安東石油
Antonoil

# Anton Oilfield Services Group
# 安東油田服務集團

*(incorporated in the Cayman Islands with limited liability)*
(Stock Code : 3337)

幫助別人成功
自己就能成功
We succeed by helping
others to succeed

INTERIM REPORT 2011

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Zhang Yongyi
Mr. Zhu Xiaoping
Mr. Wang Mingcai

## AUDIT COMMITTEE

Mr. Zhu Xiaoping *(Chairman)*
Mr. Zhang Yongyi
Mr. Wang Mingcai

## REMUNERATION COMMITTEE

Mr. Wang Mingcai *(Chairman)*
Mr. Zhu Xiaoping
Mr. Luo Lin

## NOMINATION COMMITTEE

Mr. Zhang Yongyi *(Chairman)*
Mr. Wang Mingcai
Mr. Luo Lin

## AUTHORIZED REPRESENTATIVES

Mr. Luo Lin
Mr. Ngai Wai Fung

## COMPANY SECRETARY

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

## COMPANY'S WEBSITE

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## INVESTOR RELATIONS HOTLINE

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Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN PRC

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Chaoyang District, Beijing, China 100102

## REGISTERED OFFICE

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Grand Cayman KY1-1104
Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
PO Box 75
George Town
Grand Cayman KY1-1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
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Wanchai
Hong Kong

## AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

## LEGAL ADVISERS

*as to Hong Kong and U.S. law:*
Sidley Austin

*as to PRC law:*
Tian Yuan Law Firm

*as to Cayman Islands law:*
Maples and Calder

## PRINCIPAL BANKS

China Merchants Bank
Shanghai Pudong Development Bank
Bank of Beijing

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

3337

## DATE OF LISTING

14 December 2007

# Management Discussion and Analysis

## BUSINESS REVIEW

In the first half of 2011, the domestic and overseas oilfield service industry continued to see a growth trend. During the first half of the year, with the successful implementation of its "follow-up" strategy in the overseas market, Anton Oilfield Services Group (the "Company") and its subsidiaries (collectively referred to as the "Group") have become an indispensable technical cooperation partner to its customers, thereby achieving rapid growth in the overseas market during the period. In the meantime, since the Group focused on the target market of natural gas development in the domestic market, it benefited from the strong growth of natural gas consumption in China and the ongoing investments in the natural gas industry by its customers and thus continued to maintain strong growth momentum during the period. Total revenue for the reporting period rose from RMB337.5 million in the same period of 2010 to RMB526.4 million, representing an increase of approximately 56.0%. During the first half of the year, operating profit of the Group amounted to RMB82.7 million, representing an increase of RMB22.3 million or approximately 36.9% as compared with RMB60.4 million in the same period of 2010. Profit after tax amounted to RMB56.2 million, representing an increase of RMB10.1 million or approximately 21.9% as compared with RMB46.1 million in the same period of 2010. The increase in profit was lower than the increase in revenue mainly because the Group had increased its investment in research and development and proactively adjusted its financial structure with a corresponding increase in finance costs, and its investee, 北重安東機械製造有限公司 (Northern Heavy Anton Machinery Manufacturing Co., Ltd) ("Northern Heavy Anton"), recorded losses. If the effect of these factors had been removed, the profitability of the Group's principal businesses in fact would have increased.

Under its strategic positioning as an oil and gas field development technical service company based on wellbore technologies in the current stage, the Group continued to focus on providing oil and gas field development technical services of drilling, well completion, down-hole operation and oil production, while developing its tubular business independently. In the first half of 2011, oil and gas field development technical services accounted for 84.6% of the Group's revenue, while the tubular business accounted for 15.4%. In 2010, the Group launched the integrated general contracting service model, which was well-received by the market. In the first half of 2011, the Group realized revenue from the integrated general contracting service model of RMB31.1 million. In the meantime, the investment-driven business development model of the Group was growing mature. During the first half of 2010, the Group established an independent equipment service department and invested in featured down-hole operation equipmens for the provision of equipment services to customers. As of 30 June 2011, the Group made cumulative investments of RMB159.1 million and set up three coiled tubing teams and seven tubular helium testing service teams. Currently, with various equipments successively being put in place and in operation, revenue realised by the equipment service division in the first half of 2011 amounted to RMB104.7 million, representing significant growth from RMB16.6 million in the same period of the prior year. To capture the opportunities in China's natural gas development, the Group also established an oil and gas field development department, and intends to establish project companies to participate in unconventional natural gas blocks transferral tenders in the PRC. If the Group makes a successful bid in the future, the Group will invest in the blocks in the capacity of project manager through project financing. In the meantime, the Group will become the major technical service partner of these blocks for the provision of integrated technical services that are necessary for their development. By doing so, the Group plans to secure upstream resources to develop its foreseeable customer base in the long run, thus directly accelerating its business growth.

For the six months ended 30 June 2011, the Group's revenue by division was as follows:

**Revenue by division (%)**

| | Six months ended 30 June 2011 | 2010 |
|---|---|---|
| **1. Oil and gas development technical services** | **84.6%** | 74.0% |
| 1.1 Well completion | **25.9%** | 39.4% |
| 1.2 Down-hole operation | **42.8%** | 28.8% |
| 1.3 Drilling technology | **15.9%** | 5.8% |
| **2. Tubular services** | **15.4%** | 26.0% |
| Total | **100%** | 100% |

## WELL COMPLETION

In the first half of 2011, the Group's well completion technology cluster maintained steady growth with its revenue up approximately 2.5% to RMB136.4 million in the first half of 2011 from RMB133.1 million in the same period of 2010. EBITDA decreased by approximately 23.8% to RMB48.0 million in the first six months of 2011 from RMB63.0 million in the same period of 2010 due to a rise in materials and services costs and greater investments in new product development. The Group had set up an oil and gas well tool centre aiming to achieve cost reduction through more investments in research and development of new products.

### Integrated Well Completion Technology

In the first half of 2011, revenue from the Group's integrated well completion technical services increased by approximately 18.0% to RMB47.1 million from RMB39.9 million in the same period of 2010 due to their development in the domestic and overseas markets. With the commencement in the construction of gas storage facilities in China and the expansion of the overseas market, the integrated well completion technology is expected to grow in the second half of 2011.

### Sand Screen Well Completion Technology and Production Tools

In the first half of 2011, the quantity of sand screens used in sand screen well completion technology services decreased by approximately 48.1% to 6,489 meters from 12,512 meters in the same period of 2010 due to the postponement of certain projects to the second half of the year. Revenue decreased by approximately 37.4% to RMB16.1 million in the first half of 2011 from RMB25.7 million in the same period of 2010. Performance of our sand screen well completion technical services will improve after the launch of those projects in the second half of 2011. In the first half of 2011, the Group continued to provide oilfield customers with tools required in the production process. Revenue from this business line increased by approximately 5.6% to RMB11.4 million in the first half of 2011 from RMB10.8 million in the same period of 2010.

### Gravel Packing Well Completion Technology

In the first half of 2011, Shandong Precede Petroleum Technology Co., Ltd., a subsidiary of the Group, continued to post stable growth with revenue increased by approximately 9.0% to RMB61.8 million in the first half of 2011 from RMB56.7 million in the same period of 2010. Its gravel packing well completion technical service continued to capture a leading position in the market. In addition to the Shengli, Henan and Jidong markets, it also entered into the Liaohe and Xinjiang markets.

## DOWN-HOLE OPERATION

The Group's down-hole operation cluster achieved multifold growth with revenue up by approximately 131.9% to RMB225.2 million in the first half of 2011 from RMB97.1 million in the same period of 2010 because the down-hole operation equipments invested by the Group were operating at full capacity upon being put in place on site, which was led by consistent demand from the customers for domestic natural gas development and production capacity expansion of overseas oilfields. EBITDA increased from RMB47.3 million in the same period of 2010 to RMB116.7 million in the first half of 2011, representing an increase of approximately 146.7%.

### Down-hole Operation (Production Enhancement Service)

In the first half of 2011, the down-hole operation (production enhancement service) division maintained steady growth, with its revenue amounting to RMB120.5 million in the first half of 2011, representing an increase of RMB40.0 million or approximately 49.7% from RMB80.5 million in the same period of 2010.

After the successful marketing of the horizontal well multistage fracture production enhancement technology of the Group in 2010, the Group, in the first half of 2011, continued to provide oil companies with such service for tight gas reservoir development and completed the operation for 26 wells, upon which the relevant gas wells achieved consistent elevated productivity, contributing revenue of RMB89.6 million and representing growth of approximately 35.8% from the same period in 2010. Due to our established reputation in that area, in the first half of 2011, the Group successfully won the bid for two historic shale gas horizontal well multistage fracture projects. After bidding for the public tender, solution identification and resource preparation for four months, the Group undertook the fracture operation of Sichuan — Wei X Well that commenced on 25 June 2011. The large scale multistage fracture operation was completed after dedicated work for seven days and nights. Wei X Well was the first shale gas horizontal well fracture well enhancement in China, in which, the latest concept and the most advanced method in terms of, among others, fluid design and multistage fracture technique were applied. New records were also set in terms of the number of horizontal well fracture stages, the fluid volume per well, the number of pieces of fracture equipment and the time for the major fracture operation. The horizontal well multistage fracture operation led by the Group was a milestone in the history of shale gas development in China. The horizontal well multistage fracture production enhancement technology is the most effective means for the development of low permeability and ultra low permeability oil and gas reservoirs such as tight gas and shale gas. Most of the newly discovered natural gas reservoirs in China are gas reservoirs of low permeability. As the demand for natural gas rapidly grows, oil companies will make every effort to develop various natural gas resources, including tight gas and shale gas, thus creating a tremendous market for the horizontal well multistage production enhancement technology of the Group.

During the period under review, revenue from the oil production services, which included chemical EOR (enhanced oil recovery), well flushing services and gas lift management, of the Group was RMB30.9 million, representing growth of approximately 115.5% from the same period in 2010. The Group had established the regional service capacity in response to the local features of the Jilin region and the northwest region.

## Equipment Service

In 2010, the Group set up a separate equipment service division, which covers coiled tubing services, tubular helium testing services as well as the pumping services that are under construction. It also invested in featured down-hole operation equipments to provide its customers with equipment services. As of 30 June 2011, the Group made cumulative investments of RMB159.1 million and set up three coiled tubing teams and seven tubular helium testing service teams. With various equipments being put in place and in operation successively, revenue from the equipment service division increased by about 5.3 times to RMB104.7 million in the first half of 2011 from RMB16.6 million in the same period of 2010.

Currently, all of the three coiled tubing teams of the Group were in operation. The businesses based on the coiled tubing and ancillary equipment technology fully operated in the southwestern China region, Changqing region and the Middle East. They included the technical services such as coiled tubing acidising, coiled tubing gas lift, coiled tubing sandblast, coiled tubing plugging removal, coiled tubing testing and nitrogen making gas lift. In the first half of 2011, revenue from coiled tubing services increased by 17.7 times from the same period in 2010 to RMB89.9 million, of which the coiled tubing business in the Middle East countries recorded revenue of RMB72.7 million, and had signed long-term service contracts with clients. In the meantime, the Group was further developing the new services such as coiled tubing fracture and coiled tubing well completion, which were based on the coiled tubing technology and the related tools. After the successful application of the production enhancement operation technology combining coiled tubing and hydro jet tools developed by the Group in the Daqing region, that technology was also applied in the Shengli region. The Group has been upgrading the technology for nationwide promotion. Compared to the developed markets in North America, the coiled tubing oil and gas reservoir development technology was recently promoted in China, presenting huge potential for further development in the future. The Group is prepared to further invest in four to five sets of coiled tubing and ancillary equipment in response to ever-increasing market demand.

As oil companies attached much more importance to safe production in natural gas wells, the Group’s tubular helium testing technology was rapidly promoted nationwide with revenue growing from RMB11.8 million in the same period of 2010 to RMB21.0 million in the first half of 2011. The Group completed 53 well tests. Currently, the Group’s tubular helium testing technology maintained its leading position in China. With the commencement in the construction of gas storage facilities in China, the tubular helium testing services will continue to realise growth in revenue.

The market demand for the fracture service became increasingly stronger due to the development of the low permeability or ultra low permeability gas reservoirs such as those of tight gas, coal bed methane and shale gas. The Group had prepared to invest in the establishment of its fracture service capacity of 30,000 to 40,000 hydro horsepower in response to the great opportunities arising from natural gas development. Upon completion of the investment, the Group will not only have horizontal well multistage fracture technology and ancillary tools, but also have its own equipment service capacity, thus developing the integrated fracture technical service capacity for enhancing the Group’s competitiveness.

## DRILLING TECHNOLOGY

Since oil companies extensively applied the horizontal well technology in the first half of 2011, revenue from the drilling technology cluster increased by about 3.3 times from RMB19.6 million in the same period of 2010 to RMB83.5 million in the first half of 2011. The EBITDA increased by about 2.8 times to RMB27.4 million in the first half of 2011 from RMB7.3 million in the same period of 2010. As the demand for high-end drilling technologies from oil companies and the demand for integrated drilling service grows, the Group will accordingly make greater investment in directional well apparatus and establish greater integrated technical service capacity. Revenue from the drilling technology cluster is expected to continue to increase in the second half of 2011.

### Directional Well Technology

In the first half of 2011, revenue from the directional well technology division achieved rapid growth and amounted to RMB52.4 million in the first half of 2011, representing an increase of approximately 167.3% from RMB19.6 million in the same period of 2010. In order to speed up building the production capacity of natural gas, oil companies attached much more importance to the horizontal well techniques which had become the most effective means to enhance yield per well. Given this opportunity, the Group made cumulative investment amounting to approximately RMB71.1 million, set up six service teams and successfully applied its drilling technology for directional wells in the regions such as Daqing, Jilin, Southwest China, Karamay and Tarim Basin. In the first half of 2011, the Group had successfully promoted its advanced directional drilling technology and achieved satisfactory operational results in the Daqing region and Jilin region. In the Tarim Basin region, the Group further promoted the directional well technology to be used in high temperature and high pressure ultra-deep horizontal wells and succeeded in completing an operation in a well of more than 7,000 metres deep for the first time. While fully developing the domestic market, the Group began to extend its directional well technical services to the overseas market. In the first half of 2011, the directional well technology, which was successfully applied in Iraq and Kazakhstan, laid the foundation of the Group for the general promotion of such technology in the overseas market.

### Integrated Services

In 2010, the Group established the Integrated Project Business Unit, which is engaged in the provision of integrated technical services covering drilling, well completion and down-hole operation and oil and gas field general contracting services for the total package service markets of, among other things, highly difficult wells including the Carbon Capture and Storage ("CCS") model project and oil and gas field development including general contracting for coal bed methane exploration. In the first half of 2011, revenue amounted to RMB31.1 million, of which, revenue from CCS project was RMB16.9 million. Construction works of the Shenhua Project, which was successfully bid by the Group in August 2010, was completed. In the first half of 2011, the Integrated Project Business Unit commenced operation with a focus on integrated drilling solution, and was entering into the integrated services market of coal bed methane in the Northeastern region and will have better development in the second half of 2011.

## TUBULAR SERVICES

Revenue from the tubular service operations decreased by approximately 7.3% to RMB81.3 million in the first half of 2011 from RMB87.7 million in the same period in 2010. Tubular services under independent development still maintained a service-based development strategy and reduced the sales of drill pipes and collars in terms of business volume. In the first half of 2011, Northern Heavy Anton, an investee of the Group, incurred a loss of RMB11.8 million, and the Group shared a loss of RMB5.9 million in proportion. The tubular services of the Group currently conducted research and development on high-end drilling tools made of new materials with Northern Heavy Anton to build up its new profitability. As the Group made investments to develop, and establish an independent management team, sales network and research and development system for tubular services, tubular services recorded a decrease of approximately 53.0% in EBITDA to RMB15.7 million in the first half of 2011 from RMB33.4 million in 2010 and it will gradually recover in the future.

## MARKETING

In the first half of 2011, the Group encountered favourable market situations and opportunities. For the domestic market, natural gas development and exploration of new blocks remained as the major works of oil companies. The correspondingly developed products and services of the Group such as integrated drilling technical services, directional well technical services, well completion integrated technical services, horizontal well multistage fracture production enhancement services, coiled tubing services and tubular helium testing services achieved better growth. For the overseas market, the "follow-up" strategy of the Group worked very well. The Group had established strategic partnership with Chinese investors overseas, thus resulting in substantial growth of the directional well technical services, well completion integrated technical services, coiled tubing services and tubular technical services. The favourable business development in the domestic and overseas markets laid a solid foundation for the growth during the year.

In the first half of 2011, in terms of the market segments, the contribution of the domestic market accounted for 75.5% of the Group's revenue, amounting to RMB397.4 million, representing an increase of RMB112.2 million or 39.3% as compared to the same period of 2010. The contribution of the overseas market accounted for 24.5% of the Group's revenue, amounting to RMB129.0 million, representing an increase of RMB81.8 million or 173.0% as compared to the same period of 2010. Revenue contributed by the overseas market to the Group continued to increase.

**Revenue from the domestic market by region (%)**

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| North East China | **28.0%** | 32.0% |
| North China | **33.4%** | 36.1% |
| North West China | **23.6%** | 16.6% |
| South West China | **15.0%** | 15.3% |
| Total | **100%** | 100% |

**Revenue from the overseas market by region (%)**

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| The Middle East | **80.8%** | 49.3% |
| Africa | **8.3%** | 7.2% |
| Central Asia | **10.6%** | 35.4% |
| North America | **0.3%** | 8.1% |
| Total | **100%** | 100% |

The Twelfth Five-Year Plan of China's oil companies emphasizes natural gas and overseas developments, which are in line with the Group's target markets - China's natural gas development and the development of overseas oilfields by Chinese investors. In 2011, our target markets consisted of the following characteristics:

## I. China's natural gas development passed through the development phase

1. *Full launch of capacity construction of natural gas*

   In 2011, oil companies in China indicated that efforts were to be stepped up in exploration and speed up capacity construction. In 2015, production volume of natural gas will account for 50% of China's oil and gas volume. In view of this, oil companies had set up their natural gas production plan and production targets for key oilfields, and increased investment in exploration and applied new technologies to solve the difficulties encountered in the course of natural gas development, in order to realise their production plans and targets. These technologies included horizontal well technology to increase daily yield per well, multistage fracture technology suitable for low permeability or ultra-low permeability gas reservoir development, and new well completion technology suitable for complicated environment and new testing technologies to ensure safety in development. In view of these needs, the Group developed and promoted its directional well technical services, integrated well completion technical services, horizontal well multistage fracture technical services, coiled tubing service and tubular helium testing service, which achieved satisfactory results. The full launch of natural gas capacity construction will provide the Group with huge opportunities for development.

2. *Commencement of underground gas storage facilities*

   In 2011, Xinjiang gas storage facilities, Chongqing gas storage facilities and other underground gas storage facilities invested by oil companies in China were under construction. These gas storage facilities, when completed, will be important for the safe and stable gas supply for gas consumption areas. Construction of gas storage facilities has to meet the injection and output conditions, as well as to ensure operation safety. In view of this, the Group promoted its directional well technical services, well completion technical services, sand screen well completion technical services and tubular helium testing services, which achieved satisfactory results. Commencement of underground gas storage facilities construction will provide the Group with huge opportunities for development.

3. *Unconventional natural gas investment becoming an industry trend*

In 2011, unconventional natural gas investment has become an industry trend. State-owned oil companies in China had started to conduct preliminary evaluation work. In the meantime, many international oil companies also announced their plans to invest in China's unconventional natural gas market in the next five years, while other independent investors also actively entered into the market. In the future, the unconventional natural gas industry will become a popular investment for investors. With its advanced technologies, the Group owns the technologies necessary for unconventional natural gas development. In the first half of 2011, the Group completed the multistage fracture works of China's first shale gas horizontal well, which provided oil companies with invaluable experience for resources evaluation in setting out shale gas investment strategies. The Group is an independent oilfield technical service company in China and, as one of the few companies which have the integrated drilling and completion technical service capacity, the Group will benefit from the growing number of investors entering the unconventional natural gas industry and become their major technical support partner.

## II. Rapid development of Chinese investors' overseas businesses

In the first half of 2011, Chinese investors continued to increase their investment overseas and their overseas businesses grew rapidly. In the first half of 2011, in the Middle East, the Al-waha project phase I in Iraq with the annual production capacity of 3 million tons invested by Chinese investors commenced production ahead of schedule, and the Halfaya project in Iraq also entered the preparatory stage of large-scale development; in Central Asia, Chinese investors and local national oil companies signed co-operation agreements to expand the co-operation scale and jointly explore and develop new blocks; in Africa, Chinese investors stepped up efforts in exploration and development, and actively identified new investment opportunities; in South America, the blocks invested by Chinese investors started to implement the preparatory work for the development, and in the meantime, Chinese investors were also planning other new projects in South America, and therefore the region presented huge market potentials.

In line with the implementation of overseas development strategies by Chinese investors, the Group actively expanded its overseas businesses by building up the onsite service capacity to target at the demands of local markets, providing them with timely and comprehensive services and establishing strategic partnership with its customers, and the Group has become its customers' indispensable technical support partner.

## RESEARCH AND DEVELOPMENT

In 2011, the Group continued to conduct research and development based on three major technologies, namely natural gas development technology, horizontal well operation technology and integrated technology. Research and development on natural gas development technology continued to be related to the development of tight gas, coal bed methane and shale gas. Research and development on horizontal well operation technology continued to be related to the demand of operation of horizontal well drilling, horizontal well completion and horizontal well production enhancement. Research and development on integrated technology continued to meet the general contracting needs of highly difficult wells and unconventional gas reservoirs development project blocks.

In the first half of 2011, the Group invested RMB34.1 million in research and development and achieved progress as follows:

For the well completion technology cluster, the Group established an oil and gas well tools centre and placed emphasis on the research and development and continued improvement of well cementing and completion tools, multistage fracture tools as well as the production of well completion tools, and so forth. Meanwhile, the Group also actively searched for international partners through the centre of the Group in Houston, the United States. At present, some international companies of well completion technology have already expressed cooperative intention to the Company on concerted research and development, design and construction of production capacity. The Group has been fostering communication and negotiation with them. In the meantime, the Group had confirmed the construction of a tool laboratory and a tool base in Binhai New Area, Tianjin which was to conduct tool design, test and assembling, while the preliminary planning and design was underway. Apart from research and development on tools, the Group was committed to the research, development and improvement of the multistage well completion technology, intelligent well completion technology, flow adjustment and water control technology, as well as gravel packing technology. During the period under review, the Group obtained 9 related patent rights.

For the down-hole operation (production enhancement service) of the down-hole operation cluster, the major subject of its research in the first half of 2011 was continuing improvement of horizontal well multistage fracture production enhancement technology for tight gas and shale gas reservoirs based on the existing foundation, particularly a series of down-hole operation technology required by the shale gas development. For the equipment service, the major research direction was the coiled tubing operation technology and hydraulic bore horizontal well technology. The research on the coiled tubing operation technology was mainly related to development of various operation functions of coiled tubing. At this stage, the research and development of coiled tubing perforating technology, coiled tubing horizontal well acidisation technology, coiled tubing water drainage and gas production technology and their ancillary tools continued to improve. The hydraulic bore horizontal well technology continued to be applied in different regions. In the first half of 2011, it also entered the on-site operation stage and has been applied in 4 wells resulting in significant production enhancement. The Group improved its ancillary tool and technology. Through the research and development centre of the Group in Houston, the United States, in the first half of 2011, the Group began its exchange with companies of various international technical services in North America on fracture pumping services, coiled tubing services, shale gas technical services and dewatering gas production technical services, in order to prepare for technological collaboration in such areas. During the period under review, the Group obtained 10 related patent rights.

For the drilling technology cluster, the Group primarily conducted research on the needs of drilling acceleration and enhanced reservoir contact, particularly the application of the related technology in horizontal wells. In the meantime, the Group also concentrated on building the service capacity of integrated drilling and undertook research on various kinds of technologies and consumables being required. In the first half of 2011, the Group began its exchange with international technical service companies engaged in directional well drilling and international equipment companies engaged in the development and manufacture of directional well apparatus and tools. Technological collaboration in such areas are expected to be entered into among those companies and the Group. During the period under review, the Group obtained 1 such related patent right.

For the tubular services cluster, the research focus was the technologies in relation to anti-sulfur tubular repair and premium connections repair. Currently, the service capacity of such technologies had been built up, with the advancement of the research and development on special material small-sized drilling tools jointly with the Group's investee, Northern Heavy Anton. During the period under review, the Group obtained 2 such related patent rights.

During the reporting period, the Group obtained 22 related patent rights, increasing the total number of patent rights owned by the Group to 316.

## BUILDING UP OF SERVICE CAPACITIES

Under the guidance of its strategic positioning as an oilfield technical service provider with wellbore technologies as the core, in 2011, the Group formulated its service capacity planning for the next three years. It focused on building up capacities through investments, combining organic self-development with a growth model of merger and acquisition, thus rapidly establishing an integrated structure of service capacities.

For fixed asset investments, the Group will focus on establishing its fracture pumping service capacity, various coiled tubing operation service capacity, tubular helium testing service capacity, directional drilling service capacity and integrated tool design, test and assembling capacity. For merger and acquisition, the Group will focus on investing in companies equipped with featured technologies and capturing leading position in the area of its single technology. The Group will also identify technologically advanced companies overseas which is suitable for investment through joint venture, controlling interest and non-controlling interest by the Group.

In the first half of 2011, the Group approved investment plans of RMB165.8 million, which was mainly used for building up the directional drilling service capacity, coiled tubing and ancillary equipment operation service capacity and tubular helium testing service capacity, and the preliminary investment for various production bases and establishing the on-site service bases in the Middle East countries. The investments will be gradually completed by 2012. In the first half of 2011, the capital expenditure of the Group was RMB107.1 million, of which the fixed asset investment amounted to RMB90.5 million, the intangible investment amounted to RMB12.6 million and the payment for the equity investments in the prior years amounted to RMB4.0 million. In the first half of 2011, the Group set up two new directional drilling service teams and two tubular helium testing service teams and started to set up three coiled tubing service teams, and commenced the establishment of its fracture pumping service capacity. In the presence of industrial bases, the preliminary design and planning for the well completion tool industrial base in Binhai New Area, Tianjin, the down-hole operation industrial base in Suining, Sichuan and the tubular service industrial base in Xinjiang was commenced by the Group. In the overseas market, the Group further enhanced the infrastructure for the Al-Waha project and commenced the preliminary design of the Halfaya base in Iraq.

## HUMAN RESOURCES

In 2011, the Group formulated a mid-to-long term strategic plan for human resources, with a view to continuously enhancing the organisation and human resources structure, searching for top-class talents in the industry and professionals specialised in advanced technologies, recruiting talents from overseas, enhancing talent nurturing and ensuring that we have a stable workforce for the long-term development of the Group. The Group also issued the strategic guidelines on human resources stipulating the following human resources objectives for 2011 in the first half of the year:

The head count of the Group should be increased by 20% to around 1,200. The number of employees engaged in technical services and marketing should be maintained at around 80% of the Group's total number of employees. The structure should be continuously optimised to enhance the capacity for technological research and development and on-site operation. The senior employees at and above the 5th rank (the Group's employees (save 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) should account for about 30% of the Group's total number of employees, i.e. about 360. In 2011, the Group intends to recruit 238 graduates from both domestic and overseas universities; and in 2011, staff costs and human resources expenditures, including training expenses, should account for 15% or below of the Group's revenue.

In the first half of 2011, the human resources works of the Group achieved the following results: Firstly, the organisation of the Group was optimised with steady improvement in human resources efficiency. Secondly, the talent structure of the Group was further optimised with a steady increase in the ratio of technical personnel and staff at qualification above an undergraduate degree. More core high-end technical staff were introduced with increased and improved retention. Thirdly, the Group internally placed much emphasis on selection and training of outstanding talents and core talents for various positions to increase its talent reserves.

As at 30 June 2011, the total number of employees of the Group was 1,127, among which 509 were technicians, 309 were onsite servicemen, 194 were marketing personnel and 115 were management personnel. Among these employees, 635 had qualification above an undergraduate degree. For the Group's employees, those engaged in technical services and marketing accounted for about 83% of the Group's total number of employees, and the employees at and above the 5th rank accounted for about 27%. In the first half of 2011, total staff costs and human resources expenditures including training costs accounted for about 14% of the Group's revenue. In the meantime, 180 graduates were confirmed to join the Group in the second half of the year.

