668
Share of loss	**(14,320)**	(424)
Impairment loss (Note)	**(31,924)**	—
As at 31 December	**4,000**	50,244

Note: Considering Northern Heavy's consecutive loss in recent two years and the magnitude of the loss in 2011, the management made an impairment provision of RMB31,924,000 for the investment in Northern Heavy based on the value-in-used method with discount rate of 8.72%.

(Amounts expressed in thousands of RMB unless otherwise stated)

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

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

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

	As at 31 December 2011 (Unaudited)	As at 31 December 2010 (Unaudited)
Assets:		
Non-current assets	**83,945**	75,830
Current assets	**114,875**	143,988
	198,820	219,818
Liabilities:		
Current liabilities	**125,575**	117,860
	125,575	117,860
Non-controlling interests	**1,397**	3,839
Net assets	**73,245**	101,958
Revenue	**172,448**	603,524
Expenses	**(199,593)**	(605,107)
Loss after income tax	**(27,145)**	(1,583)
Non-controlling interests	**(1,755)**	(734)
Joint venture's commitments	**—**	—

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

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INVENTORIES - GROUP

	As at 31 December	
	2011	2010
Raw materials	**51,426**	35,235
Work-in-progress	**58,047**	47,455
Finished goods	**159,797**	180,925
Spare parts and others	**2,141**	1,808
	271,411	265,423

As at 31 December 2011 and 2010, all inventories were stated at cost.

12. TRADE AND NOTES RECEIVABLES - GROUP

	As at 31 December	
	2011	2010
Trade receivables, net (a)	**647,212**	663,354
Trade receivables from a related party (Note 33 (c))	**—**	1,175
Notes receivable (d)	**23,747**	7,464
	670,959	671,993

Note:

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

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

	As at 31 December 2010		
	Gross amount	Impairment	Net value
1 - 6 months (i)	460,154	—	460,154
6 months - 1 year (i)	119,785	—	119,785
1 - 2 years (ii)	71,420	—	71,420
2 - 3 years (ii)	19,627	(6,804)	12,823
Over 3 years (ii)	4,217	(3,870)	347
	675,203	(10,674)	664,529

(i) As at 31 December 2011, trade receivables amount of RMB584,446,000 (31 December 2010: RMB579,939,000) aged within one year. These trade receivables were neither past due nor impaired due to the Group's credit policy.

(ii) The Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2011, trade receivables amounting to RMB62,766,000 (31 December 2010: RMB84,590,000) were past due but not impaired. For the past-due trade receivables without impairment, management considered such long ageing items were receivable from customers with good cooperation and no default history, therefore the risk of impairment was low.

(Amounts expressed in thousands of RMB unless otherwise stated)

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

Note: *(Continued)*

(b) Most of the trade receivables are with credit terms of one year, except for retention money which would be collected one year after the completion of the sales. The maximum exposure to credit risk at the reporting date is the carrying value of above receivables. Trade receivables amounting to RMB211,964,000 were pledged as security for short-term borrowing (Note 17) (31 December 2010: Nil).

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

	2011	2010
As at 1 January	**10,674**	7,217
Additions	**12,294**	4,843
Reversal	**(1,454)**	—
Dispose of subsidiaries	**(750)**	—
Written off	**(2,972)**	(1,386)
As at 31 December	**17,792**	10,674

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

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

	As at 31 December	
	2011	2010
RMB	**585,138**	579,402
US$	**85,821**	92,591
	670,959	671,993

13. PREPAYMENTS AND OTHER RECEIVABLES - GROUP AND COMPANY

	As at 31 December			
	Group		**Company**	
	2011	2010	**2011**	2010
Advances to suppliers	**61,479**	30,082	**—**	—
Other receivables	**58,900**	34,175	**656**	395
Amounts due from subsidiaries (a)	**—**	—	**102,071**	145,848
Amounts due from a related party (Note 33 (c))	**415**	5,861	**—**	—
	120,794	70,118	**102,727**	146,243

(Amounts expressed in thousands of RMB unless otherwise stated)

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	
	2011	2010	**2011**	2010
1 - 6 months	**76,263**	25,830	**274**	145,848
6 months - 1year	**30,304**	31,115	**—**	—
1 - 2 years	**7,119**	7,268	**102,058**	395
2 - 3 years	**2,370**	7,664	**395**	—
Over 3 years	**8,557**	2,166	**—**	—
Prepayments and other receivables, gross	**124,613**	74,043	**102,727**	146,243
Less: Impairment of prepayments and other receivables (b)	**(3,819)**	(3,925)	**—**	—
Prepayments and other receivables, net	**120,794**	70,118	**102,727**	146,243

(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:

	2011	2010
As at 1 January	**3,925**	2,490
Additions	**873**	1,435
Reversal	**(979)**	—
As at 31 December	**3,819**	3,925

14. CASH AND BANK – GROUP AND COMPANY

	As at 31 December			
	Group		Company	
	2011	2010	**2011**	2010
Restricted bank deposits (a)	**10,380**	144,353	**—**	—
Term deposits with initial terms of over three months (b)	**5,000**	6,000	**—**	—
Cash and cash equivalents				
– Cash on hand	**1,423**	655	**—**	—
– Deposits in bank	**460,731**	188,305	**1,188**	1,476
	477,534	339,313	**1,188**	1,476

Note:

(a) As at 31 December 2011, bank deposits amounting to RMB5,351,000 were held as securities for long-term borrowings (31 December 2010: RMB37,197,000 and RMB102,500,000 were held as securities for long-term and short-term borrowings, respectively) (Note 17(a)).

As at 31 December 2011, bank deposits amounting to RMB5,029,000 were held as securities for letter of guarantee and for issuance of notes payable (31 December 2010: RMB4,656,000).

(b) As at 31 December 2011, the effective interest rate on term deposit with initial terms of over three months was 3.30% per annum (31 December 2010: 1.71% to 2.25% per annum); and the deposit has a maturity of 180 days (31 December 2010: 337 days on average).

(Amounts expressed in thousands of RMB unless otherwise stated)

14. CASH AND BANK – GROUP AND COMPANY *(Continued)*

Cash and bank were denominated in the following currencies:

	As at 31 December			
	Group		Company	
	2011	2010	**2011**	2010
RMB	**397,414**	321,583	**—**	—
US$	**60,880**	9,344	**231**	1,381
HK$	**3,984**	251	**957**	95
Others	**15,256**	8,135	**—**	—
	477,534	339,313	**1,188**	1,476

15. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	Authorised	
	Number of shares	**HK$'000**
As at 31 December 2010	3,500,000,000	350,000
As at 31 December 2011	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 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
Addition	8,397,000	840	695
As at 31 December 2011	2,101,551,000	210,155	198,115

(Amounts expressed in thousands of RMB unless otherwise stated)

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

(b) Share options

In 2011, options to subscribe for 39,850,000 shares and 1,500,000 shares at an exercise price of HK$1.450 and HK$1.506, respectively, (2010: 33,080,000 shares and 10,000,000 shares at an exercise price of HK$0.75 and HK$0.76) have been conditionally granted to certain key employees and three Independent Non-executive directors. The options are exercisable gradually from the first anniversary of the service commencement date and have an option period of 3-4 years.

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

	Average exercise price in HK$ per share	Number of share options (thousands)
As at 31 December 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
Granted (on 20 May 2011)	1.45	39,850
Granted (on 25 July 2011)	1.506	1,500
Exercised		(8,397)
Forfeited		(6,345)
As at 31 December 2011		104,138

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 2011
2 February 2012	1.634	8,850
28 April 2013	0.684	19,478
8 April 2014	0.75	26,460
19 May 2014	1.45	1,500
22 November 2014	0.76	10,000
19 May 2015	1.45	37,350
24 July 2015	1.506	500
	1.079	104,138

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

Out of the 104,138,000 outstanding options (2010: 77,530,000 options), 30,110,000 options (2010: 14,650,000 options) were exercisable. Options exercised in 2011 resulted in 8,397,000 shares (2010: 100,000 shares) being issued at a weighted average price of HK$0.71 each (2010: HK$0.68 each). The related weighted average share price at the time of exercise was HK$1.18 (2010: HK$0.77) per share.

