

2012 INTERIM REPORT

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A 安東石油
Anton oil

Anton Oilfield Services Group
安東油田服務集團

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

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BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Luo Lin
Dr. Ngai Wai Fung

COMPANY SECRETARY

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

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Certified Public Accountants

LEGAL ADVISERS

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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

BUSINESS REVIEW

Business Performance

As 2012 unfolds, the development of natural gas in China shows strong momentum, with several basins of strategic importance striving to accomplish higher production targets. As the development of natural gas accelerates, demands for both standard and new technologies grow robustly. In the overseas markets, many Chinese investors' overseas projects are speeding up development. The Halfaya Project in Iraq, for example, advanced to commence commercial operations with its first phase of production capacity ahead of schedule, whereas the second phase of capacity building is under construction simultaneously. In view of such intense development plans, clients are more prone to rely on Chinese partners for technical support, who are more responsive to their needs, to quickly complete capacity building.

Embracing a year with opportunities abound, the Group continued to maintain its 'natural gas strategy' domestically and its 'follow-up strategy' in the overseas markets. For the first half of 2012, the Group's total revenue reached RMB803.7 million, a 52.7% or RMB277.3 million increase from RMB526.4 million in the corresponding period in 2011. The growth is primarily attributable to the rapid expansion of natural gas development in China, fast growth of the Group's business in the overseas markets as well as sustained growth in its core services and the rapid launches of new services.

In the first half of 2012, the Group's gross profit was RMB384.7 million, a 69.6% or RMB157.9 million increase from RMB226.8 million in the corresponding period in 2011. Gross margin increased by 4.8 percentage points, from 43.1% of the same period last year to 47.9%. Net profit increased by RMB76.7 million to RMB132.9 million, representing a significant increase of 136.5% as compared to RMB56.2 million in the corresponding period in 2011. Profit attributable to equity holders amounted to RMB124.6 million, representing an increase of RMB73.9 million, or 145.8%, as compared with RMB50.7 million in the same period of 2011. Net profit margin climbed to 16.5% from 10.7% in the same period last year. The substantial profit increase was mainly due to the successful implementation of the Group's profitability enhancement program. In the first half of the year, the Group reduced the procurement cost of materials from suppliers through bargaining and centralized merchandizing; reduced third-party sourcing of materials and services by massively promoting the use of self-developed products and services; stringently controlled cost and expenses through setting up comprehensive financial targets and carrying out a reward and penalty system that is aligned with the targets. All such measures effectively contributed to the significant improvement of the Group's profitability. In addition, through provision for impairment made at the end of last year and proactively carrying out measures to reduce losses for the joint venture under the tubular services cluster, Northern Heavy Anton Machinery Manufacturing Co., Ltd ("Northern Heavy Anton"), the Group did not make further provisions for impairment in the first half of the year.

In the first half of 2012, the Group achieved encouraging results in its domestic and overseas market expansion. Domestically, as oil companies boosted investments in the development of natural gas, there were greater needs for both standard and high-end technologies. This further provided markets for the Group's development and led it to evolve into a new service structure that provides high-end technical services supplemented by standard business from solely rendering high-end technical services. The Group also actively expanded the market for development of natural gas in the first half of the year and managed to attract more customers throughout the country. Notably, it secured new orders from Sinopec and Yanchang Petroleum as well as several high-value contracts and batch orders across the country. Accordingly, the Group's position in the domestic natural gas development market is further consolidated. As regards to the overseas market, since Chinese investors geared up their investment and development, there were urgent needs for technical services. Therefore, the Group not only launched more services into the existing markets but also started rendering services in a new market in Iraq, the Halfaya Project, which has created a strong source of revenue. The Group has also made breakthroughs in the emerging South American market and started to realize revenue there. The Group is rapidly establishing its brand in the overseas markets to lay a solid foundation for its future expansion.

In the first half of 2012, the Group's business grew remarkably. Shares in the Group's core business, oil and gas field development technical services (covering drilling, well completion and down-hole operation clusters) continued to increase, with all business clusters posting solid gains. Revenue from oil and gas field development technical services accounted for 88.3% of the Group's revenue, up 3.7 percentage points as compared to 84.6% in the same period last year. The three major services, namely the multistage fracking services and coiled tubing services in the down-hole operation cluster, and directional drilling services in the drilling technology cluster, continued to satisfy the needs of oilfields in their development of natural gas, and the business performance of the three services improved steadily in the reporting period. The three major services accounted for 40.9% of the Group's revenue. During the reporting period, the Group successfully launched new services and completed several high-value integrated projects, which provided more growth engines.

In the first half of the year, the Group further enhanced the construction of its service capacity and, through self-development, technical cooperation and M&A, successfully enriched the service capabilities of each business cluster. For instance, the Group rapidly built up its technology and service capability of the drilling fluid service in the first half of the year and earned customers' trust promptly as the service passed the test of operating successfully in ultra-complex wells in the Tarim Basin. As a result, a batch order was secured for the full year and the drilling fluid service is expected to become a signature service of the Group. The Group has devoted itself to building an integrated service capability to provide customers with one-stop technical services covering drilling, well completion, down-hole operation and oil production. During the reporting period, the Group managed to secure a number of general contracts for integrated drilling, and the integrated service model will play an important role in the Group's future business development.

Besides organic growth, the Group stepped up its efforts in acquisitions. In May 2012, it completed the acquisition of the 55% equity interest in the Bazhou Companies, a leading drilling fluid service company specializing in high-end water-based drilling fluids, with a consideration of RMB61.1 million. The investment supplements the Group's R&D and production capabilities in the high-end water-based drilling fluid technology and brings with it a large team of engineers with extensive experiences rarely seen at home. This will optimize the overall layout of the Group's drilling fluid business.

Management Discussion and Analysis (Continued)

In the beginning of 2012, the Group set out clear financial targets focusing on further improving capital efficiency and included working capital indicators in each department's daily management targets. Such measures have achieved satisfactory outcome, and the Group's working capital management indicators for the first half of the year were fully enhanced. The average accounts receivables turnover days for the year ended June 30, 2012, were 170 days, a decrease of 66 days as compared to the same period last year; the average accounts payables turnover days were 127 days, an increase of 9 days from the corresponding period last year; the average inventory turnover days decreased by 28 days from the same period last year to 137 days. In addition, the Group further optimized its debt structure. In May 2012, leveraging its AA- credit rating given by a rating company of Moody's Investors Service, it successfully registered with the National Association of Financial Market Institutional Investors with regard to the issuance of medium-term notes with a principal amount totalling RMB500 million within two years. In the same month, the Group completed the issuance of the first tranche of three-year notes with a principal amount of RMB300 million bearing an interest rate of 6.59% per annum. In the current stage, the Group has secured both adequate internal sources of capital as well as short-term and medium-to-long term financing channels to fund its development at different stages.

Geographical Market Analysis

In the first half of 2012, the Group's revenue from the domestic market was RMB607.0 million, representing an increase of RMB209.6 million or 52.7% from RMB397.4 million last year, and accounting for 75.5% of the Group's total revenue. Revenue from the overseas markets was RMB196.7 million, representing an increase of RMB67.7 million or 52.5% from approximately RMB129.0 million last year, and accounting for 24.5% of the Group's total revenue. During the reporting period, the Group completed a total of 767 jobs domestically and 145 jobs in the overseas markets.

Revenue breakdown between domestic and overseas markets

	Six months ended 30 June		Change (%)	Revenue from the respective market as a percentage of total revenue	
	2012	2011		Six months ended	Six months ended
	(RMB' million)	(RMB' million)		30 June 2012	30 June 2011
Domestic	607.0	397.4	52.7%	75.5%	75.5%
Overseas	196.7	129.0	52.5%	24.5%	24.5%
Total	803.7	526.4	52.7%	100.0%	100.0%

Analysis of domestic revenue

	Six months ended 30 June		Change (%)	Revenue from the respective region as a percentage of domestic revenue	
	2012	2011		Six months ended	Six months ended
	(RMB' million)	(RMB' million)		30 June 2012	30 June 2011
Northwest China	211.6	93.8	125.6%	34.9%	23.6%
North China	191.3	132.7	44.2%	31.5%	33.4%
Northeast China	126.5	111.3	13.7%	20.8%	28.0%
Southwest China	77.6	59.6	30.2%	12.8%	15.0%
Total	607.0	397.4	52.7%	100.0%	100.0%

Analysis of overseas revenue

	Six months ended 30 June		Change (%)	Revenue from the respective region as a percentage of overseas revenue	
	2012	2011		Six months ended	Six months ended
	(RMB' million)	(RMB' million)		30 June 2012	30 June 2011
The Middle East	134.7	104.2	29.3%	68.5%	80.8%
Central Asia	48.4	13.7	253.3%	24.6%	10.6%
Africa	7.9	10.7	-26.2%	4.0%	8.3%
America	5.7	0.4	N/A*	2.9%	0.3%
Total	196.7	129.0	52.5%	100.0%	100.0%

* Business from the American market, which is still under early market development, was immaterial in the corresponding period last year. Thus, no change was reported in this regard.

Remarkable growth in the domestic natural gas business

The natural gas business in the domestic market experienced robust growth in the first half of 2012. The Tarim Basin and Erdos Basin are China's two major natural gas basins of strategic importance with the country's largest natural gas reserves and most active upstream activities. The Group's revenue from Northwest and North China, where the two basins are located, accounted for 66.4% of the Group's domestic revenue for the first half of the year. With the golden age of natural gas development just around the corner for the domestic market, markets for standard technical services have witnessed strong growth. The Group has built on its well-established brand of high-end technical services to propel the development of its standard technical services, converting its service structure from providing only high-end technical services to rendering high-end services that are supplemented by standard business, thereby fostering more solid growth.