## OUTLOOK

In the second half of 2011, the Group will continue to promote its oil and gas field development technical services including drilling, well completion, down-hole operation and oil production. For the domestic market, the focus will be on the natural gas development, construction of gas storage facilities, and the general contracting services for oil and gas field blocks of state-owned oil companies. The Group will also develop the market of the blocks invested by international oil companies in China as well as the market of the blocks invested by independent investors, so as to promote the rapid development of the Group's domestic operations. For the overseas market, the Group will focus on the Middle East market and expedite the pace of building up its service capacities to meet customer needs, and begin to expand into markets of other overseas countries to promote the Group´s overseas operations.

The Group's major focuses in its work in the second half of 2011 will be to enhance the efficiency of asset utilisation, to boost the building up of its service capacities and to upgrade its operation capacity. The Group will strengthen its working capital management, enhance its asset utilisation and improve its cash flow. It will also actively build up various products and services to prepare and lay a solid foundation for the development for the next two years. The Group will upgrade its operation capacity to ensure that the Group keeps delivering high operation quality while undertaking multiwell operation or implementing complicated operation.

In the first half of 2011, the PRC government strengthened its control over the financial market by raising the required reserve ratio and the benchmark interest rate under the severe domestic macro-economic situations. Despite such situations, the Company as a listed company in Hong Kong with a relatively low gearing ratio, can raise capital through various means both domestically and overseas. In the domestic market, the Group may raise capital by issuing notes in the interbank market and also through financial leasing. In the overseas market, the Group may raise capital through syndicated loans and bond issuance as well as through equity financing in due course, so as to obtain capital for long-term development. In the second half of 2011, the Group will actively utilise its financing platform mainly through debt financing to secure capital for future development, thereby improving the Group's financial structure and enhancing the Group´s return on net assets.

It is expected that the Group will maintain rapid growth momentum for the year of 2011, steering towards its goals of becoming an international leading oilfield technical service company with a strong foothold in China.

## FINANCIAL REVIEW

### Revenue

The Group's revenue in the first half of 2011 amounted to approximately RMB526.4 million, representing an increase of approximately RMB188.9 million or approximately 56.0% from approximately RMB337.5 million in the same period in 2010. Such increase was mainly attributable to the rapid revenue growth of oil and gas field development technical services.

### Materials and services costs

Materials and services costs amounted to approximately RMB227.2 million in the first half of 2011, representing an increase of RMB88.0 million from approximately RMB139.2 million in the same period of 2010, mainly attributable to the rise in business volume and inflation.

### Staff Costs

Staff costs amounted to approximately RMB71.3 million in the first half of 2011, representing an increase of approximately RMB12.5 million or approximately 21.3% from approximately RMB58.8 million for the same period in 2010. Such increase was mainly due to the increase in staff number and the issuance of share options to employees.

## Depreciation and Amortisation

Depreciation and amortisation amounted to approximately RMB31.2 million in the first half of 2011, representing an increase of approximately RMB5.8 million or approximately 22.8% from approximately RMB25.4 million in the same period of 2010. The increase was primarily attributable to an increase in depreciation expenses due to gradual commencement of the Group's service equipment operations since the second half of 2010.

## Other Operating Costs

Other operating costs amounted to approximately RMB107.5 million in the first half of 2011, representing an increase of approximately RMB57.2 million or approximately 113.7% from approximately RMB50.3 million for the same period in 2010. The increase was mainly due to the increase in the research and development expenditure, investments in the overseas market and administration costs.

## Operating Profit

As a result of the abovementioned, the operating profit for the period under review amounted to approximately RMB82.7 million, representing an increase of approximately RMB22.3 million or approximately 36.9% from approximately RMB60.4 million for the same period in 2010.

## Finance Costs (Net)

Finance costs (net) amounted to approximately RMB6.5 million for the period under review, representing an increase of approximately RMB5.0 million compared to RMB1.5 million in the same period of 2010. This was primarily due to the new loans made by the Group, which generated corresponding finance costs.

## Income Tax Expenses

Income tax expenses amounted to approximately RMB15.1 million in the first half of 2011, representing an increase of approximately RMB2.5 million from approximately RMB12.6 million in the same period of 2010, mainly attributable to an increase in aggregate profits before tax of the Group's subsidiaries in China.

## Profit for the Period

As a result of the foregoing, the Group's net profit for the first half of 2011 was approximately RMB56.2 million, representing an increase of approximately RMB10.1 million or approximately 21.9% from RMB46.1 million in the same period of 2010.

## Profit Attributable to Equity Holders of the Group

Profit attributable to equity holders of the Company amounted to approximately RMB50.7 million for the first half of 2011, representing an increase of approximately RMB10.4 million or approximately 25.6% from RMB40.3 million in the same period of 2010.

## Trade Receivables and Trade Payables

As at 30 June 2011, the Group's net trade receivables were approximately RMB787.6 million, representing an increase of approximately RMB123.1 million compared with RMB664.5 million as at 31 December 2010, mainly because of an increase in turnover. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) were 236 days, down by 5 days from 241 days in the same period of 2010. As at 30 June 2011, the Group's net trade payables were RMB193.9 million, representing a decrease of approximately RMB6.3 million from RMB200.2 million as of 31 December 2010. The average trade payables turnover days were 118 days, representing an increase of 12 days as compared with 106 days in the same period of 2010.

## Inventory

As at 30 June 2011, the Group's inventory was approximately RMB282.5 million, representing an increase of approximately RMB17.1 million compared with RMB265.4 million as of 31 December 2010, mainly due to the higher inventory of finished goods as a result of the higher revenue in the reporting period. The turnover of inventory was 165 days, a decrease of 69 days compared to 234 days in the same period of 2010.

## Liquidity and capital resources

As at 30 June 2011, the Group's cash and cash equivalents amounted to approximately RMB192.9 million, representing a decrease of approximately RMB146.4 million compared with RMB339.3 million as of 31 December 2010, mainly because the Group deployed the cash into its operations and capital expenditures.

As at 30 June 2011, the Group's outstanding short-term bank loans amounted to approximately RMB218.0 million. Four domestic Chinese banks granted the Group a credit facility of RMB835.7 million, of which approximately RMB566.5 million has not been utilised.

As at 30 June 2011, the gearing ratio of the Group was 21.6%, representing an increase of 1.6 percentage points compared to the gearing ratio of 20.0% as at 31 December 2010. Such increase was mainly due to the increase of bank loans by the Group. Gearing ratio is calculated as net debt divided by total capital. Net debt includes borrowings and trade payables. Total capital is calculated as equity plus net debt.

The equity attributable to the Company's equity holders increased from RMB1,614.0 million as at 31 December 2010 to RMB1,631.5 million as at 30 June 2011. The increase was mainly due to the profit after tax of the Company recorded during the reporting period.

### 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

Cash outflow from operating activities in the first half of 2011 was approximately RMB63.2 million, compared with approximately RMB59.2 million in the same period of 2010, representing an increase of approximately RMB4.0 million. It was mainly attributable to the increase in operating expenses due to the increase in business volume.

### Captial expenditure and investment

The Group's capital expenditure in the first half of 2011 was approximately RMB107.1 million, primarily for investments in fixed assets, investments in intangible assets and the balance payment for equity investments in prior years.

### 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 30 June 2011, the Group's operating lease commitments amounted to approximately RMB13.4 million.

As at the balance sheet date (30 June 2011), the Group had capital commitments of RMB94.0 million, which was not provided for in the balance sheet.

## INTERIM DIVIDEND

The board of directors (the "Board") of the Company did not recommend the payment of an interim dividend in respect of the six months ended 30 June 2011 (for the six months ended 30 June 2010: nil).

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

For the six months ended 30 June 2011, neither of the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

Unless as otherwise specified, as at 30 June 2011, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers of the Listing Rules (the "Model Code") were as follows:

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

| Name of director | Note | Capacity | Number of ordinary shares | Approximate percentage of shareholdings |
|---|---|---|---|---|
| Luo Lin | 1 | Founder of a discretionary trust | 684,146,150 | 32.59% |

*Notes:*

1. Mr. Luo Lin is the founder of the Loles Trust, which is indirectly interested in the entire issued share capital of Pro Development Holdings Corp., which in turn is interested in 684,146,150 shares of the Company. Mr. Luo Lin and his family members are the beneficiaries of the Loles Trust.