(Amounts expressed in thousands of RMB unless otherwise stated)

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

(b) Share options *(Continued)*

The fair value of the options granted during the year ended 31 December 2011 is determined using the Black-Scholes Option Pricing Model. The major assumptions used in the pricing model for options granted on 20 May 2011 and 25 July 2011 were the exercise price shown above, and the other parameters are shown below:

Parameters	**Option granted on 2011**
Share price as of the valuation date (HK$)	1.45-1.49
Expected dividend yield	1.00%
Maturity Years	2.0-3.5
Risk Free Rate	0.46%-1.04%
Annualised volatility	41.32%-59.41%

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was HK$0.46 per option (2010: HK$0.31). The volatility measured at the standard deviation of continuously compounded share returns is derived from historical volatility of the share price over the last 2.5 years.

The total expense recognised in the income statement for the year ended 31 December 2011 for share options amounted to RMB9,870,000 (year ended 31 December 2010: RMB7,307,000), with a corresponding amount credited in capital reserve.

(Amounts expressed in thousands of RMB unless otherwise stated)

16. RESERVES

	Group						
	Share premium	**Capital reserve**	**Statutory reserve**	**Hedging reserve**	**Retained earnings**	**Exchange differences**	**Total**
As at 31 December 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 30)	(18,000)	—	—	—	—	—	(18,000)
As at 31 December 2010	612,035	325,846	36,510	(1,102)	445,989	(2,684)	1,416,594
Profit for the year	—	—	—	—	77,344	—	77,344
Exchange differences	—	—	—	—	—	(6,813)	(6,813)
Cash flow hedges	—	—	—	1,102	—	—	1,102
Share option scheme (Note15(b))	—	9,870	—	—	—	—	9,870
Share option exercised (Note15(b))	6,992	(2,756)	—	—	—	—	4,236
Disposal of subsidiaries (a)	—	4,590	(2,496)	—	297	—	2,391
Transfer to statutory reserves (b)	—	—	6,632	—	(6,632)	—	—
Dividends (Note 30)	(39,426)	—	—	—	—	—	(39,426)
Other	—	2,717	—	—	—	—	2,717
As at 31 December 2011	579,601	340,267	40,646	—	516,998	(9,497)	1,468,015

(a) In 2011, the Group disposed Beijing Foyou Engineering Technology Limited（北京佛友工程技術有限責任公司，'Foyou Tech'）and 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'）.

As for the disposal of Foyou Tech, 95% of Foyou Tech's shares were sold to a third party at a consideration of RMB 4,845,000. Foyou Tech does not have any major business besides holding 10% of the equity interest of Anton TongAo, a subsidiary of the Group. As a result, the Group transferred 9.5% share of Anton Tong'ao to third party with no control lost. Accordingly the disposal loss of RMB4,590,000 are recorded in equity.

(Amounts expressed in thousands of RMB unless otherwise stated)

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 the balance of such reserve fund reaches 50% of each entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or increase capital after approval. However, except for offsetting prior years' losses, the statutory reserve fund must be maintained at a minimum of 25% of share capital after such usage. For the year ended 31 December 2011, 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 2009	629,918	2,923,858	(71,163)	3,482,613
Share option scheme	—	7,307	—	7,307
Share option exercised	117	(67)	—	50
Loss for the year	—	—	(19,024)	(19,024)
Dividends	(18,000)	—	—	(18,000)
As at 31 December 2010	612,035	2,931,098	(90,187)	3,452,946
Share option scheme (Note 15(b))	—	9,870	—	9,870
Share option exercised (Note 15(b))	6,992	(2,756)	—	4,236
Loss for the year	—	—	(14,019)	(14,019)
Dividends (Note 30)	(39,426)	—	—	(39,426)
As at 31 December 2011	579,601	2,938,212	(104,206)	3,413,607