Major business development in the domestic market

- The Tarim Basin was the major focus area of the Group this year. The basin is the strategic energy base for China's West-East Gas Transmission project, and its major oil field, the Tarim Oil Field, will be developed into the "Daqing in Xinjiang", with reference to an article published in the *China Petroleum Daily* in January this year. The production target of the Tarim Oil Field has been set at 30 million tons for 2013-2015 and 40 million tons for 2016-2019. Although the field contains abundant conventional gas, extraction presents a complex engineering challenge due to the unusual depth, high temperatures and high pressure within the wells. To realize the goal of doubling production, drilling engineering challenges must be resolved. In view of such demand, the Group rapidly established its full service capacity in drilling fluid services in the first half of the year and has since gathered a team of over 100 experienced engineers and the capability to render both oil-based and water-based drilling fluid technologies and operations. Thus, the Group was able to provide customers with high-end drilling fluid technical solutions for wells with different depths and in different geological environments, effectively shortening the drilling cycle and increasing drilling efficiency. The Group has just embarked on aggressive business development in the Tarim Basin, it will further expand the promotion of its services to provide reliable technical support that addresses the production requirements of the basin in the future.
- The Erdos Basin remains a steady market for the Group. The basin is known to the world as a huge tight gas basin and a typical reservoir with low permeability, low pressure and low output, thereby with huge demands for horizontal well and multistage fracking technologies for stimulation. Its major oil field, the Changqing Oil Field, will be developed into the "Daqing of West China". According to a featured report in the press center of CNPC, the oil and gas equivalent production of the basin will increase from 40 million tons in 2011 to 50 million tons. To cope with this fast growth, technical difficulties related to production stimulation must be overcome, and horizontal well multistage fracking technology is the key solution. Besides the wide application of high-end technologies, a free competition mechanism has also been introduced into the basin, opening up for various types of investors to participate in development. The Group is the market leader of multistage fracking technology and has accumulated experience from operations in nearly 200 wells over the years. The Group added Sinopec and Yanchang Petroleum to its clientele in the first half of the year, from whom it secured several batch orders, further consolidating its market position. Sinopec boosted its development of tight gas in the basin this year, creating a large number of horizontal well orders.

- The Songliao Basin has changed in recent years from a traditional main supply base of crude oil into an energy base involved in the development of both natural gas and oil, with natural gas being the main driver of production growth. Owing to the growing need for standard technologies driven by such structural change, the Group's business in the basin experienced remarkable growth this year, especially in the provision of standard technical services such as standard directional drilling technology and well completion tools.
- The large-scale construction of underground gas storage facilities has fully taken off in China. Thanks to its early market deployment and technical preparation, the Group safeguarded its dominating market position in the underground gas storage market. The Group not only rendered exclusive tubular helium testing services to five underground gas storage facilities in the country, helping clients to prevent natural gas pipe strings from leaking, but also offered products and services to facilitate well cementing and completion technologies, ensuring favorable injection and storage conditions for the underground gas storage facilities.

Outstanding performance of overseas market expansion

In the first half of 2012, the Group's overseas orders increased notably, owing to the accelerating development of the overseas projects of Chinese investors. Revenues from overseas markets amounted to RMB196.7 million, up 52.5% from the same period last year. Of these markets, the Middle East recorded revenues of RMB134.7 million during the reporting period, representing an increase of 29.3% as compared to the corresponding period last year. This was mainly attributable to the stable income generated by the full development of the two major oil fields in the Middle East serviced by the Group. The Middle East remains the Group's largest overseas market, with revenues accounting for 68.5% of the total overseas revenue. Revenues contributed by Central Asia increased by 253.3% during the reporting period, accounting for a strong 24.6% of the overseas revenue as customers strengthened the development efforts in this region.

Major business development in overseas markets

- As a major strategic overseas market for Chinese investors, the Iraq market continued to develop rapidly this year. The Group continued to develop steadily and consolidate its market position in the Al-Ahdab Project. Moreover, the Group has added the Halfaya Project as its new customer, which is entering a stage of intensive development with strong demand for technical services. The Group continued to leverage its successful experiences and strategies accumulated in Iraq by first garnering customer recognition through the provision of coiled tubing acidizing services that effectively overcome the area's geographical constraints to boost production recovery. This way, the Group could gain a fast access to cross-market other services into the area. In the first half of the year, the Group's coiled tubing services delivered outstanding stimulation performance for the Halfaya Project, gaining high regard from the client and making the Group the area's preferred technical support partner over international service companies. The Group subsequently entered into a long-term agreement with the oilfield, providing production management services to ensure smooth production at the oilfield. With the Al-Ahdab and Halfaya Projects entering into larger-scale development stages, the Group will strengthen its promotion efforts and strive to further provide one-stop solutions. We are confident to grow and prosper in the Iraqi market.

- Central Asia has become a major market for customers to ensure overseas production this year. In order to accommodate growing demands for drilling brought by the accelerating development of oilfields in the region, the Group actively promoted vertical drilling and directional drilling service to improve drilling speed, and offered various well completion tools and services. This has enabled us to achieve business growth faster than expected.
- The Group has dispatched personnel to South America to explore the market. During the reporting period, the market generated revenue for the first time.

Business Cluster Analysis

In the first half of 2012, the oil and gas field development technical services, which constitute the core business of the Group (including drilling technology, well completion and down-hole operation clusters), remained the main driver behind the Group's growth in revenue, with figures reaching RMB709.5 million, representing an increase of RMB264.4 million or 59.4% as compared to RMB445.1 million in the same period last year. Revenue generated from this line of business accounted for 88.3% of the Group's total revenue, up 3.7 percentage points from 84.6% in the same period last year.

Within the oil and gas field development technical services area, the Group's three leading technical services, namely multistage fracking services, coiled tubing services and directional drilling services continued to demonstrate excellent growth, with the total revenue amounting to RMB329.0 million, representing an increase of RMB103.3 million or approximately 45.8% compared to a total of RMB225.7 million in the same period last year. During the reporting period, revenue from those technical services decreased marginally as a percentage of the Group's total revenue, a decrease of 2.0 percentage points from 42.9% in the same period last year to 40.9% this year. This was due to a broader revenue base driven by the completion of several high-value integrated projects and its successful promotion of new technical services.

The revenue from the tubular services cluster, the Group's supplementary business, has improved from RMB81.3 million in the corresponding period last year to RMB94.2 million during the reporting period, an increase of RMB12.9 million or 15.9%. The proportion of its revenue to the total revenue of the Group continued to drop from 15.4% in the same period last year to 11.7% in the first half of 2012.

Revenue breakdown by business clusters

	Six months ended 30 June		Change (%)	As a percentage of total revenue	
	2012	2011		Six months ended	Six months ended
	(RMB Million)	(RMB Million)		30 June 2012	30 June 2011
Oil and gas field development					
technical services	709.5	445.1	59.4%	88.3%	84.6%
Down-hole operation cluster	321.3	225.2	42.7%	40.0%	42.8%
Well completion cluster	223.0	136.4	63.5%	27.7%	25.9%
Drilling technology cluster	165.2	83.5	97.8%	20.6%	15.9%
Tubular services	94.2	81.3	15.9%	11.7%	15.4%
Total	803.7	526.4	52.7%	100.0%	100.0%

Oil and gas field development technical services

Revenue analysis of top three technical services

Business Cluster	Six months ended 30 June		Change (%)	As a percentage of total revenue	
	2012	2011		Six months ended	Six months ended
	(RMB Million)	(RMB Million)		30 June 2012	30 June 2011
Multistage fracking services	143.3	89.6	59.9%	17.8%	17.0%
Coiled tubing services	101.6	83.7	21.4%	12.6%	15.9%
Directional drilling services	84.1	52.4	60.5%	10.5%	10.0%
Total	329.0	225.7	45.8%	40.9%	42.9%

Down-hole Operation Cluster

In the first half of 2012, the down-hole operation cluster achieved outstanding results with revenue contribution of RMB321.3 million, representing an increase of 42.7% from RMB225.2 million in the same period last year. The services in this cluster are mainly employed to address problems related to well construction and well intervention. Therefore, the business cluster gains popularity among customers in natural gas basins with ambitious production targets to achieve and overseas oil fields with a tight schedule to resume a quick recovery of production output.

The down-hole operation cluster includes three business departments, which are respectively: 1) production enhancement operation department with multistage fracking services as its main technical service, which recorded a revenue of RMB143.3 million in the first half of the year, representing an increase of 59.9% from RMB89.6 million in the same period last year; 2) equipment service department including coiled tubing services and tubular helium testing services, which recorded a revenue of RMB154.1 million in the first half of the year, representing an increase of 47.2% from RMB104.7 million in the corresponding period last year; and 3) oil production service department including chemical EOR, well flushing services and gas lift services, which recorded a revenue of RMB23.9 million in the first half of the year, a decrease of 22.7% from RMB30.9 million in the same period last year. EBITDA for the down-hole operation cluster increased substantially by 45.1% from RMB116.7 million in the corresponding period last year to RMB169.3 million in the first half of this year. Due to the reduction in unit costs of purchase orders from strategic suppliers, EBITDA grew by 0.9 percentage points in the first half of the year from 51.8% in the same period last year to 52.7%.

Major development of down-hole operation cluster

- The multistage fracking service has made encouraging results in market expansion this year. During the reporting period, its revenue reached RMB143.3 million, a 59.9% increase from RMB89.6 million in the same period last year. The Group completed 47 jobs in the first half of the year, representing an increase of 80.8% or 21 jobs from 26 jobs in the corresponding period last year. In 2012, the development of tight gas gained rapid growth in the country and the most prominent growth came from Sinopec whose horizontal well orders increased significantly. More and more customers opt for horizontal well multistage fracking technology due to its effectiveness in stimulation in low-permeability gas reservoirs, making it a major method of well construction used to reach high production targets. The market size of this technical service increased this year due to the popularity. As a pioneer of this technology in China, the Group has completed nearly 200 jobs in horizontal well multistage fracking operations. During the reporting period, it secured several contracts with batch orders and won several tenders from Sinopec creating a total backlog of 70 jobs.
- In the first half of the year, revenue from coiled tubing services was RMB101.6 million, representing an increase of RMB17.9 million or approximately 21.4% from RMB83.7 million in the same period last year. The Group completed 81 jobs in the domestic market and 79 jobs overseas. In the domestic market, coiled tubing equipment was fully put into operation, driving growth in the work volume for the Group, while the Group also successfully promoted the application of new technology in coiled tubing operations, adding coiled tubing grinding services to support customers in their use of the new well-construction techniques. In the overseas market, the Group is a leader in coiled tubing acidizing services in the Iraqi market and has completed over 100 jobs in the area. Due to new orders obtained from the Halfaya Project in the first half of the year, the Group generated revenue of RMB84.2 million from this service in the Middle East market, representing an increase of RMB11.5 million, up 15.8% as compared to RMB72.7 million in the same period last year. The Group successfully implemented its coiled tubing acidizing services in the Halfaya Project that notably improved output. The Group received a letter of appreciation from the client who praised the Group's outstanding performance in the operation, marking a solid foundation for future cooperation.