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

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

Save as disclosed above, at no time during the six months ended 30 June 2011, the Directors and chief executive (including their spouses and children under 18 years of age) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

As at 30 June 2011, the Directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company under the share option scheme, which was conditionally adopted on 17 November 2007 (the "Share Option Scheme"). Each option gives the holder the right to subscribe for one ordinary share of the Company of HK$0.10 each.

| Grantee | Date of grant of share options | Exercise period of share options | Exercise price per share HK$ | Note | Number of share options as at 1 January 2011 | Number of share options granted during the period | Number of share options exercised during the period | Number of share options cancelled during the period | Number of share options lapsed during the period | Number of share options as at 30 June 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Director | | | | | | | | | | |
| Zhang Yongyi | 3 February 2008 | 3 February 2009 to 2 February 2012 | 1.634 | 1,3 | 1,400,000 | | | | | 1,400,000 |
| | 29 April 2009 | 29 April 2010 to 28 April 2012 | 0.684 | 2,4 | 600,000 | | | | | 600,000 |
| | 20 May 2011 | 20 May 2012 to 19 May 2014 | 1.450 | 2,7 | | 500,000 | | | | 500,000 |
| | | | | Sub total: | 2,000,000 | 500,000 | | | | 2,500,000 |
| Zhu Xiaoping | 3 February 2008 | 3 February 2009 to 2 February 2012 | 1.634 | 1,3 | 1,200,000 | | | | | 1,200,000 |
| | 29 April 2009 | 29 April 2010 to 28 April 2012 | 0.684 | 2,4 | 600,000 | | 300,000 | | | 300,000 |
| | 20 May 2011 | 20 May 2012 to 19 May 2014 | 1.450 | 2,7 | | 500,000 | | | | 500,000 |
| | | | | Sub total: | 1,800,000 | 500,000 | 300,000 | | | 2,000,000 |
| Wang Mingcai | 3 February 2008 | 3 February 2009 to 2 February 2012 | 1.634 | 1,3 | 1,000,000 | | | | | 1,000,000 |
| | 29 April 2009 | 29 April 2010 to 28 April 2012 | 0.684 | 2,4 | 600,000 | | | | | 600,000 |
| | 20 May 2011 | 20 May 2012 to 19 May 2014 | 1.450 | 2,7 | | 500,000 | | | | 500,000 |
| | | | | Sub total: | 1,600,000 | 500,000 | | | | 2,100,000 |
| Luo Lin | 29 April 2009 | 29 April 2010 to 28 April 2013 | 0.684 | 1,4 | 2,000,000 | | | | | 2,000,000 |
| | 9 April 2010 | 9 April 2011 to 8 April 2014 | 0.750 | 1,5 | 80,000 | | | | | 80,000 |
| | 20 May 2011 | 20 May 2012 to 19 May 2015 | 1.450 | 1,7 | | 2,000,000 | | | | 2,000,000 |
| | | | | Sub total: | 2,080,000 | 2,000,000 | | | | 4,080,000 |

## SHARE OPTION SCHEME *(Continued)*

| Grantee | Date of grant of share options | Exercise period of share options | Exercise price per share HK$ | Note | Number of share options as at 1 January 2011 | Number of share options granted during the period | Number of share options exercised during the period | Number of share options cancelled during the period | Number of share options lapsed during the period | Number of share options as at 30 June 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Wu Di | 20 May 2011 | 20 May 2012 to 19 May 2015 | 1.450 | 1,7 | | 1,100,000 | | | | 1,100,000 |
| Liu Enlong | 20 May 2011 | 20 May 2012 to 19 May 2015 | 1.450 | 1,7 | | 1,100,000 | | | | 1,100,000 |
| Employees in aggregate | 3 February 2008 | 3 February 2009 to 2 February 2012 | 1.634 | 1,3 | 5,500,000 | | | | 100,000 | 5,400,000 |
| | 29 April 2009 | 29 April 2010 to 28 April 2013 | 0.684 | 1,4 | 22,150,000 | | 3,248,000 | | 576,000 | 18,326,000 |
| | 9 April 2010 | 9 April 2011 to 8 April 2014 | 0.750 | 1,5 | 32,400,000 | | 2,438,000 | | 2,450,000 | 27,512,000 |
| | 23 November 2010 | 23 November 2011 to 22 November 2014 | 0.760 | 1,6 | 10,000,000 | | | | | 10,000,000 |
| | 20 May 2011 | 20 May 2012 to 19 May 2015 | 1.450 | 1,7 | | 34,150,000 | | | | 34,150,000 |
| | | | | | 77,530,000 | 39,850,000 | 5,986,000 | | 3,126,000 | 108,268,000 |

*Notes:*

1. The option period for the share options granted above commences on the date of grant and ends on the last day of 48 months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to one-third of their share options during the option period commencing from each of first, second and third anniversaries of the date of grant.

2. The option period for the share options granted above commences on the date of grant and ends on the last day of 36 months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to 50% of their share options during the option period commencing from each of first and second anniversaries of the date of grant.

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

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

5. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.750.

6. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.760.

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

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

As at 30 June 2011, so far was known to any Director or the chief executive, the shareholders, other than the Directors or the chief executive of the Company, who had an interest or short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

| Name | Note | Capacity | Number of ordinary shares | Approximate percentage of shareholding |
|---|---|---|---|---|
| Credit Suisse Trust Limited | 1 | Trustee | 684,146,150 | 32.59% |
| Seletar Limited | 1 | Trustee | 684,146,150 | 32.59% |
| Serangoon Limited | 1 | Trustee | 684,146,150 | 32.59% |
| Avalon Assets Limited | 1 | Trustee | 684,146,150 | 32.59% |
| Pro Development Holdings Corp. | 1 | Beneficial owner | 684,146,150 | 32.59% |
| China Harvest Fund, L.P. | 2 | Interest of controlled corporation | 375,000,000 | 17.86% |
| China Renaissance Capital Investment, L.P. | 2 | Interest of controlled corporation | 375,000,000 | 17.86% |
| China Renaissance Capital Investment GP | 2 | Interest of controlled corporation | 375,000,000 | 17.86% |
| Erdos Holding Company Limited | 2 | Beneficial owner | 375,000,000 | 17.86% |
| Chengwei Anton Holdings Inc. | 3 | Beneficial owner | 162,350,740 | 7.73% |
| Chengwei Ventures Evergreen Fund, LP | 3 | Interest of controlled corporation | 162,350,740 | 7.73% |
| Chengwei Ventures Evergreen Management, LLC | 3 | Interest of controlled corporation | 162,350,740 | 7.73% |
| EXL Holdings, LLC | 3 | Interest of controlled corporation | 162,350,740 | 7.73% |
| Li Eric Xun | 3 | Interest of controlled corporation | 162,350,740 | 7.73% |
| Li Zhu Yi Jing | 3, 4 | Interest of spouse | 162,350,740 | 7.73% |

*Notes:*

1. The 684,146,150 shares referred to the same batch of shares.

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

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

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

Save as disclosed above, as at 30 June 2011, so far was known to the Directors, no other persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The directors of the Company have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the 'Model Code') as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 Model Code during the six months ended 30 June 2011.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable provisions of the Code on Corporate Governance Practices (the 'Code') as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2011, save that the only deviation is the code provision A.2.1 of the Code.

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer of the Company must be separated, and must not be assumed by one person. The Company does not separate the chairman's and chief executive officer's duties, Mr. Luo Lin served as both the chairman and the chief executive officer of the Company during the period under review. Mr. Luo Lin was the main founder of the Group, he has been responsible for the operational management since the Group's establishment, and has led the Group's expansion. Mr. Luo Lin possesses rich petroleum industry experience and excellent operational management ability, and the Board is of the view that continuing to have Mr. Luo Lin serving as the chief executive officer of the Company will safeguard the continuity of the operational management and can protect shareholders' interests.

## AUDIT COMMITTEE

The Audit Committee, which comprises of three independent non-executive directors, namely Mr. Zhu Xiaoping, Mr. Zhang Yongyi and Mr. Wang Mingcai, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the unaudited interim financial results of the Group for the six months ended 30 June 2011.

By order of the Board
**Anton Oilfield Services Group**
**Luo Lin**
*Chairman*

Hong Kong, 26 August 2011

# Report on Review of Interim Financial Information

羅兵咸永道

**TO THE BOARD OF DIRECTORS OF ANTON OILFIELD SERVICES GROUP**
(incorporated in Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 54, which comprises the interim condensed consolidated balance sheet of Anton Oilfield Services Group (the 'Company') and its subsidiaries (together, the 'Group') as at 30 June 2011 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 'Interim Financial Reporting'. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 26 August 2011

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# Unaudited Condensed Consolidated Interim Balance Sheet

As at 30 June 2011
(Amounts expressed in thousands of RMB)

| | Note | As at 30 June 2011 (Unaudited) | As at 31 December 2010 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **452,049** | 419,471 |
| Land use rights | | **23,545** | 25,486 |
| Intangible assets | 8 | **354,039** | 345,858 |
| Investment in a jointly controlled entity | 9 | **44,350** | 50,244 |
| Deferred income tax assets | | **7,363** | 3,008 |
| | | **881,346** | 844,067 |
| **Current assets** | | | |
| Inventories | 10 | **282,465** | 265,423 |
| Trade and notes receivables | 11 | **788,709** | 671,993 |
| Prepayments and other receivables | 12 | **114,313** | 70,118 |
| Restricted bank deposits | 13 | **36,074** | 144,353 |
| Term deposits with initial terms of over three months | 13 | **5,000** | 6,000 |
| Cash and cash equivalents | 13 | **151,863** | 188,960 |
| | | **1,378,424** | 1,346,847 |
| **Total assets** | | **2,259,770** | 2,190,914 |
| **EQUITY** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | 14 | **197,924** | 197,420 |
| Reserves | | | |
| – Proposed final dividend | | **—** | 39,400 |
| – Others | | **1,433,582** | 1,377,194 |
| | | **1,631,506** | 1,614,014 |
| **Non-controlling interests** | | **39,829** | 36,547 |
| **Total equity** | | **1,671,335** | 1,650,561 |

# Unaudited Condensed Consolidated Interim Balance Sheet *(Continued)*

As at 30 June 2011

(Amounts expressed in thousands of RMB)

| | Note | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings | 15 | **5,021** | — |
| Deferred income tax liabilities | | **1,795** | 2,150 |
| | | **6,816** | 2,150 |
| **Current liabilities** | | | |
| Short-term borrowings | 15 | **218,000** | 150,000 |
| Current portion of long-term borrowings | 15 | **11,643** | 34,822 |
| Derivative financial liabilities | 16 | **749** | 1,102 |
| Trade and notes payables | 17 | **226,388** | 218,416 |
| Accruals and other payables | 18 | **98,310** | 112,971 |
| Current income tax liabilities | | **26,529** | 20,892 |
| | | **581,619** | 538,203 |
| **Total liabilities** | | **588,435** | 540,353 |
| **Total equity and liabilities** | | **2,259,770** | 2,190,914 |
| **Net current assets** | | **796,805** | 808,644 |
| **Total assets less current liabilities** | | **1,678,151** | 1,652,711 |