(Amounts expressed in thousands of RMB unless otherwise stated)

17. BORROWINGS

	As at 31 December	
	2011	2010
Long-term borrowings		
– Secured bank borrowings (a)	**5,003**	34,822
Less: Amount due within one year under current liabilities	**(5,003)**	(34,822)
	—	—
Short-term borrowings		
– Unsecured bank borrowings (b)	**160,000**	50,000
– Secured bank borrowings (b)	**155,000**	100,000
	315,000	150,000

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

(b) As at 31 December 2011, short-term bank borrowings were all denominated in RMB, bearing interest rate ranging from 6.060% to 7.872% per annum (31 December 2010: from 4.779% to 5.355%). RMB105,000,000 were secured by trade receivables of the Group (Note 12), RMB50,000,000 were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd., a third party, with the Group's buildings amounted to RMB37,742,000 and land use right amounted to RMB13,022,000 pledged as counter-guarantee (Notes 6 and 7) (31 December 2010: Nil).

As at 31 December 2011, the undrawn bank facilities of the Group amounted to approximately RMB592 million (31 December 2010: RMB481million), with maturity date from July 2012 to February 2013.

18. DERIVATIVE FINANCIAL LIABILITIES

	As at 31 December	
	2011	2010
Interest rate swap	**23**	609
Foreign exchange forward contract	**(23)**	493
	—	1,102

Anton Oil entered into an interest rate swap contract and a foreign exchange forward contract with Hang Seng Bank (China) Limited Beijing Branch in May 2010 and 2011, for the purpose of hedging the cash flow interest rate risk and foreign exchange risk associated with its long-term borrowing (Note 17). Both derivative contracts have been designated for cash flow hedge.

(Amounts expressed in thousands of RMB unless otherwise stated)

19. TRADE AND NOTES PAYABLES - GROUP

	As at 31 December	
	2011	2010
Trade payables	**217,765**	190,994
Trade payables to a related party (Note 33(c))	**—**	9,223
Notes payables	**40,026**	18,199
	257,791	218,416

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

	As at 31 December	
	2011	2010
Less than 1 year	**241,681**	202,207
1 - 2 years	**10,843**	13,114
2 - 3 years	**3,142**	1,294
Over 3 years	**2,125**	1,801
	257,791	218,416

Trade and notes payable were denominated in the following currencies:

	As at 31 December	
	2011	2010
RMB	**226,876**	148,819
US$	**30,915**	69,597
	257,791	218,416

20. ACCRUALS AND OTHER PAYABLES – GROUP AND COMPANY

	As at 31 December			
	Group		Company	
	2011	2010	**2011**	2010
Customer deposits and receipts in advance	**14,012**	18,806	**—**	—
Accrued expenses	**5,308**	5,860	**2,520**	2,589
Payroll and welfare payable	**11,030**	12,119	**31**	66
Taxes other than income taxes payable (a)	**53,722**	22,737	**—**	—
Consideration for acquisition of subsidiaries	**13,960**	17,960	**—**	—
Amounts due to subsidiaries (b)	**—**	—	**47,984**	44,828
Others	**25,820**	35,489	**—**	1,282
	123,852	112,971	**50,535**	48,765

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

21. OTHER LONG-TERM PAYABLE

As at 31 December 2011, other long-term payable represents sale and leaseback liabilities.