- Revenue from the Group's tubular helium testing services increased by a substantial 150.0%, up from RMB21.0 million in the same period last year to a record high of RMB52.5 million in the first half of 2012. The increase was mainly attributable to the Group's successful promotion of the technology and to the market expansion propelled by the construction of underground gas storage facilities. In the first half of the year, the Group recorded a significant increase in the number of orders, including an annual general contract in the Tarim region, a regional batch order in the Northeast China area and annual general contracts for all the country's underground gas storage facilities. To date, the Group remains the exclusive supplier of tubular helium testing services and has completed 118 jobs during the first half of the year.
- During the reporting period, revenue from the Group's oil production services amounted to RMB23.9 million, a 22.7% decrease from RMB30.9 million in the same period last year. The drop was due to fiercer competition in well-established oil fields in the Northeast China region. In view of this, the Group quickly shifted its business from domestic markets to emerging overseas markets, focusing on providing production management services to newly-developed overseas oil fields and opening up new markets. During the reporting period, the Group won the tender from the Halfaya Project in Iraq for the provision of operation management services for certain oil production main facilities under a 1+1 year term, which requires the operation and maintenance of equipment of central gathering station for the oil production of 23 wells. This service successfully opened up a new market for the Group. Following an entry into the Iraqi market, this service finds good opportunities to expand its business volume given that the local oilfields are prepared to unfold more large scale development.

Well Completion Cluster

In the first half of 2012, the well completion cluster demonstrated strong growth momentum, contributing a revenue of RMB223.0 million, a 63.5% increase from RMB136.4 million in the same period last year. The increase was mainly driven by its rapid growth in the overseas markets. The cluster's services mainly resolve challenges in wellbore construction after drilling in varying geological environments, offering well completion services during both well construction and well intervention. The services are widely exercised in areas of high-temperature wells, complicated wells, or reserves seriously affected by aggregates, and heavy oil wells.

The well completion cluster currently comprises two business departments, which are: 1) well completion integration, including well cementing and completion products and services, sandscreen well completion and oil production tools and services, which recorded a revenue of RMB135.1 million in the first half of 2012, an increase of 81.1% from RMB74.6 million in the same period last year; 2) Shandong Precede, a subsidiary acquired by the Group in 2008 that provided gravel packing well completion products and services, which recorded a revenue of RMB87.9 million in the first half of 2012, representing an increase of 42.2% from RMB61.8 million in the same period last year. EBITDA of the well completion cluster rose by a substantial 76.3%, and increase from RMB48.0 million in the same period last year to RMB84.6 million in the first half of this year. EBITDA margin also increased from 35.2% in the corresponding period last year by 2.7 percentage points to 37.9% in the first half of year. The increase was mainly attributable to the reduction of procurement cost of tools as a result of the broader application of self-developed tools. In addition, the Group has seen preliminary results from its self-developed intelligent well completion technology, which is expected to bring a new driver in the development of the cluster.

Major development of well completion cluster

- In the first half of 2012, revenue from well cementing and completion products and services was RMB92.2 million, an increase of RMB45.1 million or 95.8% from RMB47.1 million in the same period last year. The growth in the domestic market was driven by demand for well cementing and completion services needed in the Tarim Basin for the region's development and needed for the construction of underground gas storage facilities across the country, while the growth in the overseas market was due to business expansion in the Turkmenistan market in Central Asia and the Iraq market in the Middle East.
- In the first half of 2012, revenue from sandscreen well completion and oil production tools was RMB42.9 million, representing an increase of RMB15.4 million or 56.0% from RMB27.5 million in the same period last year. The demand for sandscreen business has recovered as inventories in the Northwest China market were digested and the success in overseas marketing in the South American and Canadian markets. Use of sandscreen was therefore grown to 19,400 meters, representing an increase of 199.0% from 6,489 meters in the same period last year.
- Shangdong Precede, a subsidiary of the Group, continued to grow steadily. In the first half of 2012, it provided 246 jobs of gravel packing services, generating a revenue of RMB87.9 million, an increase of 42.2% from RMB61.8 million in the same period last year. On top of steady growth in the Shengli and Henan markets, the Group successfully developed business in the Northwest heavy oil region, which is set to become another important market for the Group's gravel packing services.

Drilling Technology Cluster

In the first half of 2012, the drilling technology cluster grew remarkably, contributing revenue of RMB165.2 million, an increase of 97.8% from RMB83.5 million in the same period last year. After years of business deployment, the cluster has developed into three major businesses, providing customers with professional drilling technical services and resolving complex drilling engineering problems.

The drilling technology cluster comprises three business departments: 1) the directional drilling segment mainly providing Measurements While Drilling ("MWD"), Logging While Drilling ("LWD"), rotary steerable drilling and geological steerable drilling. The revenue of this department reached RMB84.1 million during the reporting period, an increase of 60.5% from approximately RMB52.4 million in the same period last year; 2) the integrated drilling department which is engaged in single well general contracting and block general contracting in relation to drilling and cementing services. The revenue of this department reached RMB44.7 million in the first half of the year, an increase of 43.7% from RMB31.1 million in the same period last year; and 3) the newly-established drilling fluid service department provides high-end drilling fluid materials, technology and operational services for high temperature and high pressure wells. This department contributed a revenue of RMB25.6 million during the first half of the year. The newly-acquired Bazhou Companies contributed revenue of RMB10.8 million. EBITDA of the drilling technology cluster increased from RMB27.4 million in the same period last year by 78.1% to RMB48.8 million for the first half of the year. EBITDA margin increased to 29.5%, down 3.3 percentage points as compared to 32.8% in the same period last year, which was mainly due to the higher proportion of low-margin service revenue in the cluster.

Major development of drilling technology cluster

- During the first half of 2012, the Group registered a saturated workload in its directional drilling business and completed 28 jobs domestically and 18 jobs overseas, recording a revenue of RMB84.1 million during the reporting period, an increase of 60.5% from RMB52.4 million over the same period last year. By combining the use of domestically manufactured conventional Measurements While Drilling (“MWD”) apparatus, imported high-end MWD, Logging While Drilling (LWD) apparatus and Rotary Steerable System (RSS) technology, the Group was able to offer highly competitive directional drilling solutions. With an increasing demand for standard technical services in the domestic market, the Group rapidly gained market share with its domestically manufactured standard apparatus, including the winning of a batch order from a whole block in Northeast China. In the overseas market, business in Iraq has grown significantly. With customers seeking to quickly accomplish production in Central Asia, the Group also successfully secured a strong work volume for vertical drilling in Kazakhstan by seizing its increasing demand for drilling.
- The revenue of the integrated drilling department reached RMB44.7 million for the first half of the year, representing an increase of 43.7% over RMB31.1 million during the same period last year. The department targeted three key markets, namely general contracting projects for sidetrack drilling and horizontal well technologies, underground gas storage well cementing projects as well as new technical services for drilling projects. The marketing rolled out from the beginning of this year achieved excellent results. In the first half of the year, the Group offered integrated drilling general contracting services to Yanchang Oilfield’s first sidetracking horizontal well. Construction of the well went smoothly and drilling was completed ahead of schedule, fully reflecting the efficiency and management effectiveness of the Group’s integrated projects that gained high regard from the client. Meanwhile, the Group collaborated with Schlumberger in the area of flexible cement slurry technology, with an aim to build up a leading brand for underground gas storage well cementing technical services. In this regard, the Group has secured a number of agreements and ensured that the workload for the year is at full capacity. During the reporting period, the integrated drilling services completed a total of 7 jobs in China.
- The drilling fluid service is an important new service for the Group. With the extensive and rapid exploration of complex wells, high-quality drilling fluid services have become an integral part of the drilling service portfolio. In the first half of the year, the Group rapidly developed a comprehensive drilling fluid service structure. In terms of oil-based drilling fluid technologies, the Group established cooperation with the Chinese joint venture company of MI-SWACO, a world-leading company in drilling fluid technologies, to jointly promote the application of high-end, oil-based drilling fluid in the development of complex wells onshore. At the same time, the Group constructed its own drilling fluid laboratories and mud station to support a full service capacity in the oil-based drilling fluid area. During the reporting period, operations of three wells for the Group were underway, with part of the revenue already being registered. As these operations demonstrated faster speed, more cost-saving, and sound performance, they gained client’s recognition which laid a solid foundation for earning subsequent work opportunities. On 16 July 2012, for instance, the Group announced that it won the bid for 8-10 jobs in the Tarim Basin, which covers the provision of oil-based drilling fluid technical services for ultra-high temperature and ultra-high pressure wells, cementing the Group’s market position in that area. In terms of high-end, water-based drilling fluid, the Group acquired a 55% interest in a high-end water-based drilling fluid and technical services company, the Bazhou Companies, which specialize in water-based drilling fluids applicable in high-temperature and high-pressure wells with depths that exceed 5,000 meters. The acquiree also brought a team of more than 100 senior engineers. In the future, the Company will further integrate oil-based drilling fluid technologies and water-based drilling fluid technologies to explore the combination of drilling fluid technical services to accommodate wells of different depths and geological features, aspiring to build a leading brand for drilling fluid services in China.

Tubular Services Cluster

In the first half of 2012, the tubular services cluster maintained sustained growth, with its revenue reaching RMB94.2 million, representing an increase of RMB12.9 million, or 15.9%, up from RMB81.3 million for the same period in 2011. This growth stemmed from the Group's securing general contracts for a number of services in the first half of the year, a testimony to the market recognition of the Group's focus on providing one-stop third-party tubular services to its clients. The Group's one-stop, third-party tubular services comprise tubular inspection and evaluation, tubular repair, tubular leasing and tubular operation management, which gained popularity among clients because the solution provides greater convenience in the use of tubular pipes and effectively reduces the cost of use. EBITDA of this cluster substantially increased by 145.9%, up from RMB15.7 million in the same period last year compared to RMB38.6 million in the first half of this year. Due to the higher proportion of high-margin service revenue in the cluster, its EBITDA grew by 21.7 percentage points in the first half of the year, up from 19.3% in the same period last year to 41.0%.

Major development of tubular service cluster

- The cluster entered into several general service contracts with customers in the Tarim market, in services including drilling tool leasing and drilling pipe wear-resistant belt welding, securing enough workload for the entire year. The newly-launched premium connector repair business in the first half of the year was well received in the market and thus further extended the scope of services in the cluster.
- Northern Heavy Anton is a joint venture under the tubular service cluster. The Group prudently allocated a considerable amount of RMB31.9 million for the provision of impairment for the investment at the end of 2011. In the first half of the year, Northern Heavy Anton implemented a loss-reduction scheme that aims to reduce expenses by various cost-control measures on the one hand and explore new revenue streams by new product development and launch on the other hand. The operation of the company has improved compared with the same period last year. As such, the Group makes no further provision for the impairment of this investment.