The accompanying notes on page 31 to 54 are an integral part of this condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2011
(Amounts expressed in thousands of RMB except per share data)

| | Note | Six months ended 30 June 2011 (Unaudited) | 2010 (Unaudited) |
|---|---|---|---|
| **Revenue** | 19 | **526,407** | 337,477 |
| **Other income/(loss), net** | | **2,194** | (70) |
| **Operating costs** | | | |
| Materials and services cost | | **(227,166)** | (139,203) |
| Staff costs | | **(71,334)** | (58,816) |
| Depreciation and amortisation | | **(31,223)** | (25,363) |
| Sales tax and surcharges | | **(8,621)** | (3,330) |
| Others | | **(107,515)** | (50,252) |
| | | **(445,859)** | (276,964) |
| **Operating profit** | 20 | **82,742** | 60,443 |
| **Interest income** | | **1,074** | 1,637 |
| **Finance costs, net** | 21 | **(6,543)** | (1,466) |
| **Share of loss of a jointly controlled entity** | | **(5,894)** | (1,879) |
| **Profit before income tax** | | **71,379** | 58,735 |
| Income tax expense | 22 | **(15,140)** | (12,628) |
| **Profit for the period** | | **56,239** | 46,107 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **50,655** | 40,339 |
| Non-controlling interests | | **5,584** | 5,768 |
| | | **56,239** | 46,107 |
| **Earnings per share for the profit attributable to the equity holders of the Company** | | | |
| – basic | 23 | **0.0242** | 0.0193 |
| – diluted | 23 | **0.0239** | 0.0193 |
| **Dividends proposed** | 24 | **—** | — |

The accompanying notes on page 31 to 54 are an integral part of this condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2011
(Amounts expressed in thousands of RMB)

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **(Unaudited)** | (Unaudited) |
| **Profit for the period** | | **56,239** | 46,107 |
| **Other comprehensive income/(loss), net of tax:** | | | |
| Currency translation differences | | **(2,467)** | (203) |
| Cash flow hedges | 16 | **353** | (180) |
| **Other comprehensive loss, net of tax for the period** | | **(2,114)** | (383) |
| **Total comprehensive income for the period** | | **54,125** | 45,724 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **48,541** | 39,956 |
| Non-controlling interests | | **5,584** | 5,768 |
| | | **54,125** | 45,724 |

The accompanying notes on page 31 to 54 are an integral part of this condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2011
(Amounts expressed in thousands of RMB)

| | Note | Attributable to the Company's equity holders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Capital reserve | Statutory reserve | Hedging reserve | Retained earnings | Currency translation differences | Total | Non-controlling interests | Total equity |
| **Balance at 1 January 2010 (Audited)** | | 197,411 | 629,918 | 318,606 | 30,768 | – | 335,076 | (414) | 1,511,365 | 34,714 | 1,546,079 |
| Profit for the period | | – | – | – | – | – | 40,339 | – | 40,339 | 5,768 | 46,107 |
| Other comprehensive loss: | | | | | | | | | | | |
| – Currency translation differences | | – | – | – | – | – | – | (203) | (203) | – | (203) |
| – Cash flow hedges | | – | – | – | – | (180) | – | – | (180) | – | (180) |
| Total comprehensive income | | – | – | – | – | (180) | 40,339 | (203) | 39,956 | 5,768 | 45,724 |
| Share option scheme | 14(b) | – | – | 2,246 | – | – | – | – | 2,246 | – | 2,246 |
| Dividends | 24 | – | (18,000) | – | – | – | – | – | (18,000) | (7,438) | (25,438) |
| **Balance at 30 June 2010 (Unaudited)** | | 197,411 | 611,918 | 320,852 | 30,768 | (180) | 375,415 | (617) | 1,535,567 | 33,044 | 1,568,611 |
| **Balance at 1 January 2011 (Audited)** | | **197,420** | **612,035** | **325,846** | **36,510** | **(1,102)** | **445,989** | **(2,684)** | **1,614,014** | **36,547** | **1,650,561** |
| Profit for the period | | **—** | **—** | **—** | **—** | **—** | **50,655** | **—** | **50,655** | **5,584** | **56,239** |
| Other comprehensive loss: | | | | | | | | | | | |
| – Currency translation differences | | **—** | **—** | **—** | **—** | **—** | **—** | **(2,467)** | **(2,467)** | **—** | **(2,467)** |
| – Cash flow hedges | | **—** | **—** | **—** | **—** | **353** | **—** | **—** | **353** | **—** | **353** |
| Total comprehensive income | | **—** | **—** | **—** | **—** | **353** | **50,655** | **(2,467)** | **48,541** | **5,584** | **54,125** |
| Share option scheme | 14(b) | **—** | **—** | **4,750** | **—** | **—** | **—** | **—** | **4,750** | **—** | **4,750** |
| Share option exercised | 14(a) | **504** | **4,589** | **(1,466)** | **—** | **—** | **—** | **—** | **3,627** | **—** | **3,627** |
| Dividends | 24 | **—** | **(39,426)** | **—** | **—** | **—** | **—** | **—** | **(39,426)** | **(1,064)** | **(40,490)** |
| Dispose of a subsidiary | | **—** | **—** | **—** | **(297)** | **—** | **297** | **—** | **—** | **(1,238)** | **(1,238)** |
| **Balance at 30 June 2011 (Unaudited)** | | **197,924** | **577,198** | **329,130** | **36,213** | **(749)** | **496,941** | **(5,151)** | **1,631,506** | **39,829** | **1,671,335** |

The accompanying notes on page 31 to 54 are an integral part of this condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2011
(Amounts expressed in thousands of RMB)

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **(Unaudited)** | (Unaudited) |
| Net cash used in operating activities | | **(63,211)** | (59,184) |
| Net cash used in investing activities | 25 | **(105,957)** | (103,919) |
| Net cash generated from financing activities | 25 | **135,874** | 14,727 |
| **Net decrease in cash and cash equivalents** | | **(33,294)** | (148,376) |
| **Cash and cash equivalents, at beginning of the period** | 13 | **188,960** | 272,959 |
| **Exchange loss on cash and cash equivalents** | | **(3,803)** | (47) |
| **Cash and cash equivalents at end of the period** | 13 | **151,863** | 124,536 |

The accompanying notes on page 31 to 54 are an integral part of this condensed consolidated interim financial information.

## 1. GENERAL INFORMATION

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

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

The directors regard Pro Development Holdings Corp., a company incorporated in British Virgin Islands as the ultimate holding company of the Company.

This unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 26 August 2011.

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with International Accounting Standard ('IAS') 34, 'Interim financial reporting'. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards ('IFRS').

## 3. PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies applied in the preparation of this Unaudited Condensed Consolidated Interim Financial Information are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

### New and amended standards adopted by the Group

- Amendment to IAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

- 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 adopt the May 2010 Improvement on IFRS 7 on 1 January 2011. These amendments have no material impact on the unaudited condensed consolidated interim financial information.

## 4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

## 5. FINANCIAL RISK MANAGEMENT

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in the risk management department since year end 2010 or in any risk management policies.

### 5.2 Liquidity risk

Compared to year end 2010, there was no material change in the contractual undiscounted cash outflows for financial liabilities. The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated primarily from operating and financing activities.

### 5.3 Fair value estimation

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

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

(Amounts expressed in thousands of RMB unless otherwise stated)

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### 5.3 Fair value estimation *(Continued)*

The following table presents the Group's liabilities that are measured at fair value at 30 June 2011.

| | **Level 2** | **Total** |
|---|---|---|
| Liabilities | | |
| – Derivatives used for hedging (Note) | **749** | **749** |

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

| | Level 2 | Total |
|---|---|---|
| Liabilities | | |
| – Derivatives used for hedging (Note) | 1,102 | 1,102 |

Note:

Financial instruments carried at fair value as at 30 June 2011 are derivatives used for hedging, which are included in level 2. Their fair value are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little possible on entity specific estimates. All significant inputs required to fair value an instrument are observable.

The specific valuation techniques used to value financial instruments include:

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

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

In 2011, there was no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

(Amounts expressed in thousands of RMB unless otherwise stated)

## 6. SEGMENT INFORMATION

The chief operating decision-maker ('CODM') have been identified as the Chief Executive Officer, vice presidents and directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources. The CODM have 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 make decisions about resources to be allocated to the segments and assess their performance. They are so managed according to different nature of products and services. Most of these entities engaged in just single business, except a few entities deal with diversified operation. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

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

Revenue recognised during the period are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| Well completion | **136,413** | 133,125 |
| Down-hole operation | **225,200** | 97,075 |
| Drilling technology | **83,488** | 19,568 |
| Tubular services | **81,306** | 87,709 |
| Total | **526,407** | 337,477 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 6. SEGMENT INFORMATION *(Continued)*

The CODM evaluate the performance of operating segments based on profit and loss before interest, income tax expense, depreciation and amortisation ('EBITDA').