	As at 31 December	
	2011	2010
Gross sale and leaseback liability		
No later than 1 year	**12,509**	—
Later than 1 year and no later than 3 years	**15,723**	—
Present value of sale and leaseback liability	**28,232**	—
Future finance charges on sale and leaseback	**(2,489)**	—
Present value of sale and leaseback liability	**25,743**	—

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

	As at 31 December	
	2011	2010
No later than 1 year	**10,896**	—
Later than 1 year and no later than 3 years	**14,847**	—
	25,743	—

(Amounts expressed in thousands of RMB unless otherwise stated)

22. DEFERRED INCOME TAX - GROUP

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

	As at 31 December	
	2011	2010
Deferred tax assets:		
– Deferred tax asset to be recovered within 12 months	**17,643**	3,008
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**331**	1,525
– Deferred tax liabilities to be settled within 12 months	**626**	625
	957	2,150

Deferred tax liabilities:

	Acquisition of subsidiaries	**Withholding tax from investment income**	**Total**
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
Credited to the income statement	(626)	(567)	(1,193)
As at 31 December 2011	530	427	957

As at 31 December 2011, deferred income tax liabilities of RMB24,658,000 (31 December 2010: RMB25,082,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries in the PRC. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(Amounts expressed in thousands of RMB unless otherwise stated)

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

Deferred tax assets:

	Tax losses	Impairment provision of receivables and inventories	Total
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
Credited to the income statement	13,122	1,513	14,635
As at 31 December 2011	13,871	3,772	17,643

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 RMB605,000 (31 December 2010: RMB1,669,000) in respect of losses amounting to RMB2,952,000 (31 December 2010: RMB7,101,000) that can be carried forward against taxable income as the Group considered the realisation of sufficient profit in the relevant subsidiaries is not probable.

23. REVENUE

Revenue by category is analysed as following:

	Year ended 31 December	
	2011	2010
Sales of goods	**367,078**	554,061
Sales of services	**891,831**	396,654
	1,258,909	950,715

(Amounts expressed in thousands of RMB unless otherwise stated)

24. EXPENSE BY NATURE

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

	Year ended 31 December	
	2011	2010
Gains on disposal of property, plant and equipment	**(236)**	(341)
Addition for impairment of receivables	**13,167**	6,278
Reversal for impairment of receivables	**(2,433)**	—
Sales tax and surcharges	**28,005**	18,619
Depreciation	**48,783**	44,530
Amortisation of intangible assets and land use rights	**10,213**	6,297
Research and development expense	**41,867**	12,633
Other selling, general and administrative expenses	**115,369**	73,059
Auditor's remuneration	**3,400**	3,400

25. OTHER GAINS, NET

	Year ended 31 December	
	2011	2010
Government grants and subsidies	**5,169**	646
Loss on disposal of subsidiaries	**(3,066)**	—
Others	**52**	(71)
	2,155	575

26. FINANCE COSTS, NET

	Year ended 31 December	
	2011	2010
Interest income	**2,254**	3,119
Interest expenses on bank borrowings	**(14,877)**	(3,597)
Interest expenses on sale and leaseback liability	**(851)**	—
Exchange loss, net	**(593)**	(1,590)
Others	**(2,027)**	(629)
	(16,094)	(2,697)

(Amounts expressed in thousands of RMB unless otherwise stated)

27. STAFF COSTS

	Year ended 31 December	
	2011	2010
Wages, salaries and allowances	**110,206**	99,522
Housing subsidies (a)	**4,171**	2,563
Contributions to pension plans (b)	**9,212**	4,937
Share option costs		
– equity settled share based payment (Note 15(b))	**9,870**	7,307
Welfare and other expenses	**2,393**	9,204
	135,852	123,533

(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.

(c) Emoluments of directors and five highest paid individuals

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

27. STAFF COSTS *(Continued)*

(c) Emoluments of directors and five highest paid individuals *(Continued)*

	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

* 6,900,000 share options on aggregate were granted to three independent non-executive directors in February 2008, April 2009 and May 2011, with total expense recognised in the income statement for the year ended 31 December 2011 amounted to RMB315,000 (for the year ended 31 December 2010: RMB420,000) which are not included in this summary.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2010: three) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the other three (2010: two) individuals during the year are as follows:

	Year ended 31 December	
	2011	2010
Basic salaries, housing allowances, other allowances and benefits-in-kind	**2,634**	1,271
Contributions to pension schemes	**45**	19
	2,679	1,290