Buildup of Service Capacity

The buildup of service capacity is an important part of the Group's growth management and provides an essential support for the continued development and expansion of its businesses. The Group has consistently been pursuing the strategic objective of establishing integrated technical services for oil and gas field development with wellbore-related technologies as its core. As such, the Group actively facilitates the building up of integrated service capacity, i.e. a comprehensive value chain integration of drilling, well completion, down-hole operation and oil production, and the integration of a supply chain comprising technologies, tools, chemical materials, facilities and talents. The Group has adopted various means to facilitate the buildup of integrated service capacity of all businesses, including investment, mergers and acquisition ("M&A"), research and development ("R&D"), talent recruitment and development. As of 30 June of 2012, the Group's capital expenditure for the construction of service capacity amounted to approximately RMB182.7 million, representing an increase of approximately 70.7% as compared to RMB107.0 million for the corresponding period last year. Out of the capital expenditure, investments in fixed assets were approximately RMB111.9 million, representing an increase of 24.1% over the corresponding period last year; investments in intangible assets were approximately RMB31.0 million, representing an increase of 146.0% over the corresponding period last year; payment for equity investments amounted to RMB39.9 million, representing an increase of 9 times over the corresponding period last year, which was mainly attributed to the first installment of consideration for the acquisition of the Bazhou Companies.

Investment and M&A

During the reporting period, the Group stepped up its efforts in investment and M&A, focusing on the investment in equipment, facilities and industrial bases of all the core services and newly established key businesses. Meanwhile, the Group also actively looked for M&A targets in China and overseas, and completed one acquisition project. Through investment and M&A, the Group significantly enhanced the service capacity of all business clusters.

Major Investment and M&A Projects

- As for drilling fluids, the Group seized the opportunities presented by the domestic high-end drilling fluid market during the reporting period, and rapidly built up its service capacity in oil-based and water-based drilling fluids through investment and M&A. With respect to oil-based drilling fluid, the Group swiftly established a drilling fluid laboratory and a mud station facility in the Tarim region to support oil-based drilling fluid services. Having such functions as R&D, fluid-mixing, recycling, storage and processing, the establishment offered support for the technological cooperation between the Group and MI-SWACO, a world leader in drilling fluid technology. Joint operation was successfully carried out in the region and satisfactory results were reaped. With respect to water-based drilling fluid, the Group acquired the 55% equity interest in the Bazhou Companies to attain their talents, technologies, production lines and market for high-end water-based drilling fluids, successfully consolidating the Group's position in the high-end drilling fluid sector.
- As for directional drilling, during the reporting period, the Group invested in the establishment of five new directional well operating units. As of 30 June 2012, the Group had built up 15 directional well operating units, of which 12 operated in China, two operated in the Middle East and one operated in Central Asia.
- Pressure pumping is a key new business of the Group. As such, the Group is committed to building up its integrated service capacity with a focus on the investment in the equipment and materials required for this service. Regarding the 10 pressure pumping equipment that were ordered last August, five equipment with a service capacity of 10,000 HHP had been delivered and examined as of 30 June 2012, and the remaining equipment is planned to arrive in the third quarter. Two operating units have been built as well. With the equipment arriving successively, the Group has rapidly opened up the market and commenced operation in the area of unconventional resources. Meanwhile, the Group has started investing in pressure pumping materials. Together with the equipment, an integrated pressure pumping service capacity is being developed.
- As for coiled tubing, the Group was in the process of building up three new coiled tubing operating units during the reporting period. One unit is expected to be completed in October this year and will engage in operations in China. The remaining two units are expected to be set up in the first half of next year. Currently, the Group has four coiled tubing units in operation. Of which, two operate in China and two operate in the Middle East. The Group will have the service capacity of seven coiled tubing operation units upon completion of the investment.
- As for tubular helium testing, the Group set up one new tubular helium testing operation unit during the reporting period. As of 30 June 2012, the Group had 10 tubular helium testing operating units. Meanwhile, the set up of three tubular helium testing operating units are underway and are expected to be completed in the second half of this year.

- In the first half of 2012, the construction of industrial bases in China and overseas was rolled out smoothly. In China, the Group actively explored strategic partners to commit resources in the construction of the base for the Group to avoid investment in non-core assets. During the reporting period, the relevant works of all bases were in full swing. Abroad, the construction of the first phase of the on-site service base in Halfaya, Iraq was fully completed. The construction of the second phase was carried out concurrently.

Research and Development

In the first half of 2012, the focus of the Group's investment in R&D is on the key technologies required for the development of all the businesses, emphasizing on facilitating the research of proprietary product development with the aim of increasing self-developed products, enhancing operating efficiency, ensuring safety during development and achieving cost-saving in well development process. During the reporting period, the Group also devised and implemented a scientific research incentive scheme to award those scientific research projects that made outstanding contributions, with an aim to boost the motivation of research and technical staff to deliver more technical breakthroughs and R&D projects. In the first half year, the Group invested RMB36.9 million in R&D, representing an increase of 8.2% as compared to RMB34.1 million for the corresponding period last year. Out of the investment, intangible assets amounted to RMB8.0 million and R&D expenses amounted to RMB28.9 million. During the reporting period, the Group added a total of 29 patent rights, bringing the total number of the Group's patent rights to 354.

Major R&D Projects

- Research on sidetracking slim hole technologies for horizontal well drilling and well completion: The Group successfully completed the integrated drilling projects of sidetracking window opening, sidetracking horizontal well drilling and completion technologies for 4 inch slim hole, the first case in China, demonstrating an established technical leadership in China.
- Research and production of large-size tubular helium testing tools for underground gas storage facilities: The Group successfully completed the research and production of 13 3/8 inch casing and 10 3/4 inch casing which were put into use in well testing. This is an advanced technology safe and reliable, which provided further technical support to the Group in rapidly expanding integrated projects for the underground gas storage facility market;
- Fracture fluid portable set can project: The Group has completed the trial production of the sample machine. Set cans have the advantages of having a large volume, low transportation costs, occupying a very small on-site area, and being safe and reliable. The utilization of portable set cans will significantly reduce the cost of pressure pumping technology service and enhance the Group's market competitiveness of this business.
- After over 100 experiments, the PBL intelligent well completion technology has now completed both oil and water experiments, high pressure filling experiments and high density media filling experiments, satisfying the technical requirements of well filling operations under different geological conditions, with indoor successful rate reaching 80%. It is expected that the technology can be launched for application in the market during the second half of this year.

Human Resources

The Group continued to build its service capacity based on the emphasis on 'Talents First', in which the Group diversified the programs for recruiting, training, retaining and motivating talents, thus strengthening the Group's talent reserves that are a critical support to the Group's fast business expansion and long-term development. As of June 30, 2012, the total number of permanent staff was 1,395, representing an increase of 10.5% from 1,262 at the end of last year. Among these employees, 556 were engineers (end of 2011: 514), 498 were on-site servicemen (end of 2011: 447), 178 were marketing personnel (end of 2011: 178) and 163 were management personnel (end of 2011: 123). Employees of senior engineer level or above accounted for about 25.8% of the Group's total staff. Outsourced labour amounted to 866 persons during the first half of the year, representing an increase of 13.5% compared to last year.

Major development in human resources

- During the first half of the year, the Group made special efforts to strengthen high-end staffing. The Group hired senior executives from Motorola and Shell in China to lead the Group's human resources management, and these international talents can serve to introduce global best practice to the organization to facilitate the Group's globalization strategy. The Group also recruited top-class industry leaders to oversee new business areas such as drilling fluid, drilling technology, pressure pumping and new materials, anchoring the Group's development in new business.
- During the first half of the year, the Group continued to pursue its strategy of seeking skilled talents through public recruitment, and sourcing young talents through campus recruitment and talent discovery internally. During the reporting period, the Group hired 68 skilled talents through public recruitment, all of whom are experienced professionals and on-site engineers who can provide operational support to cope with the rapid expansion of the Group's businesses. It also recruited 218 graduates from campuses at home and abroad thus far in 2012.
- The Group introduced changes to its salary incentive scheme, making it an indispensable part for the Group to achieve its financial objectives. The new scheme links the salary of a position to indicators such as revenue, profit targets and collection of receivables, motivating employees to accomplish the targets by means of merit pay. This significantly reduced direct costs and improved capital efficiency.
- During the first half of 2012, the Group granted a total of 53,100,000 ordinary share options to over 160 core personnel and high-performers. Of these, 40,000,000 share options are exercisable at a price of HKD1.072 each, 6,000,000 at HKD1.24 each and the remaining 7,100,000 at HKD1.16 each.

Outlook

In the second half of 2012, the Group is optimistic about the opportunities presented by its “natural gas” strategy in China and “follow-up” strategy in the overseas markets. Domestically, the Group is fully geared up to bid for several sizable tenders in major natural gas basins in the second half of the year. So far, the Group has announced the winning of bids for batch orders in the oil-based drilling fluid service and multistage fracking service. The diversified business layout built primarily on high-end technical services and supplemented by standard technical services already proved effective and this model is expected to create more market opportunities. Overseas, the Group will continue to explore growing market demands from Chinese investors who are speeding up oilfield development in the Middle East, Central Asia and South America, especially the huge demands for technical services in the Halfaya Project in Iraq. As of 30 June 2012, the Group’s order backlog already amounted to 572 jobs domestically and 82 jobs overseas, or a total of 654 jobs. Together with new volume generated from several winning bids, the second half of year will be a peak time for order execution.

Building on the steady growth of the current services, the Group will also strengthen the promotion of new services in the second half of 2012, with drilling fluid, pressure pumping and integrated drilling services as the new key services. For the drilling fluid service, the Group will further integrate oil-based and water-based drilling fluid services to provide tailor-made drilling fluid services for wells with ultra depth and ultra high temperature. For pressure pumping services, with the first phase of service capacity construction already completed, the services will be launched in the unconventional resources area in the second half of the year to accumulate related technical experience. For the integrated drilling services, the business already showed strong momentum this year, the Group will continue to develop and utilize its integrated service capacity to complete the strong order backlog.

The buildup of service capacity will continue to focus on the development of each business cluster through various means like making further investment in equipment, promoting the construction of industrial bases, encouraging R&D projects, introducing all levels of talents as well as actively searching for M&A targets both domestically and abroad to back up the Group’s sustainable growth.

The profitability enhancement program and asset use efficiency enhancement program implemented this year have shown remarkable results. In view of that, the Group will continue to carry out the reward and penalty system that is aligned with comprehensive financial targets. With the commitment of all employees, the Group endeavors to deliver strong financial performance. The year of 2012 is expected to be a year of harvest.

FINANCIAL REVIEW

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

Revenue

The Group’s revenue in the first half of 2012 amounted to RMB803.7 million, representing an increase of RMB277.3 million or 52.7% as compared to the same period of 2011. The increase of the Group’s revenue was mainly attributable to the rapid expansion of natural gas development in China, fast growth of the Group’s business in overseas markets as well as the sustained growth in its core services and the rapid launches of its new services.

Cost of Sales

The operating costs in the first half of 2012 increased to RMB419.0 million, representing an increase of 39.9%, from RMB299.6 million in the same period of 2011. The increase was mainly due to the increase in sales.

Other Gains

Other gains in the first half of 2012 decreased to RMB0.7 million, representing a decrease of 68.2%, from RMB2.2 million in the same period of 2011. The decrease was mainly due to the decrease in government subsidies.

Selling Expenses

The selling expenses in the first half of 2012 amounted to RMB72.3 million, representing an increase of RMB29.8 million or 70.1% as compared with RMB42.5 million in the same period of 2011. This was mainly attributable to the Group's strengthened marketing efforts.

Administrative Expenses

The administrative expenses in the first half of 2012 amounted to RMB94.8 million, representing an increase of RMB21.5 million or 29.3% as compared with RMB73.3 million in the same period of 2011. This was mainly attributable to the increase of the Group's scale.

R&D Expenses

The R&D expenses for the first half of 2012 amounted to RMB28.9 million, representing an increase of RMB7.1 million or 32.6% as compared with RMB21.8 million in the same period of 2011. This was mainly attributable to the Group's increased investment in research and development.

Sales Tax and Surcharges

The sales tax and surcharge in the first half of 2012 amounted to RMB15.7 million, representing an increase of RMB7.1 million or 82.6% as compared with RMB8.6 million in the same period of 2011. The increase was mainly due to an increase in sales tax taxable income of the Group.

Operating Profit

As a result of the foregoing, the operating profit in the first half of 2012 amounted to RMB173.7 million, representing an increase of RMB91.0 million or 110.0% as compared with RMB82.7 million in the same period of 2011. The operating profit margin was 21.6% in the first half of 2012, representing an increase of 5.9 percentage points from 15.7% in the same period of 2011.

Finance Expenses (Net)

Net finance expenses in the first half of 2012 was RMB16.9 million, up approximately RMB10.4 million compared to the same period of 2011. The increase was mainly due to the increase in financing expenses arisen from bank borrowings for investments in fixed assets, R&D, and the construction of service capacity.

Share of Loss or Profit of a Jointly Controlled Entity

The share of loss or profit of a jointly controlled entity was nil in the first half of 2012, as compared to the loss of RMB5.9 million in the same period of 2011.

Income Tax Expense

Income tax expense in the first half of 2012 amounted to RMB25.0 million, representing an increase of approximately RMB9.9 million from the same period of 2011, mainly due to an increase in average tax rate because the Group grew more business in overseas markets and some of them have higher tax rate.

Profit for the Period

As a result of the foregoing, the Group's profit for the first half of 2012 was RMB132.9 million, representing an increase of RMB76.7 million or 136.5% from the same period of 2011.

Profit Attributable to Equity Holders of the Company

The Group's profit attributable to equity holders of the Company in the first half of 2012 amounted to approximately RMB124.6 million, representing an increase of approximately RMB73.9 million or 145.8% from the same period of 2011.

Trade and Notes Receivables

As at 30 June 2012, the Group's net trade and notes receivables were approximately RMB966.8 million, representing an increase of RMB295.8 million as compared to 31 December of 2011. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in the first half of 2012 were 170 days, representing a decrease of 66 days as compared to the same period of 2011. This was mainly attributable to the Group's strengthened management of receivables collection.

Inventory

As at 30 June 2012, the Group's inventory was RMB368.1 million, representing an increase of RMB96.7 million as compared to 31 December 2011, mainly due to the higher inventory of some tools to prepare for larger business volume.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2012, the Group's cash and bank deposits amounted to approximately RMB366.6 million (included: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing a decrease of RMB110.9 million as compared to 31 December 2011, mainly due to the Group's increased investment in fixed assets and intangible assets in order to meet the needs of its own development, and also a substantial increase in investing cash outflow required for M&A.

As at 30 June 2012, the Group's outstanding short term bank loans amounted to RMB227.4 million and the Group's outstanding long term bank loans due within one year amounted to RMB4.9 million. Credit facilities granted to the Group by domestic banks in China amounted to RMB923.4 million, of which approximately RMB658.0 million were not used.

As at 30 June 2012, the gearing ratio of the Group was 33.8%, representing an increase of 8.8 percentage points from the gearing ratio of 25.0% as at 31 December 2011. This was mainly due to the increase of bank loans, trade payables and notes payables. Net debt included borrowings and trade and notes payables. Total capital was calculated as equity plus net debt.

The equity attributable to equity holders of the Company increased to RMB1,767.3 million in the first half of 2012 from RMB1,666.1 million as at 31 December 2011. The increase was mainly due to the increase in profit for the 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 arises from its foreign currency deposits and trade receivables denominated in foreign currencies. Any fluctuations in RMB exchange rate against US dollars may have a negative impact on the Group's operating results and financial position.

NET CASH USED IN OPERATING ACTIVITIES

As at 30 June 2012, net cash used in operating activities of the Group amounted to RMB84.2 million, representing an increase of RMB21.0 million outflow as compared to the same period in 2011. This was mainly attributable to a greater increase in purchase costs and various costs and expenses compared to the increase in recovered receivables.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for the first half of 2012 was approximately RMB182.7 million, of which, investments in fixed assets were approximately RMB112.3 million, investments in intangible assets were approximately RMB8.0 million and the payment for the equity investments was approximately RMB39.9 million.

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 2012, the Group's operating lease commitments amounted to approximately RMB5.4 million. As at the balance sheet date (30 June 2012), the Group had capital commitments of approximately RMB218.4 million, which was not provided for in the balance sheet.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any material contingent liabilities or guarantees.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 June 2012, the Group did not have any off-balance sheet arrangement.

INTERIM DIVIDEND

The board of directors (the "Board") of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (For the six months ended 30 June 2011: nil).

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

For the six months ended 30 June 2012, neither 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 2012, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated 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 and beneficial owner	705,334,150	33.46%
Zhang Yongyi		Beneficial owner	442,000	0.02%

Notes:

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

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

The directors of the Company (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 2012, the Directors and chief executive (including their spouses and children under 18 years of age) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

As at 30 June 2012, the Directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company under the share option scheme, 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 2012	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 2012
Director Zhang Yongyi	3 February 2008	3 February 2009 to 2 February 2012	1.634	1,5	1,400,000				1,400,000	0
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2,9	500,000					500,000
	19 January 2012	19 January 2013 to 18 January 2015	1.072	2,11		500,000				500,000
				Sub total:	1,900,000	500,000			1,400,000	1,000,000
Zhu Xiaoping	3 February 2008	3 February 2009 to 2 February 2012	1.634	1,5	1,200,000				1,200,000	0
	29 April 2009	29 April 2010 to 28 April 2012	0.684	2,6	300,000		300,000			0
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2,9	500,000					500,000
	19 January 2012	19 January 2013 to 18 January 2015	1.072	2,11		500,000				500,000
				Sub total:	2,000,000	500,000	300,000		1,200,000	1,000,000
Wang Mingcai	3 February 2008	3 February 2009 to 2 February 2012	1.634	1,5	1,000,000				1,000,000	0
	29 April 2009	29 April 2010 to 28 April 2012	0.684	2,6	600,000		600,000			0
	20 May 2011	20 May 2012 to 19 May 2014	1.450	2,9	500,000					500,000
	19 January 2012	19 January 2013 to 18 January 2015	1.072	2,11		500,000				500,000
				Sub total:	2,100,000	500,000	600,000		1,000,000	1,000,000
Luo Lin	29 April 2009	29 April 2010 to 28 April 2013	0.684	1,6	2,000,000					2,000,000
	9 April 2010	9 April 2011 to 8 April 2014	0.750	1,7	80,000					80,000
	20 May 2011	20 May 2012 to 19 May 2015	1.450	1,9	2,000,000					2,000,000
	19 January 2012	19 January 2013 to 18 January 2016	1.072	1,11			100,000			100,000
	18 June 2012	18 June 2013 to 17 June 2016	1.16	1,13		1,900,000				1,900,000
				Sub total:	4,080,000	2,000,000				6,080,000

Other Information *(Continued)*

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 2012	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 2012
Wu Di	20 May 2011	20 May 2012 to 19 May 2015	1.450	1,9	1,100,000					1,100,000
	19 January 2012	19 January 2013 to 18 January 2016	1.072	1,11		900,000				900,000
	18 June 2012	18 June 2013 to 17 June 2016	1.16	1,13		100,000				100,000
				Sub total:	1,100,000	1,000,000				2,100,000
Liu Enlong	20 May 2011	20 May 2012 to 19 May 2015	1.45	1,9	1,100,000					1,100,000
	19 January 2012	19 January 2013 to 18 June 2016	1.072	1,11		900,000				900,000
	18 June 2012	18 June 2013 to 17 June 2016	1.16	1,13		100,000				100,000
				Sub total:	1,100,000	1,000,000				2,100,000
Employees in aggregate	3 February 2008	3 February 2009 to 2 February 2012	1.634	1,5	5,250,000			5,250,000		0
	29 April 2009	29 April 2010 to 28 April 2013	0.684	1,6	16,578,000		2,597,333	502,667		13,478,000
	9 April 2010	9 April 2011 to 8 April 2014	0.750	1,7	26,380,000		2,726,332	1,536,668		22,117,000
	23 November 2010	23 November 2011 to 22 November 2014	0.760	4,8	10,000,000					10,000,000
	20 May 2011	20 May 2012 to 19 May 2015	1.45	1,9	33,150,000			2,950,000		30,200,000
	25 July 2011	25 July 2012 to 24 July 2015	1.506	3,10	500,000					500,000
	19 January 2012	19 January 2013 to 18 January 2016	1.072	1,11		36,600,000				36,600,000
	16 April 2012	16 April 2013 to 15 April 2016	1.24	4,12		6,000,000				6,000,000
	18 June 2012	18 June 2013 to 17 June 2016	1.16	4,13		5,000,000				5,000,000
				Sub total:	91,858,000	47,600,000	5,323,665	10,239,335		123,895,000
				Total:	104,138,000	53,100,000	6,223,665	13,839,335		137,175,000

SHARE OPTION SCHEME (Continued)

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 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 all of their share options during the option period commencing from each of first anniversary of the date of grant until the expiry date.
4. The grantee may not exercise the options to purchase shares until after 12 months from the date of grant. If the grantee has worked for less than 12 months, all options of the grantee will lapse automatically and will no longer be exercisable. If the grantee has worked for 36 months or above, the grantee can exercise all options. If the grantee has worked for 12 months or above but less than 36 months, the number of effective options the grantee actually obtains is "the number of options granted X the number of working quarters of the grantee/12 (only the number of full quarters is counted). The remaining options will lapse automatically. All options are entitled to be exercised before 22 November 2014.
5. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.63.
6. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.63.
7. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.750.
8. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.760.
9. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.440.
10. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.30.
11. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.08.
12. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.28.
13. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.16.

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

As at 30 June 2012, 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	696,946,150	33.07%
Seletar Limited	1	Trustee	696,946,150	33.07%
Serangoon Limited	1	Trustee	696,946,150	33.07%
Avalon Assets Limited	1	Trustee	696,946,150	33.07%
Pro Development Holdings Corp.	1	Beneficial owner	696,946,150	33.07%
China Harvest Fund, L.P.	2	Interest of controlled corporation	375,000,000	17.79%
China Renaissance Capital Investment, L.P.	2	Interest of controlled corporation	375,000,000	17.79%
China Renaissance Capital Investment GP	2	Interest of controlled corporation	375,000,000	17.79%
Erdos Holding Company Limited	2	Beneficial owner	375,000,000	17.79%
Chengwei Anton Holdings Inc.	3	Beneficial owner	162,350,740	7.70%
Chengwei Ventures Evergreen Fund, LP	3	Interest of controlled corporation	162,350,740	7.70%
Chengwei Ventures Evergreen Management, LLC	3	Interest of controlled corporation	162,350,740	7.70%
EXL Holdings, LLC	3	Interest of controlled corporation	162,350,740	7.70%
Li Eric Xun	3	Interest of controlled corporation	162,350,740	7.70%
Li Zhu Yi Jing	3, 4	Interest of spouse	162,350,740	7.70%

Notes:

1. The 696,946,150 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 2012, 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.

DIRECTORS' SECURITIES TRANSACTIONS

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 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 reporting period.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 (the "Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2012, except for the following deviation:

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 reporting period. 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

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Mr. Wang Mingcai. The Audit Committee of the Company has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2012.

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

Hong Kong, 24 August 2012

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 31 to 62, 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 2012 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, 24 August 2012

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Condensed Consolidated Interim Balance Sheet

As at 30 June 2012

(Amounts expressed in thousands of RMB)

	Note	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	7	702,003	538,576
Land use rights		60,598	31,281
Intangible assets	8	406,496	365,422
Investment in a jointly controlled entity	9	4,000	4,000
Deferred income tax assets		15,890	17,643
		1,188,987	956,922
Current assets			
Inventories	10	368,062	271,411
Trade and notes receivables	11	966,812	670,959
Prepayments and other receivables	12	200,551	120,794
Restricted bank deposits	13	32,200	10,380
Term deposits with initial terms of over three months	13	1,400	5,000
Cash and cash equivalents	13	333,036	462,154
		1,902,061	1,540,698
Total assets		3,091,048	2,497,620
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	14	198,621	198,115
Reserves			
– Proposed final dividend		—	35,700
– Others		1,568,695	1,432,315
		1,767,316	1,666,130
Non-controlling interests		83,238	73,967
Total equity		1,850,554	1,740,097

Condensed Consolidated Interim Balance Sheet (Continued)

As at 30 June 2012

(Amounts expressed in thousands of RMB)

	Note	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	28,000	—
Long-term bonds	20	299,128	—
Other long-term payable	19	9,167	14,847
Deferred income tax liabilities		2,548	957
		338,843	15,804
Current liabilities			
Short-term borrowings	15	227,350	315,000
Current portion of long-term borrowings	15	4,908	5,003
Current portion of other long-term payable	19	11,121	10,896
Derivative financial liabilities	16	193	—
Trade and notes payables	17	386,328	257,791
Accruals and other payables	18	237,068	123,852
Current income tax liabilities		34,683	29,177
		901,651	741,719
Total liabilities		1,240,494	757,523
Total equity and liabilities		3,091,048	2,497,620
Net current assets		1,000,410	798,979
Total assets less current liabilities		2,189,397	1,755,901

The accompanying notes on page 37 to 62 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB except per share data)

	Note	Six months ended 30 June	
		2012 (Unaudited)	2011 (Reclassified, Notes 3, 22) (Unaudited)
Revenue	21	803,700	526,407
Cost of sales		(418,966)	(299,601)
Gross Profit		384,734	226,806
Other gains		664	2,194
Selling expenses		(72,289)	(42,492)
Administrative expenses		(94,773)	(73,316)
Research and development expenses		(28,889)	(21,829)
Sales tax and surcharges		(15,739)	(8,621)
Operating profit	22	173,708	82,742
Interest income		1,172	1,074
Finance expenses, net	23	(16,935)	(6,543)
Share of loss of a jointly controlled entity		—	(5,894)
Profit before income tax		157,945	71,379
Income tax expense	24	(25,035)	(15,140)
Profit for the period		132,910	56,239
Profit attributable to:			
Equity holders of the Company		124,643	50,655
Non-controlling interests		8,267	5,584
		132,910	56,239
Earnings per share for the profit attributable to the equity holders of the Company (expressed in RMB per share)			
– basic	25	0.0592	0.0242
– diluted	25	0.0587	0.0239
Dividends	26	—	—

The accompanying notes on page 37 to 62 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB)

	Note	Six months ended 30 June	
		2012 (Unaudited)	2011 (Unaudited)
Profit for the period		132,910	56,239
Other comprehensive income/(loss), net of tax:			
Cash flow hedges	16	(193)	353
Currency translation differences		416	(2,467)
Other comprehensive income/(loss) for the period, net of tax		223	(2,114)
Total comprehensive income for the period		133,133	54,125
Total comprehensive income attributable to:			
Equity holders of the Company		124,866	48,541
Non-controlling interests		8,267	5,584
		133,133	54,125

The accompanying notes on page 37 to 62 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2012
(Amounts expressed in thousands of RMB)

Attributable to the Company's equity holders												
	Note	Attributable to the Company's equity holders						Currency translation differences		Non-controlling interests		Total Equity
		Share capital	Share premium	Capital reserve	Statutory reserve	Hedging reserve	Retained earnings	Total	Total	Total		
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 income/(loss):												
– Cash flow hedges		—	—	—	—	353	—	—	353	—	353	
– Currency translation differences		—	—	—	—	—	—	(2,467)	(2,467)	—	(2,467)	
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	26	—	(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	
Balance at 1 January 2012 (Audited)		198,115	579,601	340,267	40,646	—	516,998	(9,497)	1,666,130	73,967	1,740,097	
Profit for the period		—	—	—	—	—	124,643	—	124,643	8,267	132,910	
Other comprehensive income/(loss):												
– Cash flow hedges		—	—	—	—	(193)	—	—	(193)	—	(193)	
– Currency translation differences		—	—	—	—	—	—	416	416	—	416	
Total comprehensive income		—	—	—	—	(193)	124,643	416	124,866	8,267	133,133	
Share option scheme	14(b)	—	—	9,406	—	—	—	—	9,406	—	9,406	
Share option exercised	14(a)	506	4,573	(1,471)	—	—	—	—	3,608	—	3,608	
Dividends	26	—	(36,694)	—	—	—	—	—	(36,694)	(10,000)	(46,694)	
Acquisition of subsidiaries	29	—	—	—	—	—	—	—	—	11,004	11,004	
Balance at 30 June 2012 (Unaudited)		198,621	547,480	348,202	40,646	(193)	641,641	(9,081)	1,767,316	83,238	1,850,554	

The accompanying notes on page 37 to 62 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB)

	Note	Six months ended 30 June	
		2012 (Unaudited)	2011 (Unaudited)
Net cash used in operating activities		(84,150)	(63,211)
Net cash used in investing activities	27	(179,149)	(105,957)
Net cash generated from financing activities	27	135,079	135,874
Net decrease in cash and cash equivalents		(128,220)	(33,294)
Cash and cash equivalents, at beginning of the period	13	462,154	188,960
Exchange loss on cash and cash equivalents		(898)	(3,803)
Cash and cash equivalents at end of the period	13	333,036	151,863

The accompanying notes on page 37 to 62 are an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

On 14 May 2012, the Company acquired 55% equity interest of Bazhou Chang Xiang Applied Chemical Technology Co., Ltd., Bazhou Cheng Xi Petroleum Commodity Co., Ltd. and Bazhou Cheng Xi Petroleum Commodity Kazakhstan Co., Ltd. (Note 29).

This condensed consolidated interim financial information has not been audited.

This unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 24 August 2012.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with International Financial Reporting Standards ('IFRS').

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

Change of presentation of the condensed consolidated interim income statement

For the six months ended 30 June 2012, the Company adopted an alternative presentation of the condensed consolidated interim income statement, with operating expenses presented by function. The comparative figures for the six months ended 30 June 2011 have been reclassified according to the change in presentation. A reconciliation of operating expenses by nature is disclosed in Note 22.

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

3. ACCOUNTING POLICIES *(CONTINUED)*

Amended standards adopted by the Group:

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

New standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.
- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

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 2011.

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 2011.

There have been no changes in the risk management department since year end 2011 or in any risk management policies.

5.2 Liquidity risk

Compared to year end 2011, 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).

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(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 2012 and 31 December 2011:

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Liabilities		
– Derivatives used for hedging (level 2)	193	—
	193	—

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, the current portion of long-term borrowings and long-term payable approximate their fair values due to their short maturities. As of 30 June 2012, the fair value of long-term borrowings, long-term bonds and long-term payables approximated to RMB28,343,000, RMB303,120,000 and RMB9,158,000 respectively.

In 2012, 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.

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(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 makes decisions about resources to be allocated to the segments and assesses their performance. Financial information of these entities has been separated to present discrete segment information to be reviewed by the CODM.