| | Well completion | Down-hole operation | Drilling technology | Tubular services | Total |
|---|---|---|---|---|---|
| **Six months ended 30 June 2011 (Unaudited)** | | | | | |
| Revenue (from external customers) | **136,413** | **225,200** | **83,488** | **81,306** | **526,407** |
| **EBITDA** | **48,020** | **116,749** | **27,422** | **15,684** | **207,875** |
| Depreciation and amortisation | **(5,757)** | **(8,295)** | **(4,049)** | **(9,502)** | **(27,603)** |
| Interest income | **237** | **37** | **—** | **13** | **287** |
| Finance costs, net | **30** | **(171)** | **(16)** | **(20)** | **(177)** |
| Share of loss from a jointly controlled entity | **—** | **—** | **—** | **(5,894)** | **(5,894)** |
| **Six months ended 30 June 2010 (Unaudited)** | | | | | |
| Revenue (from external customers) | 133,125 | 97,075 | 19,568 | 87,709 | 337,477 |
| **EBITDA** | 62,961 | 47,276 | 7,312 | 33,376 | 150,925 |
| Depreciation and amortisation | (5,874) | (3,729) | (3,276) | (10,559) | (23,438) |
| Interest income | 143 | 9 | — | 12 | 164 |
| Finance costs, net | 8 | (8) | — | (318) | (318) |
| Share of loss from a jointly controlled entity | — | — | — | (1,879) | (1,879) |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 6. SEGMENT INFORMATION *(Continued)*

| | Well completion | Down-hole operation | Drilling technology | Tubular services | Total |
|---|---|---|---|---|---|
| **As at 30 June 2011 (Unaudited)** | | | | | |
| **Segment assets** | **872,561** | **537,715** | **234,696** | **323,319** | **1,968,291** |
| Segment assets include: | | | | | |
| Investments in a jointly controlled entity | — | — | — | 44,350 | 44,350 |
| Additions to non-current assets (other than deferred income tax assets) | 5,214 | 43,071 | 8,918 | 14,217 | 71,420 |
| **As at 31 December 2010 (Audited)** | | | | | |
| **Segment assets** | 756,801 | 500,289 | 176,257 | 335,654 | 1,769,001 |
| Segment assets include: | | | | | |
| Investments in a jointly controlled entity | — | — | — | 50,244 | 50,244 |
| Additions to non-current assets (other than deferred income tax assets) | 23,783 | 63,366 | 33,763 | 40,633 | 161,545 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 6. SEGMENT INFORMATION *(Continued)*

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| **EBITDA for reportable segments** | **207,875** | 150,925 |
| Corporate overheads | **(103,109)** | (66,719) |
| Depreciation | **(23,234)** | (20,762) |
| Amortisation | **(4,369)** | (2,676) |
| Interest income | **287** | 164 |
| Finance costs, net | **(177)** | (318) |
| Share of loss of a jointly controlled entity | **(5,894)** | (1,879) |
| **Profit before income tax** | **71,379** | 58,735 |

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

| | **As at 30 June 2011** | As at 31 December 2010 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| **Assets for reportable segments** | **1,968,291** | 1,769,001 |
| Corporate assets for general management | **291,479** | 421,913 |
| **Total Assets** | **2,259,770** | 2,190,914 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 7. PROPERTY, PLANT AND EQUIPMENT

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Opening net book amount | **419,471** | 334,240 |
| Additions | **62,852** | 133,044 |
| Disposal of a subsidiary | **(3,013)** | — |
| Disposals | **(144)** | (3,283) |
| Depreciation charge | **(27,117)** | (44,530) |
| Closing net book amount | **452,049** | 419,471 |

As at 30 June 2011, buildings amounting to RMB37,742,000 were pledged as security for short-term borrowings (Note 15).

## 8. INTANGIBLE ASSETS

| | **Patents** | **Goodwill** | **Computer software** | **Total** |
|---|---|---|---|---|
| As at 1 January 2010 | 41,366 | 265,697 | 5,024 | 312,087 |
| Additions | 38,979 | — | 524 | 39,503 |
| Amortisation charge | (5,235) | — | (497) | (5,732) |
| As at 31 December 2010 (Audited) | 75,110 | 265,697 | 5,051 | 345,858 |
| As at 1 January 2011 | **75,110** | **265,697** | **5,051** | **345,858** |
| Additions | **12,262** | **—** | **317** | **12,579** |
| Amortisation charge | **(4,093)** | **—** | **(305)** | **(4,398)** |
| As at 30 June 2011 (Unaudited) | **83,279** | **265,697** | **5,063** | **354,039** |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 9. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

Investment in a jointly controlled entity represents the investment of 50% equity interest in Northern Heavy Anton Machinery Manufacturing Co., Ltd. (北重安東機械製造有限公司, 'Northern Heavy Anton'), which is an unlisted and a limited liability company established on 30 October 2007 in the PRC.

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Opening net book amount | **50,244** | 50,668 |
| Share of loss | **(5,894)** | (424) |
| Closing net book amount | **44,350** | 50,244 |

## 10. INVENTORIES

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Raw materials | **45,703** | 35,235 |
| Work-in-progress | **47,450** | 47,455 |
| Finished goods | **187,553** | 180,925 |
| Spare parts and others | **1,759** | 1,808 |
| | **282,465** | 265,423 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 11. TRADE AND NOTES RECEIVABLES

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Trade receivables from third parties, net (a) | **786,237** | 663,354 |
| Trade receivables from a related party (Note 27 (c)) | **1,376** | 1,175 |
| Total trade receivables, net | **787,613** | 664,529 |
| Notes receivables | **1,096** | 7,464 |
| | **788,709** | 671,993 |

Note:

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

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Within 6 months | **465,069** | 460,154 |
| 6 months - 1 year | **213,597** | 119,785 |
| 1 - 2 years | **93,657** | 71,420 |
| 2 - 3 years | **19,892** | 19,627 |
| Over 3 years | **6,955** | 4,217 |
| Trade receivables, gross | **799,170** | 675,203 |
| Less: Impairment of receivables | **(11,557)** | (10,674) |
| Trade receivables, net | **787,613** | 664,529 |

(b) As at 30 June 2011, account receivables amounting to RMB233,233,494 were pledged as security for a bank borrowing facility of RMB200,000,000, in which RMB86,000,000 had been drawn down as at 30 June 2011, bearing an interest rate of 7.32% per annum (31 December 2010: Nil) (Note 15).

(Amounts expressed in thousands of RMB unless otherwise stated)

## 12. PREPAYMENTS AND OTHER RECEIVABLES

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Advances to suppliers | **60,253** | 30,082 |
| Other receivables | **48,889** | 34,175 |
| Amounts due from a related party (Note 27 (c)) | **5,171** | 5,861 |
| | **114,313** | 70,118 |

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

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Within 6 months | **77,355** | 25,830 |
| 6 months - 1year | **23,580** | 31,115 |
| 1 - 2 years | **6,240** | 7,268 |
| 2 - 3 years | **3,194** | 7,664 |
| Over 3 years | **9,107** | 2,166 |
| Prepayments and other receivables, gross | **119,476** | 74,043 |
| Less: Impairment of prepayments and other receivables | **(5,163)** | (3,925) |
| Prepayments and other receivables, net | **114,313** | 70,118 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 13. CASH AND BANK

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Restricted bank deposits (a) | **36,074** | 144,353 |
| Term deposits with initial terms of over three months | **5,000** | 6,000 |
| Cash and cash equivalents | | |
| – Cash on hand | **1,148** | 655 |
| – Deposits in bank | **150,715** | 188,305 |
| Total cash and cash equivalents | **151,863** | 188,960 |
| | **192,937** | 339,313 |

(a) As at 30 June 2011, bank deposits amounting to RMB17,866,000 were held as securities for long-term borrowings (31 December 2010: RMB37,197,000 and RMB102,500,000 were held as securities for long-term and short-term borrowings, respectively) (Note 15).

As at 30 June 2011, bank deposits amounting to RMB18,208,000 were pledged as securities for letter of guarantee and letter of credit (31 December 2010: RMB4,656,000 were held as securities for letter of guarantee and issued notes payable).

(b) As at 30 June 2011, the effective interest rate on term deposits with initial terms of over three months was 2.80% per annum (31 December 2010: 1.71% to 2.25% per annum). These deposits have a maturity of 180 days (31 December 2010: 337 days on average).

Cash and bank are denominated in the following currencies:

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| RMB | **125,111** | 321,583 |
| US$ | **18,490** | 9,344 |
| HK$ | **30,357** | 251 |
| Others | **18,979** | 8,135 |
| | **192,937** | 339,313 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 14. SHARE CAPITAL AND SHARE OPTIONS

### (a) Share capital

| | Number of shares issued and fully paid of HK$0.1 each (thousands) | Ordinary shares RMB'000 | Share premium RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **As at 1 January 2010** | 2,093,054 | 197,411 | 629,918 | 827,329 |
| Dividends distributed (Note 24) | — | — | (18,000) | (18,000) |
| **As at 30 June 2010 (Unaudited)** | 2,093,054 | 197,411 | 611,918 | 809,329 |
| **As at 1 January 2011** | 2,093,154 | 197,420 | 612,035 | 809,455 |
| Exercise of options | 5,986 | 504 | 4,589 | 5,093 |
| Dividends distributed (Note 24) | — | — | (39,426) | (39,426) |
| **As at 30 June 2011 (Unaudited)** | 2,099,140 | 197,924 | 577,198 | 775,122 |

### (b) Share options

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

| | Average exercise price in HK$ per share | Number of options of shares (thousands) |
|---|---|---|
| **As at 1 January 2010** | | 41,704 |
| Granted | 0.75 | 33,080 |
| Forfeited | | (2,100) |
| **As at 30 June 2010 (Unaudited)** | | 72,684 |
| **As at 1 January 2011** | | 77,530 |
| Granted | 1.45 | 39,850 |
| Forfeited | | (3,126) |
| Exercised | | (5,986) |
| **As at 30 June 2011 (Unaudited)** | | 108,268 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 14. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

### (b) Share options *(Continued)*

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

| Expiry date | Exercise price (HK$ per share) | Number of share options (thousands) |
|---|---|---|
| 2 February 2012 | 1.634 | 9,000 |
| 28 April 2013 | 0.684 | 21,826 |
| 8 April 2014 | 0.75 | 27,592 |
| 19 May 2014 | 1.45 | 1,500 |
| 22 November 2014 | 0.76 | 10,000 |
| 19 May 2015 | 1.45 | 38,350 |
| | | 108,268 |

Note:

The fair value of the options granted in the six months ended 30 June 2011 is determined using the Black-Scholes Option Pricing Model. The major assumptions used in the pricing model were the exercise price shown above; current stock price of HK$1.34 per share; expected dividend yield of 1.0%; maturity years ranging from 3.0 years to 4.0 years; risk-free rate ranging from 0.5% to 1.04% and annualised volatility ranging from 41.30% to 59.40%.