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
Emoluments bands		
RMB nil – RMB 1,000,000	**2**	2
RMB 1,000,000 – RMB 1,500,000	**1**	—
	3	2

(e) During the years ended 31 December 2011 and 2010, no directors or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

28. INCOME TAX EXPENSE

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

PRC enterprise income tax ('EIT') is provided on the basis of the profits of the PRC established subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for the subsidiaries of the Group was 25% in 2011 (for the year ended 31 December 2010: 25%), based on the relevant PRC tax laws and regulations, except for certain subsidiaries which are taxed at preferential tax rates as detailed below. The statutory income tax is assessed on an individual entity basis, based on their results of operations. The commencement dates of tax holiday period of each entity are individually determined.

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

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

Pursuant to Lun Guo Shui Jian Tong Deduction Bei Zi (2011) No.10 issued by the State Administration of Taxation, Luntai County office, Xinjiang Tong'ao has been granted a preferential rate of 15% during 2011 as an enterprise set up in the western area of the PRC.

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

(Amounts expressed in thousands of RMB unless otherwise stated)

28. INCOME TAX EXPENSE *(Continued)*

The applicable EIT tax rates of the group companies during the years ended 31 December 2011 and 2010 are detailed as follows:

	Year ended 31 December	
	2011	2010
The Company	**—**	—
Anton Oil	**15%**	15%
Xinjiang Tong'ao	**15%**	15%
Tongsheng Well	**15%**	7.5%
Anton Tong'ao	**15%**	—
Anton Machine	**25%**	25%
Xinjiang Foyou	**25%**	*
Hinen-Hitech	**15%**	15%
Huarme	**25%**	25%
Jilin Dongxin	**25%**	25%
Shandong Precede	**15%**	15%
Anton Energy Services Corp.	**29.5%**	29.5%
Anton International	**16.5%**	16.5%
Pure Energy	**16.5%**	16.5%
Qingdao Precede	**25%**	25%
Dongying Research Centre	**25%**	25%
Anton HSK	**20%**	20%
Anton Dubai	**—**	—
Sichuan Anton	**25%**	25%
Anton Sudan	**35%**	35%
Roxxon Hong Kong	**16.5%**	16.5%
RockWell	**16.5%**	16.5%
T&C	**16.5%**	16.5%
Anton Oil Tech	**16.5%**	16.5%
Anton Software	**25%**	25%
Anton Houston	**15%**	15%
Anton Iran	**25%**	25%
Tianjin Trading	**25%**	N/A
Tianjin Machine	**25%**	N/A
Tianjin Investment	**25%**	N/A
DMCC	**—**	N/A
SAS	**33%**	N/A

* The EIT of Xinjiang Foyou was calculated as profit before tax multiplied by 25% in the current year. In 2010, the EIT was levied at 25% of the approved taxable income which was calculated as total revenue multiplied by 8%.

(Amounts expressed in thousands of RMB unless otherwise stated)

28. INCOME TAX EXPENSE *(Continued)*

	Year ended 31 December	
	2011	2010
Current income tax		
– PRC income tax	**21,716**	16,467
– Others	**14,961**	2,600
Deferred income tax (Note 22)		
– Deferred tax relating to the origination and reversal of temporary differences	**(15,828)**	(2,698)
	20,849	16,369

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	
	2011	2010
Profit before income tax	**112,517**	142,295
Tax calculated at applicable tax rates	**28,244**	27,428
Preferential tax rates and tax exemption on the income of certain subsidiaries	**(6,437)**	(10,307)
Income not subject to taxation	**(15,783)**	(3,306)
Expenses not deductible for taxation purposes	**4,726**	2,138
Additional deduction of research and development expense	**(3,495)**	(2,392)
Tax losses for which no deferred income tax asset was recognised	**605**	1,669
Utilisation of previously unrecognised tax losses	**(685)**	(891)
Withholding tax from undistributed profit	**—**	297
Withholding tax from overseas income	**13,810**	2,310
Others	**(136)**	(577)
Income tax expense	**20,849**	16,369

(Amounts expressed in thousands of RMB unless otherwise stated)

29. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	**77,344**	116,655
Weighted average number of ordinary shares in issue (thousands of shares)	**2,098,430**	2,093,079
Basic earnings per share (expressed in RMB per share)	**0.0369**	0.0557

(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 2011, 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 2011 to 31 December 2011) 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	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	**77,344**	116,655
Weighted average number of ordinary shares in issue (thousands of shares)	**2,098,430**	2,093,079
Adjustments for assumed conversion of share options (thousands of shares)	**20,780**	1,110
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	**2,119,210**	2,094,189
Diluted earnings per share (expressed in RMB per share)	**0.0365**	0.0557

(Amounts expressed in thousands of RMB unless otherwise stated)

30. DIVIDENDS

The dividends paid in 2010 and 2011 were RMB18,000,000 (RMB0.0086 per ordinary share) and RMB39,426,000 (RMB0.0188 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 2011 of RMB0.0170 per ordinary share, amounting to a total dividend of RMB35,700,000, is recommended by the directors on 23 March 2012, 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.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31 December	
	2011	2010
Profit for the year	**91,668**	125,926
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 24)	**48,783**	44,530
– net gain on disposals (Note 24)	**(236)**	(341)
Amortisation of land use rights and intangible assets (Note 24)	**10,213**	6,297
Addition of impairment of receivables (Note 24)	**10,734**	6,278
Charge of share option scheme (Note 15(b))	**9,870**	7,307
Loss on disposal of subsidiaries (Note 25)	**3,066**	—
Share of loss of a jointly controlled entity	**14,320**	424
Impairment loss of long-term investment in a jointly controlled entity	**31,924**	—
Net foreign exchange loss (Note 26)	**593**	1,590
Interest income (Note 26)	**(2,254)**	(3,119)
Interest expenses on bank borrowings (Note 26)	**14,877**	3,597
Interest expenses on sale and leaseback liability (Note 26)	**851**	—
Income tax expense	**20,849**	16,369
Changes in working capital:		
Inventories	**(7,106)**	(53,810)
Trade and notes receivables	**(11,101)**	(246,851)
Prepayments and other receivables	**(19,065)**	3,349
Trade and notes payables	**26,572**	83,371
Accruals and other payables	**17,658**	42,873
Restricted bank deposits	**(1,673)**	(1,536)
Net cash inflows from operations	**260,543**	36,254

(Amounts expressed in thousands of RMB unless otherwise stated)

32. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2011	2010
Contracted but not provided for		
– Property, plant and equipment	**222,814**	45,400
	222,814	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	
	2011	2010
No later than 1 year	**5,925**	7,597
1 to 2 years	**2,013**	5,440
2 to 3 years	**800**	1,644
3 to 4 years	**533**	800
4 to 5 years	**—**	533
	9,271	16,014

33. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management 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 2011 and 2010:

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

(Amounts expressed in thousands of RMB unless otherwise stated)

33. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

	Year ended 31 December	
	2011	2010
Purchases of goods		
Northern Heavy	**6,105**	53,674
Sales of goods		
Northern Heavy	**859**	620

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

(c) Balances with related parties

	As at 31 December			
	Group		Company	
	2011	2010	**2011**	2010
Prepayments and other receivables				
Northern Heavy (Note 13)	**415**	5,861	**—**	—
Trade and notes receivables				
Northern Heavy (Note 12)	**—**	1,175	**—**	—
Trade payable				
Northern Heavy (Note 19)	**—**	9,223	**—**	—

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

(d) Key management compensation

	Year ended 31 December	
	2011	2010
Salaries and other short-term employee benefits	**7,914**	6,472
Pension scheme	**120**	93
Share-based payments	**3,480**	128
	11,514	6,693

34. SUBSEQUENT EVENTS

On 23 March 2012, the directors of the Company proposed to distribute RMB35,700,000 dividend for the year ended 31 December 2011. This dividend is subject to the approval of shareholders at the annual general meeting.