安東石油
Antonoil

安 東 油 田 服 務 集 團
Anton Oilfield Services Group
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3337)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

Revenue of the Group rose 32.4% from RMB950.7 million in the same period of 2010 to RMB1,258.9 million in 2011. Profit attributable to equity holders of the Company decreased by 33.8% from RMB116.7 million in the same period of 2010 to RMB77.3 million in 2011.

The proposed dividend is RMB0.0170 per share.

RESULTS

The board of directors (the "Board") of Anton Oilfield Services Group (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011 (the "reporting period") with comparative figures for 2010, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

		Year ended 31 December	
	Note	**2011**	2010
		RMB'000	*RMB'000*
Revenue	4	**1,258,909**	950,715
Other gains, net		**2,155**	575
Operating costs			
Materials and services cost		**(571,878)**	(395,050)
Staff costs		**(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	5	**174,855**	145,416
Interest income		**2,254**	3,119
Finance expenses		**(18,348)**	(5,816)
Finance costs, net	6	**(16,094)**	(2,697)
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
Income tax expense	7	**(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	8	**0.0369**	0.0557
- Diluted	8	**0.0365**	0.0557
Dividends	11	**35,700**	39,400

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit for the year	**91,668**	125,926
Other comprehensive income/(loss), net of tax:		
Cash flow hedges	**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

CONSOLIDATED BALANCE SHEETS

AS AT 31 DECEMBER 2011

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

CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS AT 31 DECEMBER 2011

	Note	**As at 31 December** **2011** *RMB'000*	2010 *RMB'000*
LIABILITIES			
Non-current liabilities			
Other long-term payable		**14,847**	—
Deferred income tax liabilities		**957**	2,150
		15,804	2,150
Current liabilities			
Short-term borrowings		**315,000**	150,000
Current portion of long-term borrowings		**5,003**	34,822
Current portion of other long-term payable		**10,896**	—
Derivative financial liabilities		**—**	1,102
Trade and notes payables	10	**257,791**	218,416
Accruals and other payables		**123,852**	112,971
Current income tax liabilities		**29,177**	20,892
		741,719	538,203
Total liabilities		**757,523**	540,353
Total equity and liabilities		**2,497,620**	2,190,914
Net current assets		**798,979**	808,644
Total assets less current liabilities		**1,755,901**	1,652,711

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**Year ended 31 December 2011** *RMB'000*	2010 *RMB'000*
Cash flows from operating activities			
Net cash inflows from operations	12	**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		**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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.

(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.

(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.

- 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.

3. SEGMENTATION 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.

	Down-hole operation RMB'000	Well completion RMB'000	Drilling technology RMB'000	Tubular services RMB'000	Total RMB'000
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)

	Down-hole operation RMB'000	Well completion RMB'000	Drilling technology RMB'000	Tubular services RMB'000	Total RMB'000
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
	RMB'000	*RMB'000*
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

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

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
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
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
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

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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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.

4. REVENUE

Revenue by category is analysed as following:

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Sales of goods	**367,078**	554,061
Sales of services	**891,831**	396,654
	1,258,909	950,715

5. EXPENSE BY NATURE

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

	Year ended 31 December 2011 RMB'000	2010 RMB'000
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

6. FINANCE COSTS, NET

	Year ended 31 December 2011 RMB'000	2010 RMB'000
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)

7. 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.

Income tax expense comprised:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Current income tax		
- PRC income tax	**21,716**	16,467
- Others	**14,961**	2,600
Deferred income tax		
- Deferred tax relating to the origination and reversal of temporary differences	**(15,828)**	(2,698)
	20,849	16,369

8. 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

9. TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables, net (a)	**647,212**	663,354
Trade receivables from a related party	**—**	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**
	RMB'000	*RMB'000*	*RMB'000*
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**
	RMB'000	*RMB'000*	*RMB'000*
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 never 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.

(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 (31 December 2010: Nil).