The total expense for share options recognised in the income statement for the six months ended 30 June 2011 amounted to RMB4,750,000 (for the six months ended 30 June 2010: RMB2,246,000), with a corresponding amount credited in capital reserve.

3,126,000 share options granted were forfeited as a result of staff turnover during the six months ended 30 June 2011.

(Amounts expressed in thousands of RMB unless otherwise stated)

## 15. BORROWINGS

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| **Long-term borrowings** | | |
| – Secured bank borrowings (a) | **16,664** | 34,822 |
| Less: Amount due within one year under current liabilities | **(11,643)** | (34,822) |
| | **5,021** | – |
| **Short-term borrowings** | | |
| – Unsecured bank borrowings (b) | **82,000** | 50,000 |
| – Secured bank borrowings (b) | **136,000** | 100,000 |
| | **218,000** | 150,000 |

(a) As at 30 June 2011, long-term bank borrowings were denominated in US$ and secured by bank deposits of the Group (Note 13), bearing floating interest rates ranging from LIBOR plus 2.25% to LIBOR plus 3.40% per annum (31 December 2010: LIBOR plus 2.25% per annum).

(b) As at 30 June 2011, short-term bank borrowing were all denominated in RMB, bearing interest ranging from 5.219% to 7.32% (31 December 2010: from 4.779% to 5.355%). RMB50,000,000 were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd, a third party, with the Group's buildings amounted to RMB37,742,000 and land use right amounted to RMB13,022,000 pledged as counter-guarantee. RMB86,000,000 were secured by trade receivables (Note 11).

(c) As at 30 June 2011, the undrawn bank borrowing facilities of the Group amounted to RMB566,458,000 ( 31 December 2010: RMB 481,393,000).

(Amounts expressed in thousands of RMB unless otherwise stated)

## 16. DERIVATIVE FINANCIAL LIABILITIES

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Interest rate swaps | **393** | 609 |
| Forward foreign exchange contracts | **356** | 493 |
| | **749** | 1,102 |

Anton Oilfield Services (Group) Limited, a subsidiary of the Group, entered into interest rate swap contracts and foreign exchange forward contracts with Hang Seng Bank (China) Limited Beijing Branch in May 2010, for the purpose of hedging the cash flow interest rate risk and foreign exchange risk associated with its long-term borrowing (Note 15). All derivative contracts have been designated for cash flow hedge.

## 17. TRADE AND NOTES PAYABLES

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Trade payables | **182,306** | 190,994 |
| Trade payables to a related party (Note 27(c)) | **11,584** | 9,223 |
| Notes payables | **32,498** | 18,199 |
| | **226,388** | 218,416 |

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

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Within 1 year | **204,294** | 202,207 |
| 1 – 2 years | **11,678** | 13,114 |
| 2 – 3 years | **8,246** | 1,294 |
| Over 3 years | **2,170** | 1,801 |
| | **226,388** | 218,416 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 18. ACCRUALS AND OTHER PAYABLES

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Customer deposits and receipts in advance | **10,209** | 18,806 |
| Accrued expenses | **5,705** | 5,860 |
| Payroll and welfare payable | **9,284** | 12,119 |
| Other taxes payable | **35,389** | 22,737 |
| Consideration for acquisition of subsidiaries | **12,960** | 17,960 |
| Others | **24,763** | 35,489 |
| | **98,310** | 112,971 |

## 19. REVENUE

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011 (Unaudited)** | 2010 (Unaudited) |
| Sales of goods | **155,083** | 179,917 |
| Sales of services | **371,324** | 157,560 |
| | **526,407** | 337,477 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 20. EXPENSE BY NATURE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| Staff costs | | |
| – Salaries and other staff expenses | **66,584** | 56,570 |
| – Share-based compensation | **4,750** | 2,246 |
| Gain on disposal of property, plant and equipment | **(149)** | — |
| Addition for impairment of receivables | **2,121** | 2,616 |
| Depreciation | **26,561** | 22,386 |
| Amortisation | **4,662** | 2,977 |

## 21. FINANCE COSTS, NET

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| Interest expenses on bank borrowing | **3,431** | 1,354 |
| Exchange losses/(gains), net | **1,336** | (160) |
| Bank surcharges and others | **1,776** | 272 |
| | **6,543** | 1,466 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 22. INCOME TAX EXPENSE

The Company was 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.

For the Company's subsidiaries, income tax is provided on the basis of their profits 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 PRC subsidiaries of the Group was 25% for the six months ended 30 June 2011 (for the six months ended 30 June 2010: 25%), based on the relevant PRC tax laws and regulations, except that certain subsidiaries which are taxed at preferential tax rates or, for the subsidiaries established overseas, subject to the prevailing rates of the countries they located. 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.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| Current income tax | | |
| – PRC profit tax | **9,681** | 12,458 |
| – Overseas profit tax | **10,169** | 884 |
| Deferred income tax | **(4,710)** | (714) |
| | **15,140** | 12,628 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 23. 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 period.

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to equity holders of the Company (RMB'000) | **50,655** | 40,339 |
| Weighted average number of ordinary shares in issue (thousands of shares) | **2,096,084** | 2,093,054 |
| Basic earnings per share (RMB per share) | **0.0242** | 0.0193 |

### (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 30 June 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 30 June 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.

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to equity holders of the Company (RMB'000) | **50,655** | 40,339 |
| Weighted average number of ordinary shares in issue (thousands of shares) | **2,096,084** | 2,093,054 |
| Adjustments for assumed conversion of share options (thousands of shares) | **25,477** | — |
| Weighted average number of ordinary shares for diluted earnings per share (thousands of shares) | **2,121,561** | 2,093,054 |
| Diluted earnings per share ( expressed in RMB per share) | **0.0239** | 0.0193 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 24. DIVIDENDS

On 16 May 2011, upon the approval from the annual general meeting of the shareholders, the Company declared 2010 final dividend of RMB0.0188 per ordinary share, totaling RMB39,426,000 (2009 final dividend: RMB18,000,000).

The directors of the Company proposed not to distribute dividend for the six months ended 30 June 2011 (for the six months ended 30 June 2010: nil).

## 25. SUPPLEMENTAL FINANCIAL INFORMATION

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| **Cash flows from investing activities:** | | |
| Purchases of property, plant and equipment | **(90,549)** | (52,004) |
| Purchases of intangible assets | **(12,579)** | (15,692) |
| Dispose of a subsidiary | **(122)** | — |
| Dispose of property, plant and equipment | **293** | — |
| Payment of acquisition consideration | **(4,000)** | (8,500) |
| Increase in restricted bank deposits | **—** | (40,382) |
| Decrease in term deposits with initial term of over three months | **1,000** | 12,030 |
| Others | **—** | 629 |
| **Net cash used in from investing activities** | **(105,957)** | (103,919) |
| **Cash flows from financing activities:** | | |
| Proceeds from short-term borrowings | **168,000** | — |
| Proceeds from long-term borrowings | **5,021** | 35,702 |
| Repayments of short-term borrowings | **(100,000)** | — |
| Repayments of long-term borrowings | **(23,179)** | — |
| Proceeds from share options exercised | **3,627** | — |
| Decrease of deposits held as securities of financing activities | **121,831** | — |
| Dividends paid | **(39,426)** | (20,975) |
| **Net cash generated from financing activities** | **135,874** | 14,727 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 26. COMMITMENTS

### (a) Capital commitments

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

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Contracted but not provided for | | |
| – Property, plant and equipment | **93,971** | 45,400 |
| | **93,971** | 45,400 |

### (b) Operating lease commitments

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

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| Within 1 year | **7,927** | 7,597 |
| 1 to 2 years | **3,294** | 5,440 |
| 2 to 3 years | **1,250** | 1,644 |
| 3 to 4 years | **800** | 800 |
| 4 to 5 years | **133** | 533 |
| | **13,404** | 16,014 |

## 27. RELATED PARTY TRANSACTIONS

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

### (a) The following company is a related party of the Group during the related period:

| Names of related parties | Nature of relationship |
|---|---|
| Northern Heavy Anton | Jointly controlled entity of the Group |

### (b) Transactions with a related party

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| **Purchases of goods** | | |
| Northern Heavy Anton | **21,351** | 37,015 |
| **Sales of goods** | | |
| Northern Heavy Anton | **157** | 145 |

(Amounts expressed in thousands of RMB unless otherwise stated)

## 27. RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Balances with a related party

| | **As at 30 June 2011 (Unaudited)** | As at 31 December 2010 (Audited) |
|---|---|---|
| **Prepayments and other receivables** | | |
| Northern Heavy Anton | **5,171** | 5,861 |
| **Trade and notes receivables** | | |
| Northern Heavy Anton | **1,376** | 1,175 |
| **Trade payables** | | |
| Northern Heavy Anton | **11,584** | 9,223 |

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

### (d) Key management compensation

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011 (Unaudited)** | 2010 (Unaudited) |
| Salaries and other short-term employee benefits | **3,569** | 3,243 |
| Pension scheme | **53** | 47 |
| Share-based compensation | **1,571** | 527 |
| | **5,193** | 3,817 |