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

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

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
Six months ended 30 June 2012					
(Unaudited)					
Revenue	321,310	222,999	165,180	94,211	803,700
EBITDA	169,341	84,560	48,837	38,641	341,379
Depreciation and amortisation	(10,894)	(7,134)	(5,806)	(10,973)	(34,807)
Interest income	34	299	8	533	874
Finance expenses, net	—	—	(844)	(127)	(971)
Share of loss from a jointly controlled entity	—	—	—	—	—
Income tax expense	(11,705)	(5,500)	(4,625)	(3,205)	(25,035)
Six months ended 30 June 2011					
(Unaudited)					
Revenue	225,200	136,413	83,488	81,306	526,407
EBITDA	116,749	48,020	27,422	15,684	207,875
Depreciation and amortisation	(8,295)	(5,757)	(4,049)	(9,502)	(27,603)
Interest income	37	237	—	13	287
Finance expenses, net	(171)	30	(16)	(20)	(177)
Share of loss from a jointly controlled entity	—	—	—	(5,894)	(5,894)
Income tax expense	(8,112)	(3,107)	(2,633)	(1,288)	(15,140)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
As at 30 June 2012 (Unaudited)					
Segment assets	724,654	941,871	576,709	315,431	2,558,665
Segment assets include:					
Investments in a jointly controlled entity	—	—	—	4,000	4,000
Additions to non-current assets (other than deferred tax assets)					
	43,493	27,582	153,973	23,811	248,859
As at 31 December 2011 (Audited)					
Segment assets	577,089	882,670	198,773	334,836	1,993,368
Segment assets include:					
Investments in a jointly controlled entity	—	—	—	4,000	4,000
Additions to non-current assets (other than deferred tax assets)					
	158,407	9,777	29,451	25,329	222,964

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

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
EBITDA for reportable segments	341,379	207,875
Corporate overheads	(148,530)	(103,109)
Depreciation	(26,475)	(23,234)
Amortisation	(8,332)	(4,369)
Interest income	874	287
Finance expenses, net	(971)	(177)
Share of loss of a jointly controlled entity	—	(5,894)
Profit before income tax	157,945	71,379

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION *(CONTINUED)*

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

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Assets for reportable segments	2,558,665	1,993,368
Corporate assets for general management	532,383	504,252
Total Assets	3,091,048	2,497,620

Geographical Information

	Revenue		Non-current Asset	
	Six months ended 30 June		As at 30 June	As at 31 December
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
PRC	607,001	397,366	1,068,386	881,642
Iraq	130,984	87,801	117,368	71,926
Other countries	65,705	41,240	3,233	3,354
Total	803,700	526,407	1,188,987	956,922

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

Client Information

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

For the six months ended 30 June 2012

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
Client 1	62,719	—	—	—	62,719
Client 2	38,568	—	—	—	38,568
Client 3	37,568	—	—	—	37,568
Client 4	—	—	—	14,017	14,017
Client 5	35,529	—	—	—	35,529
Client 6	—	—	40,224	—	40,224
Client 7	—	—	25,616	49,983	75,599
Client 8	—	21,403	—	—	21,403
Total	174,384	21,403	65,840	64,000	325,627

Note: Client 2, 5, 6, 7 are entities controlled by one major oilfield operator, and client 3, 4 are entities controlled by another major oilfield operator.

For the six months ended 30 June 2011

	Down-hole operation	Well completion	Drilling technology	Tubular services	Total
Client 1	—	—	26,624	—	26,624
Client 2	—	—	17,163	—	17,163
Client 3	—	—	10,760	—	10,760
Client 4	—	15,530	—	—	15,530
Client 5	73,259	—	—	—	73,259
Client 6	29,100	—	—	—	29,100
Client 7	—	—	—	35,737	35,737
Total	102,359	15,530	54,547	35,737	208,173

Note: Client 2, 3, 6 and 7 are entities controlled by one major oilfield operator.

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	30 June 2012 (Unaudited)	30 June 2011 (Unaudited)
Opening net book value	538,576	419,471
Additions	117,999	62,852
Acquisition of subsidiaries	75,295	—
Disposal of a subsidiary	—	(3,013)
Depreciation charge	(29,505)	(27,117)
Disposals	(362)	(144)
Closing net book value	702,003	452,049

As at 30 June 2012, buildings amounting to RMB6,777,000 were pledged as security for long-term borrowings (31 December 2011: nil) and buildings amounting to RMB37,742,000 were pledged as counter-guarantee for short-term borrowings (31 December 2011: RMB37,742,000)(Note 15(b) and (d)).

8. INTANGIBLE ASSETS

	Patents	Goodwill	Computer software	Total
As at 1 January 2012	94,516	265,697	5,209	365,422
Additions	7,962	42,114	98	50,174
Amortisation charge	(8,738)	—	(362)	(9,100)
As at 30 June 2012 (Unaudited)	93,740	307,811	4,945	406,496
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

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(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'), which is an unlisted and a limited liability company established in the PRC.

	Six months ended 30 June	
	30 June 2012 (Unaudited)	30 June 2011 (Unaudited)
Beginning of the period/year	4,000	50,244
Share of loss	—	(5,894)
Ending of the period/year	4,000	44,350

10. INVENTORIES

	As at	As at
	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Raw materials	112,269	51,426
Work-in-progress	81,408	58,047
Finished goods	172,028	159,797
Spare parts and others	2,357	2,141
	368,062	271,411

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

11. TRADE AND NOTES RECEIVABLES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Trade receivables from third parties, net (a)	947,162	647,212
Notes receivables	19,650	23,747
	966,812	670,959

Note:

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

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Within 6 months	720,990	418,914
6 months - 1 year	151,041	166,584
1 - 2 years	73,687	61,697
2 - 3 years	10,027	11,786
Over 3 years	9,287	6,023
Trade receivables, gross	965,032	665,004
Less: Impairment of receivables	(17,870)	(17,792)
Trade receivables, net	947,162	647,212

- (b) Most of the trade receivables are with credit terms of one year, except for retention money which would be collected one year after the completion of the sales.
- (c) As at 30 June 2012, trade receivables derived from the contract entered into between Bazhou Cheng Xi Petroleum Commodity Co., Ltd., a subsidiary of the Company, and one client amounting to RMB4,800,000 were pledged as security for short-term bank borrowing amounting to RMB10,000,000 (31 December 2011: RMB211,964,000 were pledged as security for short-term bank borrowing amounting to RMB105,000,000) (Note 15(d)).

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

12. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Advances to suppliers	72,236	61,479
Other receivables	128,274	58,900
Amounts due from a related party (Note 30 (c))	41	415
	200,551	120,794

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

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Within 6 months	132,730	76,263
6 months - 1 year	55,880	30,304
1 - 2 years	6,428	7,119
2 - 3 years	1,934	2,370
Over 3 years	8,072	8,557
Prepayments and other receivables, gross	205,044	124,613
Less: Impairment of prepayments and other receivables	(4,493)	(3,819)
Prepayments and other receivables, net	200,551	120,794

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

13. CASH AND BANK BALANCES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Restricted bank deposits (a)	32,200	10,380
Term deposits with initial terms of over three months	1,400	5,000
Cash and cash equivalents		
– Cash on hand	1,235	1,423
– Deposits in bank	331,801	460,731
Total cash and cash equivalents	333,036	462,154
	366,636	477,534

(a) As at 30 June 2012, bank deposits amounting to RMB5,351,000 were held as securities for long-term borrowings due within one year (31 December 2011: RMB5,351,000) (Note 15(a)).

As at 30 June 2012, bank deposits amounting to RMB26,849,000 were held as securities for letter of guarantee and for issuance of notes payable (31 December 2011: RMB5,209,000).

(b) As at 30 June 2012, the effective interest rate on term deposits with initial terms of over three months was 3.30% per annum (31 December 2011: 3.30% per annum). These deposits have a maturity of 180 days (31 December 2011: 180 days).

Cash and bank are denominated in the following currencies:

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
RMB	299,080	397,414
US\$	57,237	60,880
HK\$	1,048	3,984
Others	9,271	15,256
	366,636	477,534

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(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	HK\$' 000	Share capital RMB' 000
As at 1 January 2011	2,093,154,000	209,315	197,420
Exercise of options	5,986,000	599	504
As at 30 June 2011 (Unaudited)	2,099,140,000	209,914	197,924
As at 1 January 2012	2,101,551,333	210,155	198,115
Exercise of options	6,223,665	622	506
As at 30 June 2012 (Unaudited)	2,107,774,998	210,777	198,621

(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 2011		77,530
Granted	1.45	39,850
Forfeited		(3,126)
Exercised		(5,986)
As at 30 June 2011 (Unaudited)		108,268
As at 1 January 2012		104,138
Granted (on 19 January 2012)	1.072	40,000
Granted (on 16 April 2012)	1.24	6,000
Granted (on 18 June 2012)	1.16	7,100
Forfeited		(5,289)
Exercised		(6,224)
Expired		(8,550)
As at 30 June 2012 (Unaudited)		137,175

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(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)
28 April 2013	0.684	15,478
8 April 2014	0.75	22,197
19 May 2014	1.45	1,500
22 November 2014	0.76	10,000
18 January 2015	1.072	1,500
19 May 2015	1.45	34,400
24 July 2015	1.506	500
18 January 2016	1.072	38,500
15 April 2016	1.24	6,000
17 June 2016	1.16	7,100
		137,175

Note:

The fair value of the options granted during the six months ended 30 June 2012 is determined using the Binomial Option Pricing Model. The major assumptions used in the pricing model for options granted on 19 January 2012, 16 April 2012 and 18 June 2012 were the exercise price shown above, and the other parameters are shown below:

Parameters	Options granted during the six months ended 30 June 2012
Share price as of the valuation date (HK\$)	1.06-1.24
Expected dividend yield	1.00%
Forfeiture rate	0.00%
Exercise multiples	1.9-2.1
Maturity Years	1.0-3.0
Risk Free Rate	0.33%-0.60%
Annualised volatility	46.88%-52.47%

The total expense recognised in the income statement for the six months ended 30 June 2012 for share options amounted to RMB9,406,000 (for the six months ended 30 June 2011: RMB4,750,000), with a corresponding amount credited in capital reserve.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

15. BORROWINGS

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Long-term borrowings		
– Secured bank borrowings-US\$ (a)	4,908	5,003
– Secured bank borrowings-RMB (b)	28,000	—
Less: Amount due within one year-US\$ (a)	(4,908)	(5,003)
	28,000	—
Short-term borrowings		
– Unsecured bank borrowings-US\$ (c)	32,350	—
– Unsecured bank borrowings-RMB (d)	120,000	160,000
– Secured bank borrowings-RMB (d)	75,000	155,000
	227,350	315,000

(a) As at 30 June 2012, long-term bank borrowings due within one year were denominated in US\$ and secured by bank deposits of the Group (Note 13), bearing interest at LIBOR plus 3.4% per annum (31 December 2011: LIBOR plus 3.4% per annum). The long-term borrowings will be matured in November 2012.

(b) As at 30 June 2012, long-term bank borrowings denominated in RMB were secured by land use rights and buildings of the Group, amounting to RMB6,585,000 and RMB6,770,000 (Note 7), respectively, bearing interest at 7.35% per annum. The long-term borrowings will be matured in November 2013.

(c) As at 30 June 2012, short-term borrowings denominated in US\$ were unsecured loan and bearing interests ranging from Libor+4.237% to Libor+6.644%.

(d) As at 30 June 2012, short-term bank borrowings denominated in RMB bore interests ranging from 6.06% to 8.53% per annum. RMB10,000,000 were secured by trade receivables of the Group (Note 11(b)); 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 (Notes 7) and land use rights amounted to RMB13,022,000 pledged as counter-guarantee; RMB15,000,000 were guaranteed by Li Ming, the minority interest shareholder of Bazhou Cheng Xi Petroleum Commodity Co., Ltd., a subsidiary of the Company.

As at 31 December 2011, short-term bank borrowings were all denominated in RMB, bearing interest rate ranging from 6.060% to 7.872% per annum. RMB105,000,000 were secured by trade receivables of the Group (Note 11(b)); 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 (Notes 7) and land use rights amounted to RMB13,022,000 pledged as counter-guarantee.

(e) As at 30 June 2012, the undrawn bank borrowing facilities of the Group amounted to RMB658 million (31 December 2011: RMB545 million), with maturing date from 10 July 2012 to 14 May 2013.

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

16. DERIVATIVE FINANCIAL LIABILITIES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Interest rate swap	227	23
Forward foreign exchange contract	(34)	(23)
	193	—

Anton Oilfield Services (Group) Limited, a subsidiary of the Group, entered into an interest rate swap contract and a foreign exchange forward contracts with Hang Seng Bank (China) Limited Beijing Branch in May 2011, 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 2012 (Unaudited)	As at 31 December 2011 (Audited)
Trade payables	370,961	217,765
Trade payables to a related party (Note 30(c))	4,227	—
Notes payables	11,140	40,026
	386,328	257,791

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

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Less than 1 year	367,403	241,681
1 – 2 years	9,644	10,843
2 – 3 years	4,926	3,142
Over 3 years	4,355	2,125
	386,328	257,791

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

18. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Customer deposits and receipts in advance	14,350	14,012
Accrued expenses	6,249	5,308
Payroll and welfare payable	35,223	11,030
Taxes other than income taxes payable	52,930	53,722
Consideration for acquisition of subsidiaries	68,570	13,960
Others	59,746	25,820
	237,068	123,852

19. OTHER LONG-TERM PAYABLE

As at 30 June 2012, other long-term payable represents sale and leaseback liabilities.

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Gross sale and leaseback liability		
No later than 1 year	12,409	12,509
1 to 3 years	9,518	15,723
	21,927	28,232
Future finance charges on sale and leaseback	(1,639)	(2,489)
Present value of sale and leaseback liability	20,288	25,743

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

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
No later than 1 year	11,121	10,896
1 to 3 years	9,167	14,847
	20,288	25,743

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

20. LONG-TERM BONDS

Anton Oilfield Services (Group) Limited ('Anton Oil'), a subsidiary of the Company, issued medium-term notes with maturity of 3 years in May 2012, with face value of RMB300 million bearing interest at 6.59% per annum. The actual proceeds received by the Company approximated RMB299 million. These notes are denominated in RMB and issued at par. Interest is payable annually while principal will be paid when the notes fall due. The annual effective interest rate of these notes is 6.70%. As at 30 June 2012, interest payable for these notes above amounted to approximately RMB2 million (31 December 2011: nil).

21. REVENUE

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Sales of goods	226,216	155,083
Sales of services	577,484	371,324
	803,700	526,407

22. EXPENSE BY NATURE

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

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Materials and services	327,509	227,166
Staff costs		
– Salaries and other staff expenses	82,143	66,584
– Share-based compensation	9,406	4,750
Depreciation	29,421	26,561
Amortisation	9,385	4,662
Sales tax and surcharges	15,739	8,621
Other operating expenses	157,053	107,515
– Addition for impairment of receivables	13,986	2,121
– Loss/(Gain) on disposal of property, plant and equipment	5	(149)
Total operating cost	630,656	445,859

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

23. FINANCE EXPENSES , NET

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Interest expenses on bank borrowings	14,928	3,431
Exchange losses, net	1,314	1,336
Bank surcharges and others	693	1,776
	16,935	6,543

24. INCOME TAX EXPENSE

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from payment of the 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 PRC subsidiaries of the Group was 25% for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 25%), based on the relevant PRC tax laws and regulations, except that certain subsidiaries which are taxed at preferential tax rates. The subsidiaries established overseas are 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	
	2012	2011
	(Unaudited)	(Unaudited)
Current income tax		
– PRC profit tax	14,825	9,681
– Overseas profit tax	8,714	10,169
Deferred income tax	1,496	(4,710)
	25,035	15,140

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

25. 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	
	2012	2011
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (RMB' 000)	124,643	50,655
Weighted average number of ordinary shares in issue (thousands of shares)	2,104,737	2,096,084
Basic earnings per share (RMB per share)	0.0592	0.0242

(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 2012, the only dilutive factor of the Company was the outstanding share options. For the purpose of calculating diluted earnings per share, the Company assumed the outstanding share options had been exercised upon the grant dates of the options. Meanwhile, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January 2012 to 30 June 2012) based on the monetary value of the subscription rights attached to outstanding share options, which are deducted from the total number of outstanding share options to determine the number of diluted shares deemed to be issued at no consideration.

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company (RMB' 000)	124,643	50,655
Weighted average number of ordinary shares in issue (thousands of shares)	2,104,737	2,096,084
Adjustments for assumed conversion of share options (thousands of shares)	18,608	25,477
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	2,123,345	2,121,561
Diluted earnings per share (expressed in RMB per share)	0.0587	0.0239

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

26. DIVIDENDS

On 25 May 2012, upon the approval from the annual general meeting of the shareholders, the Company declared 2011 final dividend of RMB0.0170 per ordinary share, totaling RMB36,694,000 (2010 final dividend: RMB39,426,000, RMB0.0188 per share).

The directors of the Company proposed not to distribute dividend for the six months ended 30 June 2012 (for the six months ended 30 June 2011: nil).

27. SUPPLEMENTAL FINANCIAL INFORMATION

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(112,279)	(90,549)
Purchases of land use rights	(22,995)	—
Purchases of intangible assets	(7,977)	(12,579)
Dispose of a subsidiary	—	(122)
Dispose of property, plant and equipment	357	293
Acquisition of subsidiaries, net of cash acquired (Note 29)	(34,355)	—
Payment of acquisition consideration	(5,500)	(4,000)
Decrease in term deposits with initial term of over three months	3,600	1,000
Net cash used in from investing activities	(179,149)	(105,957)
Cash flows from financing activities:		
Proceeds from short-term borrowings	232,350	168,000
Proceeds from long-term bonds	299,128	5,021
Repayments of short-term borrowings	(345,000)	(100,000)
Repayments of long-term borrowings	(12,000)	(23,179)
Proceeds from share options exercised	3,608	3,627
Repayments of sale and leaseback	(6,313)	—
Decrease/(Increase) in cash deposits pledged	—	121,831
Dividends paid	(36,694)	(39,426)
Net cash generated from financing activities	135,079	135,874

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

28. 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 2012 (Unaudited)	As at 31 December 2011 (Audited)
Contracted but not provided for		
– Property, plant and equipment	218,425	222,814
	218,425	222,814

(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 2012 (Unaudited)	As at 31 December 2011 (Audited)
No later than 1 year	3,235	5,925
1 to 2 years	1,238	2,013
2 to 3 years	800	800
3 to 4 years	133	533
	5,406	9,271

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

29. BUSINESS COMBINATIONS

On 14 May 2012, the Company acquired 55% equity interest of Bazhou Chang Xiang Applied Chemical Technology Co., Ltd., Bazhou Cheng Xi Petroleum Commodity Co., Ltd. and its subsidiary- Bazhou Cheng Xi Petroleum Commodity Kazakhstan Co., Ltd. from their independent natural person owners. According to the share purchase agreement, the aggregate cash consideration of this acquisition is RMB61.11 million.

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

	Provisional fair value*
Non-current assets	81,878
Cash and cash equivalents	2,645
Other current assets	168,399
Non-current liabilities	(40,000)
Current liabilities	(182,922)
Total identifiable net assets	30,000
Non-controlling interests	11,004
Goodwill	42,114
Consideration	61,110
Cash and cash equivalents from the subsidiaries acquired	2,645
Cash consideration paid	(37,000)
Cash from acquisition of subsidiaries	(34,355)

* As at the date when this unaudited condensed consolidated interim financial information was approved for issue, the purchase price allocation regarding this acquisition has not been completed, therefore the above provisional fair values of assets and liabilities arising from this acquisition on the acquisition date were presented based on the management's best estimates.

The revenue included in the condensed consolidated interim income statement since the acquisition date contributed by the acquisition above was RMB10.77 million. The acquisition above also contributed a net profit of RMB1.43 million over the same period.

Had the acquisition above been occurred from 1 January 2012, the condensed consolidated interim income statement would show unaudited consolidated revenue of RMB869 million and unaudited consolidated net profit of RMB130 million.

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

30. 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 six month ended 30 June 2012 and 2011:

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

- (b) Transactions with a related party

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Purchases of goods		
Northern Heavy	4,227	21,351
Sales of goods		
Northern Heavy	—	157

- (c) Balances with a related party

	As at	As at
	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Prepayments and other receivables		
Northern Heavy (Note 12)	41	415
Trade payables		
Northern Heavy (Note 17)	4,227	—

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

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2012

(Amounts expressed in thousands of RMB unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management compensation

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Salaries and other short-term employee benefits	5,666	3,569
Pension scheme	96	53
Share-based compensation	1,632	1,571
	7,394	5,193

31. SUBSEQUENT EVENTS

On 6 July 2012, Schlumberger Limited acquired 423,361,944 shares of the Company, representing 20.10% of the issued share capital of the Company. There is no change of the Company's controlling shareholder after this share acquisition.