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

	2011	2010
	RMB'000	*RMB'000*
As at 1 January	**10,674**	7,217
Additions	**12,294**	4,843
Reversal	**(1,454)**	—
Dispose of a 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'000	*RMB'000*
RMB	**585,138**	579,402
US$	**85,821**	92,591
	670,959	671,993

10. TRADE AND NOTES PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade payables	**217,765**	190,994
Trade payables to a related party	**—**	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
	RMB'000	*RMB'000*
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'000	*RMB'000*
RMB	**226,876**	148,819
US$	**30,915**	69,597
	257,791	218,416

11. 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.

12. 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
	RMB'000	*RMB'000*
Profit for the year	**91,668**	125,926
Adjustments for:		
Property, plant and equipment		
-depreciation charge	**48,783**	44,530
-net gain on disposals	**(236)**	(341)
Amortisation of land use rights and intangible assets	**10,213**	6,297
Addition of impairment of receivables	**10,734**	6,278
Charge of share option scheme	**9,870**	7,307
Loss on disposal of subsidaries	**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	**593**	1,590
Interest income	**(2,254)**	(3,119)
Interest expenses on bank borrowings	**14,877**	3,597
Interest expenses on sale and leaseback liability	**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

MANAGEMENT DISCUSSION AND ANALYSIS

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 international 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 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 acknowledgment 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 (%)	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 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% 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	Falling into business cluster	2011	2010	Change proportion	Accounting for total revenue	
		(RMB Million)	*(RMB Million)*	*(%)*	*2011*	*2010*
Multistage fracking service	Down-holeoperation	272.1	221.4	22.9%	21.6%	23.3%
Coiled tubing service	Down-holeoperation	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, i.e. section- 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, revenues 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 continuously 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 to 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 tools product and service, 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% 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 changed 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 the 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% 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 Group established the 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 a 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.

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. 5million 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 units. 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 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 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 provided 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 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 research and development projects with great breakthroughs, during the reporting period, the Group also made investment in the 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 with the development of both domestic and overseas markets. Domestically, in order to meet the grossing 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 the South America.

The Group will maintain the product strategy that emphasizes on 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 assets. 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 share management responsibility, 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 assets, 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 expense in 2011 was 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 cash 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 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.

FINAL 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 approximately RMB39.4million).

If approved in 2012 AGM, the said dividend will be paid on or about 13 June 2012 to shareholders whose names appear on the register of members of the Company on 1 June 2012.

The dividend proposed subsequent to the balance sheet date has not been recognized as a liability at the balance sheet date.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 23 May 2012 to Friday, 25 May 2012, both days inclusive, during which period no share transfers will be registered. In order to be eligible for attending and voting at the 2012 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 22 May 2011.

The register of members will be closed from Thursday, 31 May 2012 to Friday, 1 June 2012, both days inclusive, during which period no share transfers will be registered. In order to be entitled to the payment of dividend (subject to approval at the 2012 AGM), all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 30 May 2011.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") under Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong

Limited (the “Listing Rules”) during the year ended 31 December 2011, except for the following deviation:

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 and Chief Executive Officer. Mr. Luo Lin served as both Chairman and Chief Executive Officer of the Company during the reporting period. Mr. Luo was the main founder of the Group. He was responsible for the operational management of the Group since our establishment and was instrumental to the development of the Group. Mr. Luo possesses rich petroleum industry experience and excellent operational management ability. The Board of Directors is of the view that continuing to engage Mr. Luo Lin to serve as Chief Executive Officer of the Company at this stage will safeguard the continuity of our operational management and can protect shareholders’ interest.

DIRECTORS’ SECURITIES TRANSACTIONS

The Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) under Appendix 10 of the Listing Rules as the code of practice for carrying out securities transactions by the Company’s 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 period.

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.

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 existing 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.

By order of the Board
Anton Oilfield Services Group
LUO Lin
Chairman

Hong Kong, 23 March 2012

As at the date of this announcement, the executive Directors of the Company are Mr. Luo Lin, Mr. Wu Di and Mr. Liu Enlong; and the independent non-executive Directors are Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai.