



**China Oilfield
Technology**

Annual Report **2014**

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CORPORATE PROFILE

On 12 May 2014, the Company announced that it had completed the disposal of all its subsidiaries (the “**Disposal**”) pursuant to the announcement dated 27 December 2013 and the circular to shareholders dated 19 March 2014 in relation to the Disposal, and the extraordinary general meeting held on 3 April 2014 at which the shareholders of the Company had approved the Disposal.

Following the Disposal, the Company did not have any operating business and became a cash company under Rule 1018 of the Listing Manual. From May 2014, the Company had been actively seeking to acquire a new profitable business and/or procure new investor(s). However, the various discussions ultimately did not lead to any definitive agreements being executed.

On 28 February 2015, the Company announced that it had submitted an application to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for an extension of time of six months, up to 5 September 2015, for it to satisfy the requirements under Rule 1314(1) of the SGX Listing Manual and to submit an application for its removal from the SGX watch-list. The Company has been on the SGX watch-list since 5 March 2013.

On 3 March 2015, the Company received a notification of delisting from the SGX-ST notifying the Company, *inter alia*, that the SGX-ST would proceed to delist the Company pursuant to Listing Rule 1315, and pursuant to Listing Rule 1306, the Company or its controlling shareholder(s) must provide a reasonable exit offer to shareholders. Consequently, trading in the Company’s securities has been suspended since 6 April 2015.

As the Company had not been able to procure any firm exit offer proposal from any party, it has decided to seek approval from shareholders for a members’ voluntary liquidation and has convened an extraordinary general meeting to be held on 31 July 2015 for such purpose (please refer to the circular to shareholders dated 9 July 2015 for further details).

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

The business environment faced by the Group has been challenging since the listing of the Company in 2007. Shortly after the Company's listing, the Group experienced the impact of the financial crisis in 2008. Thereafter, the Group's major customer, Daqing Oilfield Co. Ltd, encountered an inherent technical issue in its oil recovery process during the running stage in the third quarter of 2008 and the machineries supplied by the Group in accordance with the customer's design specifications could not be used for the purposes that they were acquired for.

The Group thus decided to internationalise its business and expand its client base beyond China. Overcapacity in the oil services sector and fierce competition among the Chinese companies posted strong challenges to the Group, despite an early success in gaining a modest contract in India.

In 2009, realising that it would take some time for the Group to gain traction in expanding overseas, the Group decided to expand its product offering by investing in the production of submersible linear pumps, which was to be a breakthrough technology for the extraction of crude oil and expected to yield promising returns. However, due to an unexpected surge in the price of rare earth, a key raw material used for the production of the submersible linear pumps in the last two to three years, the commercial viability of its production was adversely affected. Hence, the plan to launch and market this new product was put on hold, pending modification of the product.

In view of the ongoing unfavourable operating environment and heavy financial burden, the Company disposed of all its subsidiaries in April 2014 and became a cash company.

The Management has actively sought new profitable businesses and/or procure new investors in order to turn the Company around since it was placed on the SGX watch-list, but regrettably, it had failed to conclude any deal.

On behalf of the Board, I would like to thank all our shareholders, business partners, associates and staff for your support and contribution to the Company through these difficult years.

Gao Yan Ming
Executive Chairman

OPERATIONS AND FINANCIAL REVIEW

Overview

Further to the announcement dated 27 December 2013 and the circular to shareholders dated 19 March 2014 in relation to the disposal by the Company of all its subsidiaries (the “Disposal”), and the extraordinary general meeting held on 3 April 2014 at which the shareholders of the Company had approved the Disposal, the Disposal was completed on 30 April 2014. Accordingly, some of the figures presented in this report related to the activities engaged by the Company and its subsidiaries prior to the Disposal.

Other income

Other income decreased by RMB 7.3 million or 54.3% from RMB 13.4 million in the financial year ended 31 December 2013 (“FY2013”) to RMB 6.1 million in the financial year ended 31 December 2014 (“FY2014”), details of which are listed below.

	FY2014	FY2013
	RMB'000	RMB'000
Interest income on financial assets carried at amortised costs	78	197
Government grants related to other borrowings	–	2,555
Consultancy income	3,167	4,252
Dividend income	–	23
Far value (loss)/gain on financial assets at fair value through profit or loss	(89)	1,108
Others	2,990	5,300
Total	6,146	13,435

Selling and distribution expenses

Overall selling and distribution expenses decreased by RMB 3.3 million or 70.6% from RMB 4.7 million in FY2013 to RMB 1.4 million in FY2014. Due to the Disposal, limited business activities were recorded.

Administrative expenses

Administrative expenses decreased by RMB 21.8 million or 84.8%, from RMB 25.7 million in FY2013 to RMB 3.9 million in FY2014. Due to the Disposal, limited administrative activities were recorded.

Finance costs

Finance costs decreased by RMB 8.5 million or 75.2% from RMB 11.3 million in FY2013 to RMB 2.8 million in FY2014. The interest bearing borrowings associated with the subsidiaries were settled upon the Disposal.

BOARD OF DIRECTORS

GAO YANMING

Mr Gao is our Executive Chairman and was responsible for the overall strategic development and operations of the Group.

He started his career as a technician in Daqing Ninth Oil Production Factory in 1987. In 1992, he joined Daqing Changsheng engineering Technology Co., Ltd. as the assistant general manager in sales. He became the chairman and general manager of Daqing Hi-tech Development Zone Dafeng Electronic Equipment Co., Ltd. ("DDEE") in 1995 and was in charge of overseeing the electronic engineering aspects of the business as well as human resources and finance. He maintained the same duties when he was appointed as the chairman and general manager of Daqing Dafeng Oilfield Technology Co., Ltd. ("DDOT") in 2002, Daqing Dafeng Technology Group Co., Ltd. in 2004, and Daqing Dominator Pump Manufacture Co., Ltd. in 2005.

Mr Gao was the People's Representative of the 10th and 11th People's Congress of Heilongjiang Province. He served as a committee member of Daqing City Jiusan Institute and is also the council member of the 5th China Petroleum Enterprise Society Council (2004 – 2009). In April 2007, he was awarded the National Labour Medal by the Chinese National Federation of Trade Unions. He is currently the president of Daqing Beijing Enterprises Chamber of Commerce.

Mr Gao obtained his Master of Business Administration degree in 2003 from the Harbin Institute of Technology and Executive Master of Business Administration degree in 2005 from the Cheung Kong Graduate School of Business.

WU FENGWU

Mr Wu is our Executive Director and Vice-President (Sales and Marketing). He oversaw the Group's sales and marketing activities, including market development, product and service promotion, as well as customer relationship development.

Mr Wu started his career in 1997 as an office secretary in Daqing Mailing Bureau where he was in charge of the administration and liaison activities of the bureau. In 2000, he joined DDEE as its deputy general manager and was responsible for the administrative functions of the company. He joined DDOT in 2002 as deputy general manager and led the sales and marketing activities of DDOT. In 2004, he was appointed the general manager of North Winner (Beijing) Technology Development Co., Ltd. and continued to spearhead the sales and marketing development of our Group.

Mr Wu graduated from Tianjin University with a Bachelor of Engineering (System Engineering) degree in 1997.

LIANG YANSONG

Mr Liang is our Non-Executive Director and was appointed to the Board on 26 June 2007. He is presently a Professor in the Economic and Management School of Beijing University of Technology, specialising in business management. He has been providing consultancy services to our executive Chairman, Mr Gao Yanming.

Mr Liang graduated from the Harbin Institute of Technology with a Bachelor of Science degree, specialising in Computer Science and Engineering in 1982 and further obtained a Master of Science degree in Management Science in 1984. He was a lecturer of the Management School of Harbin Institute of Technology from 1984 to 1991. Between 1992 and 1997, he pursued his studies for a Doctor of Philosophy degree in the University of Salford in the United Kingdom. Upon graduation, he joined Harbin Institute of Technology as an associate professor at its Management School in 1997.

From 1998 to 2001, he joined the technical assistant Unit of EU-China Dairy Development project, a project specialising in the development of the PRC dairy industry and funded by the European Union, as a business analyst and local consultant. He was responsible for developing and inspecting the implementation of business plans, providing annual assessments of the business plans, and training in business management. Prior to joining the Economic and Management School of Beijing University of Technology in 2003, he was a professor at the Management School of the Harbin Institute of Technology from 2001 to 2003.

ER KWONG WAH

Mr Er is our Lead Independent Director and was appointed to the Board on 31 August 2007. He has served in the Singapore government civil service for 27 years including the Public Service Commission and various ministries such as the Ministry of Finance, Ministry of Education and the Ministry of Community Development.

He was the Permanent Secretary of the Ministry of Education from 1987 to 1994, before becoming the Permanent Secretary of the Ministry of Community Development until his retirement in 1998. He had previously held a number of public sector appointments, including the council member of the national University of Singapore, as well as a board member of both the Singapore Polytechnic and Ngee Ann Polytechnic. He had previously also served as deputy chairman of the Singapore Sports Council, and chairman and director of various Singapore government-linked companies. He is currently an independent director of several listed companies.

Mr Er graduated from the University of Toronto in 1970 with a first class honours degree in Electrical Engineering. In 1978, he obtained a Master of Business Administration degree from the Manchester Business School, University of Manchester.

BOARD OF DIRECTORS

LAI HOCK MENG

Mr Lai Hock Meng is our Independent Director and was appointed to the Board on 1 May 2010. With more than 28 years of experience in the financial industry, he has worked in the investment banking, private banking, stockbroking and venture capital sectors, in addition to serving at the Monetary Authority of Singapore. His previous key appointments include Managing Director (Singapore) of Morgan Grenfell Asia & Partners Securities, Managing Director (Asia Pacific) of SocGen-Crosby

Securities, and Director and Senior Private Banker (Singapore & Indonesia) of Citigroup Private Bank. He is an independent director of several listed companies including Delong Holdings Ltd, PureCircle Ltd, China Energy Ltd, China Essence Group Ltd and ASTI Holdings Limited.

He holds a BA (Honours) degree in Economics from the University of Cambridge in England. He is also a fellow of the Chartered Institute of Marketing UK and a CFA charterholder from the CFA Institute, USA.

SENIOR MANAGEMENT

HOU HUAYE

Vice-President (Research and Development)

Hou Huaye is the Group's Vice-President (Research and Development), and was in charge of the technical aspects of our business, as well as oversees the development of new products of the Group.

Mr Hou started his career with Daqing Third Oil Production Factory in 1968 and subsequently became a section chief. In 1983, he was appointed as the chief engineer of Daqing Ninth Oil Production Factory. Subsequently in 1990, he was appointed the assistant chief engineer of Xinjiang Talimu Oilfield Oil Exploration Command Department.

In 1994, he was appointed the deputy director of Daqing City Government at Dalian Office. He joined DDOT as a director and deputy general manager in 2002. In 2004, he was appointed as general manager of One-Up (Beijing) Petroleum Engineering Technology Development Co., Ltd..

Mr Hou obtained his Bachelor of Science degree in oil-recovery engineering from Beijing Petroleum Institute in 1968. In 1996, he obtained the qualification of Senior Engineer Researcher Level of Heilongjiang Province.

DR HARRY L. CHANG

Head of International Sales and Marketing

Dr Chang joined the Group as the President Director for the Group's U.S. subsidiary company in March 2009. He has over 40 years of experience in Chemical Enhanced Oil Recovery R&D, field implementation, and project evaluation.

Dr Chang started his career with Mobil R&D Center and worked 8 years in surfactant-polymer, alkaline, and polymer flooding recovery mechanisms and pilot test designs. He then spent another 8 years with Cities Services Co. and managed two micellar polymer flooding projects in Kansas from the 70's through early 80's. He joined ARCO Research Center in 1983 and managed their miscible gas research. He was then assigned to manage the ARCO China Beijing office in 1994.

Dr. Chang retired from ARCO and started Intratech, a consulting firm that provides EOR consulting services for US and international companies. He provided consulting services in reserve evaluations and special chemical processes such as Colloidal Dispersion Gels (CDG) and profile modification projects.

XU ZHEHUI

Chief Financial Officer

Xu Zhehui is our Chief Financial Officer, responsible for the financial and accounting functions of the Group. Ms Xu has been the chief financial officer of the Group's PRC subsidiaries since July 2006. She was appointed as Chief Financial Officer of the Company from 1 March 2012.

Ms Xu started her career with Daqing Industrial Bureau in 1984, and in 1995 she became the financial supervisor of Daqing Hi-tech Development Zone Design Institute. Ms Xu was the head of finance department and assistant supervisor of audit department of Daqing Zhongqing Audit Firm.

Ms Xu is a member of Chinese Institute of Certified Public Accountants and China Certified Tax Agents Association.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Gao Yanming, Executive Chairman
Wu Fengwu, Executive Director
Liang Yansong, Non-Executive Director
Er Kwong Wah, Lead Independent Director
Lai Hock Meng, Independent Director

AUDIT COMMITTEE

Lai Hock Meng, Chairman
Er Kwong Wah, Member
Liang Yansong, Member

NOMINATING COMMITTEE

Er Kwong Wah, Chairman
Lai Hock Meng, Member
Liang Yansong, Member

REMUNERATION COMMITTEE

Er Kwong Wah, Chairman
Lai Hock Meng, Member
Liang Yansong, Member

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS

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SINGAPORE SHARE TRANSFER AGENT

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AUDITORS

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Singapore Chinese Chamber of
Commerce & Industry Building
Singapore 179365
Engagement Partner:
Robin Chin Sin Beng
Date of Appointment: 3 April 2014

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “**Board**”) of China Oilfield Technology Services Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) recognises the importance of corporate governance and the offering of high standards of accountability to the shareholders of the Company by complying with the benchmark set by the Code of Corporate Governance 2012 (the “**Code**”). Subsequent to the disposal of all its subsidiaries on 30 April 2014, the Company ceased to have any operating subsidiaries.

This Report sets out the corporate governance practices that have been adopted by the Company with specific reference to the principles of the Code, as well as any deviation from any guideline of the Code together with an explanation for such deviation.

Statement of Compliance

The Board confirms that for the financial year ended 31 December 2014 (“**FY2014**”), the Company has generally adhered to the principles and guidelines as set out in the Code, save as otherwise explained below.

BOARD MATTERS

The Board's Conduct of Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

The Board comprises five directors, which include two executive directors, one non-executive director and two independent directors, all of whom are from different disciplines and bring with them diversity of experience which will enable them to contribute effectively to the Company.

The principal functions of the Board, apart from its statutory responsibilities, include:

- to review and oversee the management of the Group's business affairs and financial controls, performance and resource allocation;
- to approve matters such as corporate strategy and business plans, corporate restructuring, mergers and acquisitions, major investments and divestments, material acquisitions and disposals of assets and major corporate policies on key areas of operations;
- to establish a framework of prudent and effective controls to assess and manage risks and safeguard shareholders' interests and the Group's assets; and
- to approve the release of the Group's quarterly and full-year financial results and related party transactions of a material nature.

All directors exercise due diligence and independent judgment, and are obliged to act in good faith and consider at all times the interests of the Company.

The Board has established three Board committees, namely, the Audit Committee (“**AC**”), the Nominating Committee (“**NC**”) and the Remuneration Committee (“**RC**”) to assist in the execution of its responsibilities. These committees operate within clearly defined terms of reference.

The Board meets on a regular basis and ad-hoc Board meetings will be convened when they are deemed necessary. In between Board meetings, other important matters will be put to the Board's approval by way of circulating resolutions in writing. The Company's Articles of Association provide for meetings of directors to be held by means of telephone conference or other methods of simultaneous communication by electronic or other means.

CORPORATE GOVERNANCE REPORT

The number of meetings held and attendance at the meetings during FY2014 were as follows:

	Board	Audit Committee	Remuneration Committee	Nominating Committee
Number of meetings held				
	5	4	1	1
Number of meetings attended				
Gao Yanming	5	–	–	–
Wu Fengwu	5	–	–	–
Liang Yansong	4	3	1	1
Er Kwong Wah	5	4	1	1
Lai Hock Meng	5	4	1	1

Newly appointed directors will receive a formal letter explaining their duties and responsibilities and undergo orientation on the Group's business strategies and operations. Directors also have the opportunity to visit the Group's operating facilities and meet with the Management as and when necessary to gain a better understanding of the Group's business operations and governance practices. All directors who have no prior experience as directors of a listed company will undergo training and/or briefing on the roles and responsibilities as directors of a listed company. The directors are also encouraged to keep themselves abreast of the latest developments relevant to the Group and attendance of appropriate courses and seminars is arranged and funded by the Company. The external auditors update the directors on the new or revised financial reporting standards on an annual basis.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management and substantial shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

As at the date of this report, the Board comprises the following directors:

Executive Directors

Gao Yanming	Executive Chairman
Wu Fengwu	Executive Director

Non-Executive Directors

Liang Yansong	Non-Executive Director
Er Kwong Wah	Lead Independent Director
Lai Hock Meng	Independent Director

The independent directors make up more than one-third of the Board. The Board has adopted the Code's criteria of an independent director in its review. An "independent" director is one who has no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the company. The independence of each independent director will be reviewed annually by the NC and the Board. Each independent director is required to complete a checklist annually to confirm his independence based on the guidelines as set out in the Code. The independence of any director who has served on the Board beyond nine years from the date of his first appointment will be subject to more rigorous review, taking into account the need for progressive refreshing of the Board. The Board is of the view that all independent directors have satisfied the criteria of independence as a result of its review.

The Board has examined its size and is of the view that it is appropriate for effective decision-making, taking into account the scope and nature of the operations of the Group and the requirements of the Group's business.

The composition of the Board will be reviewed annually by the NC to ensure that there is a appropriate balance and diversity of skills, expertise and experience, which the Group may tap for assistance in furthering its business objectives and shaping its business strategies. Together, the directors as a group provide core competencies in business management, accounting, investment, audit and taxation matters.

CORPORATE GOVERNANCE REPORT

The independent directors also communicate regularly to discuss matters relating to the Group, including the performance of the Management.

The profiles of the directors are set out in the “Board of Directors” section of this Annual Report.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company’s business. No one individual should represent a considerable concentration of power.

Mr Gao Yanming is the Executive Chairman of the Company and bears executive responsibility for the Group’s business performance. He also assumes the responsibility of the Chairman of the Board and is responsible for scheduling Board meetings as and when required, setting the agenda for Board meetings and ensuring the quality, quantity and timeliness of the flow of information between the Management, the Board and shareholders, with the assistance of the company secretary. He is also responsible for ensuring compliance with the Company’s guidelines on corporate governance.

The Company has not created a separate Chief Executive Officer position as the Board is of the view that the current Board composition is appropriate and effective for the purposes for which the Board’s roles and responsibilities are set up. The Board is of the view that with the establishment of the three Board committees, there are adequate safeguards in place to prevent an uneven concentration of power and authority in a single individual.

In view that the Executive Chairman is not an independent director and is part of the executive management team, Mr Er Kwong Wah has been appointed as the lead independent director and he is available to shareholders where they have concerns for which contact through the normal channels of the Executive Chairman or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. Led by the lead independent director, the independent directors meet without the presence of the other directors, if deemed necessary.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

The NC comprises the following members:

Er Kwong Wah (Chairman)
Lai Hock Meng
Liang Yansong

Mr Er Kwong Wah is the lead independent director, Mr Lai Hock Meng is an independent director and Mr Liang Yansong is a non-executive director.

The terms of reference of the NC have been approved and adopted. The duties and powers of the NC include the following:

- to make recommendations to the Board on relevant matters relating to the review of board succession plans for directors, in particular, the Chairman, the development of a process for evaluation of the performance of the Board, the Board committees and directors, and the review of training and professional development programmes for the Board;
- to make recommendations to the Board on the appointment and re-appointment of directors (including alternate directors, if applicable), taking into consideration the composition and progressive renewal of the Board and each director’s competencies, commitment, contribution and performance (such as attendance, preparedness, participation and candour);
- to ensure that all directors submit themselves for re-nomination and re-appointment at regular intervals and at least once every three years;
- to determine annually, and as and when circumstances require, whether a director (including an alternate director) is independent, bearing in mind paragraph 2.3 of the Code and any other salient factors;

CORPORATE GOVERNANCE REPORT

- to decide if a director is able to and has been adequately carrying out his duties as a director of the Company, taking into consideration the director's number of listed company board representations and other principal commitments; and
- to assess the effectiveness of the Board as a whole and its Board committees and the contribution by each director to the effectiveness of the Board.

All directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. Article 85(6) of the Company's Articles of Association provides that a director appointed by the Board must retire and submit himself for re-election at the next Annual General Meeting ("AGM") following his appointment. In addition, Article 86(1) of the Company's Articles of Association requires each director to retire at least once every three years.

The dates of initial appointment and last re-election of each director, together with their directorships in other listed companies are set out below:

Name of director	Appointment	Date of initial appointment	Date of last re-election	Current directorships in listed companies	Past directorships in listed companies
Gao Yanming Age: 48	Executive Chairman	14 June 2007	27 April 2012	None	None
Wu Fengwu Age: 40	Executive Director	26 June 2007	24 April 2013	None	None
Liang Yansong Age: 54	Non-Executive Director	26 June 2007	24 April 2013	None	None
Er Kwong Wah Age: 67	Lead Independent Director	31 August 2007	30 May 2014	CFM Holdings Limited China Essence Group Ltd. China Sky Chemical Fibre Co., Ltd. Cosco Corporation (Singapore) Limited CY Foundation Group Limited Eucon Holding Limited GKE Corporation Limited	Unidux Electronics Ltd Hartawan Holdings Limited Thai Prime Fund Limited
Lai Hock Meng Age: 58	Independent Director	1 May 2010	30 May 2014	ASTI Holdings Limited CFM Holdings Limited China Energy Limited CY Foundation Group Limited Delong Holdings Ltd PureCircle Ltd	China Essence Group Ltd. Metax Engineering Corporation Limited Xpress Holdings Ltd

According to Article 86(1) of the Company's Articles of Association, Mr Gao Yanming will retire at the Company's forthcoming AGM and will be eligible for re-election.

When a director has multiple board representations, the NC also considers whether or not the director is able to and has adequately carried out his duties as a director of the Company. The NC is satisfied that sufficient time and attention are being given by the directors to the affairs of the Company, notwithstanding that some of the directors have multiple board representations. The Board has determined that a director who has full-time employment may hold up to six listed company board representations while a director who does not have full-time employment may hold up to ten listed company board representations.

When an existing director chooses to retire or the need for a new director arises, either to replace a retiring director or to enhance the Board's strength, the NC, in consultation with the Board, determines the selection criteria and identifies candidates with the appropriate expertise and experience for the appointment as new director. The NC then meets with the shortlisted candidates with the appropriate profile before nominating the most suitable candidate to the Board for appointment as director.

Key information on the individual directors and their shareholdings in the Company are set out in the "Board of Directors" and "Directors' Report" sections of this Annual Report.

CORPORATE GOVERNANCE REPORT

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The Board's performance is linked to the overall performance of the Group. The Board should ensure compliance with the applicable laws and the Board members should act in good faith, with due diligence and care in the best interest of the Company and its shareholders.

The NC is responsible for assessing the effectiveness of the Board as a whole and the Board committees and the contribution by the Chairman and each individual director to the effectiveness of the Board. The NC has established a review process and proposed objective performance criteria set out in assessment checklists which are approved by the Board. The performance criteria include quantitative criteria, financial performance indicators as well as share price performance. Individual assessment criteria include commitment of time for meetings and any other duties.

The performance criteria will not be changed from year to year and where circumstances deem it necessary for any of the criteria to be changed, the Board will justify such changes.

Access to Information

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

The Company recognises the importance of the flow of information for the Board to discharge its duties effectively. All directors are given updates on the financial position of the Group and management accounts as and when requested, in addition to the scheduled reviews of the quarterly financial results. The Board has separate and independent access to the company secretary and the Management at all times. Upon request, the Management will provide any additional information needed for the directors to make informed decisions. The company secretary facilitates information flow within the Board and its committees and between senior management. The company secretary attends all meetings of the Board and Board committees and ensures that all Board procedures are followed and applicable rules and regulations are complied with. The minutes of all Board committee meetings are circulated to the Board.

Board members are aware that they, whether as a group or individually, in the furtherance of their duties, can take independent professional and legal advice, if necessary, at the Company's expense.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC comprises the following members:

Er Kwong Wah (Chairman)
Lai Hock Meng
Liang Yansong

Mr Er Kwong Wah is the lead independent director, Mr Lai Hock Meng is an independent director and Mr Liang Yansong is a non-executive director.

The terms of reference of the RC have been approved and adopted. The duties and powers of the RC include the following:

- to review and recommend for the endorsement by the entire Board a general framework of remuneration for the directors and key management personnel;
- to review and recommend for the endorsement by the entire Board the specific remuneration packages for each director and key management personnel, covering all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, and benefits in kind;

CORPORATE GOVERNANCE REPORT

- to review and recommend to the Board the terms of renewal of the service contracts of directors;
- to review the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of services, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous; and
- to review whether executive directors and key management personnel should be eligible for benefits under long-term incentive schemes, and evaluate the costs and benefits of long-term incentive schemes.

The RC's recommendations should be submitted for endorsement by the entire Board. No director shall be involved in deciding his own remuneration. The RC has access to appropriate external expert advice in the field of executive compensation where required.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

In setting remuneration packages, the Company takes into consideration the remuneration packages and employment conditions within the industry and in comparable companies. The remuneration package also takes into account the Company's relative performance and the performance of individual directors and key management personnel.

The non-executive and independent directors are paid directors' fees, taking into account factors such as effort and time spent, and responsibilities of the directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

The executive directors do not receive directors' fees. The remuneration packages of the executive directors include a basic salary. The executive directors are entitled to receive an annual incentive bonus based on the audited profit before tax of the Group.

The Company has entered into service agreements with the executive directors, Mr Gao Yanming and Mr Wu Fengwu, for an initial period of three years with effect from 17 October 2007. Upon the expiry of the initial period of three years, the employment of the executive directors shall be automatically renewed on a year-to-year basis on such terms and conditions as the parties may agree. The service agreement provides for termination by each party giving not less than six months' notice in writing.

The Company recognises the importance of motivating each employee. The China Oilfield Technology Employee Share Option Scheme (the "ESOS") and the China Oilfield Technology Performance Share Scheme (the "PSS") were approved at extraordinary general meetings held on 31 August 2007 and 29 April 2009, respectively. Details of the ESOS are set out in the prospectus dated 5 October 2007 and details of the PSS are set out in the circular dated 13 April 2009.

The ESOS and PSS are administered by a committee of directors appointed by the Board. The directors will be eligible to participate in the Scheme. However, as controlling shareholders will not be eligible to participate in the said schemes, Mr Gao Yanming, being a controlling shareholder, will not be eligible.

Disclosure on Remuneration

Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

CORPORATE GOVERNANCE REPORT

The following shows the level and mix of the remuneration paid or payable for FY2014 to each director and key management personnel:

Remuneration bands	Salary ⁽¹⁾ %	Variable or performance related income/bonuses ⁽²⁾ %	Directors' fees %	Total %
Directors				
<i>Below S\$250,000</i>				
Gao Yanming	100	–	–	100
Wu Fengwu	100	–	–	100
Liang Yansong	–	–	— ⁽³⁾	–
Er Kwong Wah	–	–	— ⁽³⁾	–
Lai Hock Meng	–	–	— ⁽³⁾	–
Key Management Personnel				
<i>Below S\$250,000</i>				
Xu Zhehui	100	–	–	100
Hou Huaye	100	–	–	100
Harry L. Chang	100	–	–	100

Notes:-

- (1) Salary is inclusive of salary, allowances, Central Provident Fund or other statutory contributions and pension funds.
- (2) Based on the service agreements, Mr Gao Yanming, Mr Wu Fengwu and Mr Hou Huaye are eligible to be paid an incentive bonus equivalent to 2.1%, 0.45% and 0.45%, respectively, of the profit before taxation of the Group, based on the audited financial statements, if the profit before taxation exceeds RMB 120 million. According to the audited financial statements for FY2014, the profit before taxation did not exceed RMB 120 million. As a result, no incentive bonus was paid to them.
- (3) Mr Liang Yansong, Mr Er Kwong Wah and Mr Lai Hock Meng have agreed to waive their directors' fees for FY2014.

The aggregate remuneration paid to the three key management personnel of the Group in FY2014 amounted to approximately RMB 614,000.

The Board is of the view that full disclosure of the specific remuneration of each individual director and key management personnel is not in the best interests of the Company, taking into account the sensitive nature of the subject, the competitive business environment the Group operates in and the potential negative impact such disclosure will have on the Group.

No employee who is an immediate family member of any director was paid more than S\$50,000 during FY2014.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board understands its accountability to the shareholders on the Group's performance. The objectives of the presentation of the annual financial statements and quarterly announcements to its shareholders are to provide the shareholders with a detailed and balanced analysis and explanation of the Group's financial position and prospects. In line with the rules of the SGX-ST Listing Manual, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements.

CORPORATE GOVERNANCE REPORT

The Management understands its role to provide all members of the Board with balanced and understandable management accounts of the Group's performance, position and prospects on a quarterly basis and/or such regular basis as the Board may require from time to time to enable the Board to make a balanced and informed assessment of the Group's performance, financial position and prospects.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group has implemented a system of internal controls designed to provide reasonable but not absolute assurance that assets are safeguarded, proper accounting records are maintained, operational controls are adequate and business risks are suitably managed. The Board oversees the Management in the design, implementation and monitoring of the risk management and internal control systems, and reviews the adequacy and effectiveness of such systems at least annually.

The external and internal auditors conduct reviews of the effectiveness of the Group's key internal controls, including financial, operational and compliance controls, and risk management. Any material non-compliance or lapses in internal controls, together with recommendations for improvement, are reported to the AC and the Board. The AC keeps under review the effectiveness of the Group's system of accounting and internal financial controls, for which the directors are responsible.

The Board has received assurance from the Executive Chairman and the Chief Financial Officer (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances, and (b) regarding the effectiveness of the Company's risk management and internal control systems.

Based on the various internal controls put in place by the Group, the work performed and report submitted by the external auditors, and the reviews conducted by the Board and the AC, the Board, with the concurrence of the AC, is of the opinion that the internal controls of the Group, including financial, operational, compliance and information technology controls, and risk management systems, were adequate as at 31 December 2014.

Audit Committee

Principle 12: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The AC comprises the following members:

Lai Hock Meng (Chairman)
Er Kwong Wah
Liang Yan Song

Mr Lai Hock Meng is an independent director, Mr Er Kwong Wah is the lead independent director and Mr Liang Yansong is a non-executive director.

The terms of reference of the AC have been approved and adopted. The roles and functions of the AC include the following:

- to review the audit plans of the external auditors and internal auditors, including the results of the external and internal auditors' review and evaluation of the Group's system of internal controls;
- to review the annual consolidated financial statements and the external auditors' report on those financial statements, and discuss any significant adjustments, major risk areas, concerns and issues arising from their audits including any matters which the auditors may wish to discuss in the absence of management, where necessary, before submission to the Board for approval;

CORPORATE GOVERNANCE REPORT

- to review the annual financial statements and the external auditors' report on those financial statements, and discuss any significant adjustments, major risk areas, changes in accounting policies, compliance with relevant financial reporting standards, concerns and issues arising from their audits including any matters which the auditors may wish to discuss in the absence of Management, where necessary, before submission to the Board for approval;
- to review the periodic consolidated financial statements comprising the profit and loss statements and the balance sheets and such other information required by the SGX-ST Listing Manual, before submission to the Board for approval;
- to review and discuss with the external and internal auditors (if any), any suspected fraud, irregularity or infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position and the management's response;
- to review the co-operation given by the management to the external auditors;
- to review the independence of the external auditors annually;
- to make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approve the remuneration and terms of engagement of the external auditors;
- to review and/or ratify any interested person transactions falling within the scope of Chapter 9 of the Listing Manual;
- to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and review the adequacy and effectiveness of the internal audit function at least annually;
- to review and report to the Board at least annually the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls, and risk management (such review may be carried out internally or with the assistance of any competent third parties); and
- to review the procedures by which employees of the Group and any other persons may, in confidence, report to the Chairman of the AC, possible improprieties in matters of financial reporting or other matters and ensuring that there are arrangements in place for such concerns to be raised and independently investigated, and for appropriate follow-up action to be taken.

The AC shall have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by the Management and full discretion to invite any director or key management personnel of the Group to attend its meetings, and be given reasonable resources to enable it to discharge its functions properly and effectively.

The AC shall meet with the external auditors, and with the internal auditors (if engaged), without the presence of the Management, at least annually.

The external auditors update the AC on any changes in accounting standards impacting the financial statements of the Group.

The Company's external auditors are Foo Kon Tan LLP. For FY2014, the fees paid by the Company to the external auditors for audit services amounted to RMB 400,000 and there were no non-audit services provided by the external auditors. As there were no non-audit services provided to the Company by the external auditors, the AC is of the opinion that the independence of the external auditors had not been affected.

The Company has complied with Rules 712 and 715 of the SGX-ST Listing Manual in relation to its external auditors.

The Group has implemented a whistle-blowing policy. The policy aims to provide an avenue for employees to raise concerns about misconduct or improprieties in the Group and at the same time assure them that they will be protected from victimization for whistle-blowing in good faith. Cases that are significant are reviewed by AC for adequacy of investigation actions and resolutions.

CORPORATE GOVERNANCE REPORT

Internal Audit

Principle 13: The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Board recognises the importance of maintaining a system of internal controls to safeguard the shareholders' investments and the Group's assets. During FY2014, in view of the Group becoming a cash company, the Company did not engage any firm of auditors to perform the internal audit function and the internal audit function was carried out by the Group's staff. The AC is satisfied with the adequacy and effectiveness of the internal audit function.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company strives for timeliness and consistency in its disclosures to shareholders. It is the Company's policy to keep all shareholders informed of developments or changes that will have a material impact on the Company's share price, through announcements via SGXNET and on the Company's website. Such announcements are communicated on an immediate basis, or as soon as possible where immediate disclosure is not practicable.

Shareholders are informed of general meetings through notices published in the newspapers, through reports or circulars sent to all shareholders and via the Company's website. The Company encourages shareholders' participation during the general meetings. Resolutions are passed through a process of voting and shareholders are entitled to vote in accordance with established voting rules and procedures.

Communication with Shareholders

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company's quarterly and full year announcements, analyst briefings and press releases are issued via SGXNET and an investors' website (www.shareinvestor.com). The Company discloses all material information on a timely basis and to all shareholders.

The Company does not have a formal dividend policy. The form, frequency and amount of dividends will depend on the Group's earnings, financial position, results of operations, capital needs, plans for expansion, and other factors as the Board may deem appropriate.

Conduct of Shareholder Meetings

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company supports the Code's principle to encourage communication with and participation by shareholders. Shareholders are encouraged to attend the AGM to ensure a greater level of shareholder participation. The Articles of Association allow a shareholder of the Company to appoint up to two proxies to attend the AGM and vote in place of the shareholder. Shareholders are given the opportunity to pose questions to the Board or the Management at the AGM. The members of the AC, NC and RC will be present at the AGM to answer questions relating to matters overseen by the committees. The external auditors will also be present to assist the directors in addressing any queries posed by the shareholders. Minutes of general meetings, including relevant substantial comments or queries from shareholders relating to the agenda of the meeting and responses from the Board or the Management, are available to shareholders upon their request.

The Board takes note that there should be separate resolution at general meetings on each substantially separate issue and supports the Code's principles as regards "bundling" of resolutions. In the event that there are resolutions which are interlinked, the Board will provide reasons and material implications. Resolutions are voted by poll at general meetings of the Company.

CORPORATE GOVERNANCE REPORT

DEALING IN SECURITIES

The Group has adopted and implemented policies in line with the SGX-ST's best practices in relation to the dealing of shares of the Company. The policies have been made known to directors, executive officers and any other persons as determined by the Management who may possess unpublished material price-sensitive information of the Group. The Group has procedures in place prohibiting directors and officers from dealing in the Company's shares during the two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and the one month before the announcement of the Company's full year financial statements ("Prohibited Periods"), or if they are in possession of unpublished material price-sensitive information of the Group.

Directors and officers are required to comply with and observe the laws on insider trading even if they trade in the Company's securities outside the Prohibited Periods. They are discouraged from dealing in the Company's securities on short-term considerations and should be mindful of the law on insider trading.

INTERESTED PERSON TRANSACTIONS

The Company is required to comply with the requisite rules under Chapter 9 of the SGX-ST Listing Manual for interested person transactions.

All interested person transactions will be properly documented and submitted to the AC for quarterly review to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the shareholders.

In addition, an interested person transaction of value equal to or more than 3% of the Group's latest audited net tangible assets will be approved by the AC prior to entry into such transactions.

In the event that a member of the AC is interested in any interested person transaction, he will abstain from reviewing that particular transaction.

The Board will ensure that all disclosure, approval and other requirements on interested person transactions, including those required by prevailing legislation, the SGX-ST Listing Manual and accounting standards are complied with.

The aggregate value of interested person transactions during FY2014 is as follows:

Name of interested person	Aggregate value of all interested person transactions during FY2014 (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
Mr Gao Yanming, the Executive Chairman and controlling shareholder of the Company - disposal by the Company of all its subsidiaries to the interested person (as approved by the Shareholders on 3 April 2014)	RMB 2,000,000	–

Save as disclosed above, there were no material contracts of the Group involving the interests of any director or controlling shareholder, either still subsisting at the end of FY2014 or if not then subsisting, entered into since the end of the previous financial year.

DIRECTORS' REPORT

for the financial year ended 31 December 2014

The directors submit this annual report to the members together with the audited consolidated financial statements of the Group and statement of financial position of the Company for the financial year ended 31 December 2014.

Names of directors

The directors of the Company in office at the date of this report are:

Gao Yanming
Wu Fengwu
Liang Yansong (Non-Executive Director)
Er Kwong Wah (Independent Director)
Lai Hock Meng (Independent Director)

Arrangements to enable directors to acquire shares or debentures

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement of which the object was to enable the directors to acquire benefits through the acquisition of shares or debentures of the Company or of any other corporate body, other than as disclosed in this report.

Directors' interest in shares or debentures

According to the Register of Directors' Shareholdings kept by the Company, none of the directors who held office at the end of the financial year was interested in shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in the name of director		Holdings in which director is deemed to have an interest	
	As at 1.1.2014	As at 31.12.2014 and 21.1.2015 [#]	As at 1.1.2014	As at 31.12.2014 and 21.1.2015 [#]
The Company - <u>China Oilfield Technology Services Group Limited</u>			<u>Number of ordinary shares</u>	
Gao Yanming	304,150,000	231,150,000	–	–

[#] There were no changes to the above shareholdings between the end of the financial year and 21 January 2015.

Directors' benefits

Since the end of the previous financial year, no director has received or is entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except for the disposal of all the subsidiaries of the Company as disclosed in Note 16 to the financial statements, and the salaries, bonuses and fees and those benefits that are disclosed in Note 17 to the financial statements.

DIRECTORS' REPORT

for the financial year ended 31 December 2014

Employee Share Option Scheme

The China Oilfield Technology Employee Share Option Scheme (the "ESOS") was approved by members of the Company on 31 August 2007. The ESOS is administered by a committee appointed by the Board of Directors of the Company (the "ESOS Committee") and comprises Gao Yanming, Liang Yansong and Er Kwong Wah. The details of the ESOS were set out in the Company's prospectus dated 5 October 2007.

Under the ESOS, share options may be granted to key management and employees (including executive and non-executive directors) of the Company and its subsidiaries. Controlling shareholders and their associates are not eligible to participate in the ESOS. As the Executive Chairman, Gao Yanming, is a controlling shareholder, he shall not participate in the ESOS.

The exercise price of options granted under the ESOS is either equal to the average of the closing prices of the Company's ordinary shares on the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the three market days immediately preceding the date of grant (the "Market Price Option") or at a price discounted to not more than 20% of the market price as determined by the ESOS Committee and approved by the shareholders in a general meeting. A Market Price Option can be exercised during a period commencing after the first anniversary of the date of grant and expiring on the tenth anniversary of such date. An option granted with exercise price set at a discount to market price can be exercised after the second anniversary of the date of grant and expiring on the tenth anniversary of such date. The options may be exercised in whole or in part on the payment of the exercise price. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

No share options have been granted under the ESOS since its commencement.

Performance Share Scheme

The China Oilfield Technology Performance Share Scheme (the "PSS") was approved by members of the Company on 29 April 2009. The PSS is administered by a committee appointed by the Board of Directors of the Company and comprises Gao Yanming, Liang Yansong and Er Kwong Wah. The details of the PSS were set out in the Company's circular dated 13 April 2009.

The PSS grants a participant the right to receive fully paid shares free of charge, upon the participant achieving prescribed performance targets. Under the PSS, shares may be issued to key management and employees (including executive and non-executive directors) of the Company and its subsidiaries. Controlling shareholders are not eligible to participate in the PSS but associates of controlling shareholders are eligible to participate in the PSS. As the Executive Chairman, Gao Yanming, is a controlling shareholder, he shall not participate in the PSS.

The total number of new shares which may be issued pursuant to awards granted under the PSS, when added to the number of shares issued and issuable under all other share-based incentive schemes of the Company (including the ESOS) shall not exceed fifteen percent (15%) of the issued share capital of the Company on the day preceding the relevant date of award. The aggregate number of new shares that may be issued to associates of controlling shareholders in accordance with and during the entire operation of the PSS (including adjustments made in accordance with Rule 11 of the PSS) shall not exceed twenty-five percent (25%) of the shares in respect of which the Company may grant awards, and the number of new shares that may be issued to each associate of a controlling shareholder in accordance with and during the entire operation of the PSS (including adjustments made in accordance with Rule 11 of the PSS) shall not exceed ten percent (10%) of the shares in respect of which the Company may grant awards.

No awards have been granted under the PSS since its commencement.

DIRECTORS' REPORT

for the financial year ended 31 December 2014

Audit Committee

The Audit Committee at the end of the financial year comprises the following members:

Lai Hock Meng (Chairman)
Er Kwong Wah
Liang Yansong

The Company has complied with the Code of Corporate Governance 2012 with respect to its Audit Committee.

The functions and responsibilities of the Audit Committee are set out in the Corporate Governance Report section of the Annual Report.

The Audit Committee is satisfied with the independence and objectivity of the external auditor in respect of the audit of the financial statements for the financial year ended 31 December 2014.

The Company has convened an extraordinary general meeting to seek shareholders' approval for a members' voluntary liquidation of the Company.

In view of the proposed voluntary liquidation of the Company, the external auditor will not be seeking re-appointment and has given notice of its resignation as the independent auditor of the Company at the forthcoming Annual General Meeting.

Independent auditor

In view of the proposed voluntary liquidation of the Company, the independent auditor, Foo Kon Tan LLP, Chartered Accountants, will not be seeking re-appointment at the forthcoming Annual General Meeting.

On behalf of the Directors

.....
GAO YANMING

.....
WU FENGWU

Dated: 10 July 2015

STATEMENT BY DIRECTORS

for the financial year ended 31 December 2014

In our opinion:

- (a) the accompanying statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Group for the year ended on that date in accordance with International Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

.....
GAO YANMING

.....
WU FENGWU

Dated: 10 July 2015

INDEPENDENT AUDITOR'S REPORT

to the members of China Oilfield Technology Services Group Limited

Report on the Financial Statements

We have audited the accompanying financial statements of China Oilfield Technology Services Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statement of financial position of the Company as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

We expressed a qualified opinion in our independent auditor's report dated 2 May 2014 in respect of the financial statements for the financial year ended 31 December 2013, with regards to the Group's property, plant and equipment which have been included in the disposal group classified as held for sale as at 31 December 2013. The carrying amount of the Group's property, plant and equipment of RMB nil has been determined based on value in use calculation. However, we have been unable to obtain sufficient appropriate audit evidence in terms of supporting documentation to evaluate the fair value less costs to sell of the Group's property, plant and equipment. Consequently, we were unable to satisfy ourselves as to the appropriateness of the carrying amount of the Group's property, plant and equipment included in the disposal group classified as held for sale as at 31 December 2013 and 3 April 2014 (date of completion of disposal), and to ascertain the effect on the gain on disposal of subsidiaries amounting to RMB 20,436,000 (Note 16) and other consequential impact, if any, on the financial statements for the financial year ended 31 December 2014.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph above, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with International Financial Reporting Standards so as to present fairly, in all material respects, the state of affairs of the Company as at 31 December 2014, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

to the members of China Oilfield Technology Services Group Limited

Emphasis of Matter

We draw attention to Note 2(a) to the financial statements. The financial statements of the Company for the financial year ended 31 December 2014 have been prepared on a realisation basis instead of a going concern basis, as the Company has proposed to undertake a voluntary liquidation, and has convened an extraordinary general meeting to seek shareholders' approval for the voluntary liquidation. Accordingly, the carrying value of the assets as at 31 December 2014 are presented at the estimated net realisable values and all recorded liabilities thereof are presented at estimated settlement amounts based on the estimation of the Board of Directors of the Company. We draw attention that the eventual realised amounts of the assets and liabilities of the Company, through liquidation, may differ materially from the amounts of assets and liabilities of the Company in the financial statements and accordingly, further adjustments may be required to be made to the financial statements. Our opinion is not further qualified in respect of this matter.

Foo Kon Tan LLP
*Public Accountants and
Chartered Accountants*

Singapore, 10 July 2015

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2014

		The Group 2013 RMB'000	The Company 2014 RMB'000	2013 RMB'000
	Note			
ASSETS				
Current Assets				
Prepayments		114	–	114
Cash and bank balances	8	4,371	598	4,371
		4,485	598	4,485
Assets of disposal group classified as held for sale	9	67,025	–	–
		71,510	598	4,485
Total assets		71,510	598	4,485
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	10	352,903	352,903	352,903
Reserves	11	(502,250)	(352,893)	(356,271)
Equity attributable to owners of the Company		(149,347)	10	(3,368)
Non-controlling interest		–	–	–
Total equity		(149,347)	10	(3,368)
LIABILITIES				
Current Liabilities				
Other payables and accruals	13	7,853	588	7,853
Liabilities directly associated with disposal group classified as held for sale	9	213,004	–	–
		220,857	588	7,853
Total liabilities		220,857	588	7,853
Total equity and liabilities		71,510	598	4,485

The disposal of all subsidiaries in the Group was completed on 3 April 2014. Consequently, there is no consolidated statement of financial position of the Group as at 31 December 2014.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Continuing operations			
Other income	14	2,696	1,151
Administrative expenses		(1,234)	(4,973)
Profit/(Loss) before taxation from continuing operations		1,462	(3,822)
Taxation	15	–	–
Profit/(Loss) after taxation from continuing operations		1,462	(3,822)
Profit/(Loss) from discontinued operations, net of tax	16	18,450	(41,333)
Profit/(Loss) for the year representing total comprehensive income for the year	17	19,912	(45,155)
Total comprehensive income attributable to:			
Owners of the Company		19,912	(45,155)
Non-controlling interest		–	–
		19,912	(45,155)
Earnings/(Loss) per share attributable to owners of the Company (RMB cents)			
From continuing and discontinued operations			
- basic and diluted	18	2.73	(6.20)
From continuing operations			
- basic and diluted	18	0.20	(0.53)
From discontinued operations			
- basic and diluted	18	2.53	(5.67)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2014

	Attributable to owners of the Company						Non-controlling interest ⁽¹⁾	Total equity
	Share capital	Share premium	Merger reserve	Statutory reserve	Accumulated losses	Total	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000
Balance at 1 January 2013	352,903	307,817	(161,707)	32,262	(635,467)	(104,192)	-	(104,192)
Loss for the year, representing total comprehensive income for the year	-	-	-	-	(45,155)	(45,155)	-	(45,155)
Balance at 31 December 2013	352,903	307,817	(161,707)	32,262	(680,622)	(149,347)	-	(149,347)
Profit for the year, representing total comprehensive income for the year	-	-	-	-	19,912	19,912	-	19,912
Changes in ownership interests in subsidiaries								
- Disposal of subsidiaries	-	-	161,707	(32,262)	-	129,445	-	129,445
Transactions with owners in their capacity as owners	-	-	161,707	(32,262)	-	129,445	-	129,445
At 31 December 2014 ⁽²⁾	352,903	307,817	-	-	(660,710)	10	-	10

⁽¹⁾ Non-controlling interest represents the 20% equity in the subsidiary, Chemor Tech International LLC, for which the Memorandum and Articles of Association provide that the losses attributable to the non-controlling interest shall be limited to its initial investment.

⁽²⁾ The share capital and reserves as at 31 December 2014 relate to the Company in view of the disposal of all subsidiaries in the Group during the financial year.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Cash Flows from Operating Activities			
Profit/(Loss) before taxation from continuing operations		1,462	(3,822)
Profit/(Loss) before taxation from discontinued operations	16	18,450	(41,333)
Profit/(Loss) before taxation		19,912	(45,155)
Adjustments for:			
Amortisation of deferred government grant	12	–	(2,555)
Amortisation of land use right	4	–	331
Dividend income	17	–	(23)
Fair value loss/(gain) on financial assets at fair value through profit or loss	17	89	(1,108)
Gain on disposal of subsidiaries	16	(20,436)	–
Interest expense	17	2,798	11,249
Interest income	17	(12)	(197)
Inventories written off	17	–	13,056
Operating profit/(loss) before working capital changes		2,351	(24,402)
Changes in inventories		–	(3,939)
Changes in trade and other receivables		36,824	28,223
Changes in prepayments		114	488
Changes in trade and other payables		(21,092)	5,472
Cash generated from operations		18,197	5,842
Income taxes paid		–	–
Net cash generated from operating activities		18,197	5,842
Cash Flows from Investing Activities			
Disposal of subsidiaries, net of cash disposed of	A	(28,170)	–
Dividends received		–	23
Interest received		12	197
Proceeds from disposal of financial assets at fair value through profit or loss		–	5,664
Net cash (used in)/generated from investing activities		(28,158)	5,884
Cash Flows from Financing Activities			
Interest paid		(2,798)	(8,698)
Repayment of borrowings		–	(26,000)
Net cash used in financing activities		(2,798)	(34,698)
Net decrease in cash and bank balances		(12,759)	(22,972)
Cash and bank balances at beginning of year		13,357	36,329
Cash and bank balances at end of year ⁽¹⁾	8	598	13,357

⁽¹⁾ The cash and bank balances as at 31 December 2014 relate to the Company in view of the disposal of all subsidiaries in the Group during the financial year.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

for the financial year ended 31 December 2014

A. Disposal of subsidiaries

On 3 April 2014, the Company completed the disposal of all the subsidiaries in the Group for a cash consideration of RMB 2,000,000. The effects of the disposal on the cash flows of the Group were as follows:

	2014
	RMB'000
The Group	
Property, plant and equipment	–
Land use right	14,169
Intangible assets	–
Trade and other receivables	6,264
Other investments	693
Cash and bank balances	30,170
Borrowings	(190,000)
Trade and other payables	(8,742)
Current tax payable	(435)
Net liabilities	(147,881)
Merger reserve	161,707
Statutory reserve	(32,262)
Non-controlling interest	–
Gain on disposal of subsidiaries	20,436
Total consideration, satisfied in cash	<u>2,000</u>
Analysis of net flow of cash and bank balances arising on disposal:	
Cash consideration received	2,000
Cash and bank balances disposed of	(30,170)
	<u>(28,170)</u>

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

1 General information

The financial statements of China Oilfield Technology Services Group Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 14 June 2007. The Company’s shares have been listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) since 17 October 2007.

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal place of business of the Group is located at 28 Xin Fa Street, Hi-Tech Development Zone, Daqing City, Heilongjiang Province, the People’s Republic of China (“PRC”).

On 27 December 2013, the Company entered into a conditional sale and purchase agreement with Gao Yanming, the Executive Chairman and controlling shareholder of the Company, pursuant to which the Company will dispose of all the subsidiaries in the Group for a cash consideration of RMB 2,000,000. Accordingly, the assets and liabilities of the disposal group were classified as held for sale as at 31 December 2013 (Note 9), and the results attributable to the disposal group were classified as discontinued operations for the financial years ended 31 December 2014 and 2013 (Note 16). The proposed disposal was approved by the Company’s shareholders in the Extraordinary General Meeting and completed on 3 April 2014.

On 28 February 2015, the Company announced that it had submitted an application to the SGX-ST for an extension of time of six months, up to 5 September 2015, for it to satisfy the requirements under Rule 1314(1) of the SGX-ST Listing Manual and to submit an application for its removal from the Watchlist of the SGX-ST. As at 28 February 2015, the Company was unable to enter into a definitive agreement for the acquisition of a new business that would enable the Company to meet the requirement for removal from the Watchlist.

The Company received a Notification of Delisting on 3 March 2015 from the SGX-ST, wherein the Company was informed that the SGX-ST would proceed to delist the Company pursuant to Rule 1315 of the SGX-ST Listing Manual. The Company was also requested to inform the SGX-ST of the exit offer proposal no later than one month from the date of the Notification of Delisting.

In its letter dated 31 March 2015, the Company informed the SGX-ST that the Company had not been able to procure a reasonable exit offer for shareholders. In order to comply with Rule 1306 of the SGX-ST Listing Manual, the Company has proposed to undertake a voluntary liquidation, and has convened an extraordinary general meeting to seek shareholders’ approval for the voluntary liquidation.

2(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) including related Interpretations promulgated by the International Financial Reporting Interpretations Committee (“IFRIC”). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below, and except for the financial statements of the Company for the financial year ended 31 December 2014 which have been prepared on a realisation basis instead of a going concern basis, as the Company has proposed to undertake a voluntary liquidation, and has convened an extraordinary general meeting to seek shareholders’ approval for the voluntary liquidation, as disclosed in Note 1 to the financial statements. Accordingly, the carrying value of the Company’s assets as at 31 December 2014 are presented at the estimated net realisable values and all recorded liabilities thereof are presented at estimated settlement amounts based on the estimation of the Board of Directors of the Company.

The financial statements are presented in Renminbi which is the Company’s functional currency. All financial information is presented in Renminbi and rounded to the nearest thousand, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(a) Basis of preparation (cont'd)

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are described below.

Critical assumptions used and accounting estimates in applying accounting policies

Net realisable values of assets and settlement amounts of liabilities

The Company has proposed to undertake a voluntary liquidation, and has convened an extraordinary general meeting to seek shareholders' approval for the voluntary liquidation. Accordingly, the carrying value of the Company's assets as at 31 December 2014 are presented at the estimated net realisable values and all recorded liabilities thereof are presented at estimated settlement amounts based on the estimation of the Board of Directors of the Company. The eventual realised amounts of the assets and liabilities of the Company, through liquidation, may differ materially from the amounts of assets and liabilities of the Company in the financial statements and accordingly, further adjustments may be required to be made to the financial statements. Nevertheless, the Executive Chairman and controlling shareholder of the Company, Gao Yanming, has undertaken to provide the necessary financial support to enable the Company to meet all its liabilities as at 31 December 2014 and up to the completion of liquidation, and the repayment of any loans which he may grant to the Company shall be waived accordingly.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

2(b) Interpretations and amendments to published standards effective in 2014

On 1 January 2014, the Group adopted the new or amended IFRS that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS.

Reference	Description
Amendments to IAS 32	Offsetting of Financial Assets and Financial Liabilities
Amendments to IAS 27, IFRS 10 and IFRS 12	Investment Entities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies
Annual Improvements 2010-2012 Cycle	
Annual Improvements 2011-2013 Cycle	

The adoption of these new and amended IFRS did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements except for the following:

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period. As this is a disclosure standard, it has no impact to the financial position and financial performance of the Group when applied.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(c) IFRS not yet effective

The following are the new or amended IFRS and IFRIC issued in 2014 that are not yet effective but may be early adopted for the current financial year:

Reference	Description	Effective date (Annual periods beginning on or after)
Amendments to IAS 1	Disclosure Initiative	1 January 2016
Amendments to IAS 19	Defined Benefit Plan: Employee Contribution	1 July 2014
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants	1 January 2016
Amendments to IAS 28 and IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 9	Financial Instruments	1 January 2018
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
Annual Improvements 2010-2012 Cycle		
- Amendment to IAS 16	Property, Plant and Equipment	1 July 2014
- Amendment to IAS 24	Related Party Disclosures	1 July 2014
- Amendment to IAS 38	Intangible Assets	1 July 2014
- Amendment to IFRS 2	Share-based Payment	1 July 2014
- Amendment to IFRS 3	Business Combinations	1 July 2014
- Amendment to IFRS 8	Operating Segments	1 July 2014
Annual Improvements 2011-2013 Cycle		
- Amendment to IAS 40	Investment Property	1 July 2014
- Amendment to IFRS 3	Business Combinations	1 July 2014
- Amendment to IFRS 13	Fair Value Measurement	1 July 2014
Annual Improvements 2012-2014 Cycle		
- Amendment to IAS 19	Employee Benefits	1 January 2016
- Amendment to IAS 34	Interim Financial Reporting	1 January 2016
- Amendment to IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2016
- Amendments to IFRS 7	Financial Instruments: Disclosures	1 January 2016

Management does not anticipate that the adoption of the above IFRS in future periods will have a material impact on the financial statements of the Group and the Company in the period of their initial adoption.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intragroup transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, the Group controls an investee if and only if the Group has all of the following:

- (i) power over the investee;
- (ii) exposure, or rights or variable returns from its involvement with the investee; and
- (iii) the ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS).

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of profit or loss and other comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Consolidation of the subsidiaries in the PRC is based on the subsidiaries' financial statements prepared in accordance with IFRS. Profits reflected in the financial statements prepared in accordance with IFRS may differ from those reflected in the statutory financial statements of the subsidiaries prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the subsidiaries are based on the amounts stated in the statutory financial statements.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation of property, plant and equipment is calculated using a straight-line basis to allocate their depreciable amount over their estimated useful lives as follows:

Buildings	40 to 50 years
Plant and machinery	3 to 10 years
Research equipment	5 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

No depreciation is provided for construction-in-progress.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Property, plant and equipment and depreciation (cont'd)

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense in profit or loss during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is recognised in profit or loss from the month that the property, plant and equipment are installed and are available for use, and to the month of disposal, respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Gains and losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at the end of each reporting period as a change in estimates.

Construction-in-progress, which represents buildings under construction, is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. Capitalisation of these costs ceases and construction-in-progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed and the assets are available for use.

Land use right

Land use right represents upfront payment to acquire long-term interest in the usage of land. Land use right is stated at cost less accumulated amortisation and impairment loss, if any. Amortisation is calculated on the straight-line basis to write off the cost of the land use right over the lease period of 50 years.

Intangible assets

Intangible assets acquired are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives. Amortisation commences when the intangible assets are available for use. Intangible assets with finite useful lives are assessed at the end of each reporting period whether there is any indication of impairment. If any such indication exists, they are tested for impairment.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development activities are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Intangible assets (cont'd)

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets and these are subject to the same subsequent measurement method as acquired intangible assets.

Amortisation is charged to profit or loss on straight-line method over ten years which is the estimated useful life of the development costs. The amortisation expense is recognised in the consolidated statement of profit or loss and other comprehensive income under "other expenses".

All other development costs are expensed as incurred.

Subsidiary

In the Company's separate statement of financial position, subsidiary is stated at cost less allowance for any impairment loss.

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the end of the reporting period with the exception that a financial asset shall not be reclassified into or out of the fair value through profit or loss category while it is held or issued.

All financial assets are recognised on their trade date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

The Group does not hold any held-to-maturity investments or available-for-sale financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months from the end of the reporting period.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Financial assets (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables include trade and other receivables and cash and bank balances. They are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write-back is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Allowance is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Cash and bank balances

Cash and bank balances comprise bank deposits.

Non-current assets (or disposal group) held for sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of the disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment, land use right and intangible assets, once classified as held for sale or distribution, are not depreciated or amortised.

If the criteria to classify as held for sale are no longer met, the assets, or disposal group, are remeasured at the lower of the carrying amount before the classification as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the assets or disposal group not been classified as held for sale, and the recoverable amount at the date of the subsequent decision not to sell.

Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of new ordinary shares that have been issued. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share premium.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Financial liabilities

The Group's financial liabilities comprise borrowings and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised as an expense in "finance cost" in profit or loss. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled more than 12 months after the end of the reporting period are included in current borrowings in the statement of financial position if the loan facility agreements include an overriding repayment on demand clause, which gives the lender the right to demand repayment at any time, at its sole discretion and irrespective of whether a default event has occurred. These borrowings are classified as current as the Group does not have the unconditional right at the end of the reporting period to defer their settlement for at least twelve months after the end of the reporting period. Other borrowings due to be settled more than 12 months after the end of the reporting period are included in non-current borrowings in the statement of financial position.

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

Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Leases

Where the Group is the lessee,

Operating leases

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

Rentals on operating leases are charged to profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in profit or loss when incurred.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Leases (cont'd)

Where the Group is the lessor,

Operating leases

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on straight-line method over the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity.

Employee benefits

Pension obligations

The Group participates in the defined contribution national pension schemes as provided by the laws of the countries in which it has operations.

Pursuant to the relevant regulations of the PRC government, the employees of the subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government (the "Central Pension Scheme"), whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the Central Pension Scheme. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the Central Pension Scheme is to pay the ongoing required contributions under the Central Pension Scheme. Contributions under the Central Pension Scheme are charged to the profit or loss as incurred. The assets of the Central Pension Scheme are held separately from those of the PRC subsidiaries in independently administered funds.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Employee benefits (cont'd)

Pension obligations (cont'd)

A defined contribution national pension scheme is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. The contributions to national pension schemes are charged to profit or loss in the period to which the contributions made. The Group is subject only to defined contribution plans.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of the reporting period.

Employee share option scheme

The Company has an employee share option plan for the granting of non-transferable options.

The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under option that are expected to become exercisable on the vesting date. At the end of each reporting period, the Group revises its estimates of the number of shares under option that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When new ordinary shares are issued upon exercise of the options, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital (nominal value) and share premium. The share option reserve is transferred to retained earnings upon expiry of the options.

Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Group or the Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Related parties (cont'd)

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain management executives are considered key management personnel.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions, less costs to sell, and value-in-use, based on an internal discounted cash flow evaluation. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. Impairment loss recognised for a cash-generating unit is charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss is recognised as income in profit or loss.

Revenue recognition

Rental income from leasing of premises under operating leases is recognised in profit or loss in equal instalments over the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased asset.

Consultancy income is recognised over the period in which the services are rendered.

Dividend income from investments is recognised at gross when the right to receive the dividend has been established.

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with.

Government grants relating to income is presented in gross under “Other income” in profit or loss on a systematic basis on the same periods in which the expenses are incurred, and not offset against the corresponding expenses.

Government grants relating to the benefit of government loans at nil or low interest rates are included in non-current liabilities as deferred income and are credited to the profit or loss on the same basis as and over the periods of the related loans.

Value-added tax

The Group's sale of goods in the PRC is subject to value-added tax (“VAT”) at the applicable tax rate of 17%. Input VAT on local purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is submitted on a monthly basis and is included as part of “trade and other receivables” or “trade and other payables” in the statement of financial position.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- (i) where VAT incurred on purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (ii) receivables and payables that are stated with the amount of VAT included.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

Functional currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The financial statements of the Group and the Company are presented in Renminbi, which is also the functional currency of the Company.

Conversion of foreign currencies

Transactions and balances

Transactions in a currency other than the functional currency (“foreign currency”) are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis as either other income or other expenses depending on whether foreign currency movements are in a net gain or net loss position.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

2(d) Summary of significant accounting policies (cont'd)

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if any.

3 Property, plant and equipment

				Furniture, fixtures and office equipment	Motor vehicles	Construction- in-progress	Total
The Group	Buildings	Plant and machinery	Research equipment	RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cost</u>							
At 1 January 2013	550,933	42,365	3,495	9,285	6,149	169,621	781,848
Reclassified to assets held for sale (Note 9)	(550,933)	(42,365)	(3,495)	(9,285)	(6,149)	(169,621)	(781,848)
At 31 December 2013 and 2014	-	-	-	-	-	-	-
<u>Accumulated depreciation and impairment losses</u>							
At 1 January 2013	550,933	42,365	3,495	9,285	6,149	169,621	781,848
Reclassified to assets held for sale (Note 9)	(550,933)	(42,365)	(3,495)	(9,285)	(6,149)	(169,621)	(781,848)
At 31 December 2013 and 2014	-	-	-	-	-	-	-
<u>Carrying amount</u>							
At 31 December 2014	-	-	-	-	-	-	-
At 31 December 2013	-	-	-	-	-	-	-

Following the signing of the conditional sale and purchase agreement on 27 December 2013 to dispose of all the subsidiaries in the Group, the Group's property, plant and equipment were reclassified to disposal group held for sale (Note 9). Property, plant and equipment were not depreciated while they were held for sale.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

4 Land use right

	2014 RMB'000	2013 RMB'000
The Group		
<u>Cost</u>		
At 1 January	-	16,422
Reclassified to assets held for sale (Note 9)	-	(16,422)
At 31 December	-	-
<u>Accumulated amortisation</u>		
At 1 January	-	1,922
Amortisation (Note 17)	-	331
Reclassified to assets held for sale (Note 9)	-	(2,253)
At 31 December	-	-
<u>Carrying amount</u>		
At 1 January	-	14,500
At 31 December	-	-

Land use right relates to a parcel of land situated at Third Zone of Hi-Tech Development Zone, Daqing City, Heilongjiang Province, the PRC. The term of the land use right is 50 years and expires on 26 December 2056.

Following the signing of the conditional sale and purchase agreement on 27 December 2013 to dispose of all the subsidiaries in the Group, the Group's land use right was reclassified to disposal group held for sale (Note 9). Land use right was not amortised while it was held for sale.

5 Intangible assets

	Development costs RMB'000
The Group	
<u>Cost</u>	
At 1 January 2013	25,604
Reclassified to assets held for sale (Note 9)	(25,604)
At 31 December 2013 and 2014	-
<u>Accumulated amortisation and impairment losses</u>	
At 1 January 2013	25,604
Reclassified to assets held for sale (Note 9)	(25,604)
At 31 December 2013 and 2014	-
<u>Carrying amount</u>	
At 31 December 2014	-
At 31 December 2013	-

Development costs relate to the development of new products and are internally generated. The intangible assets are amortised on a straight-line basis over the estimated useful life of ten years.

Following the signing of the conditional sale and purchase agreement on 27 December 2013 to dispose of all the subsidiaries in the Group, the Group's intangible assets were reclassified to disposal group held for sale (Note 9). Intangible assets were not amortised while they were held for sale.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

6 Subsidiary

	2014 RMB'000	2013 RMB'000
The Company		
<u>Unquoted equity investment, at cost</u>		
At 1 January	–	304,416
Reclassified to assets held for sale (Note 9)	–	(304,416)
At end of the year	–	–
<u>Allowance for impairment loss</u>		
At 1 January	–	304,416
Reclassified to assets held for sale (Note 9)	–	(304,416)
At 31 December	–	–
<u>Carrying amount</u>		
At 1 January	–	–
At 31 December	–	–

Details of the subsidiaries are:

Name	Principal activities	Country of incorporation/ Principal place of business	Percentage of equity held by the Group	
			2014 %	2013 %
<u>Held by the Company</u>				
Ever View International Limited ("Ever View") ⁽¹⁾	Investment holding	British Virgin Islands	–	100
<u>Held by Ever View</u>				
China Shine Oilfield Services Company Limited ("China Shine")	Investment holding	Hong Kong	–	100
<u>Held by China Shine</u>				
Chemor Tech International LLC ⁽¹⁾	Consultancy services and sale of tertiary oil recovery equipment	United States of America	–	80
Daqing Dafeng Energy Technology Services Co., Ltd	Manufacture and sale of tertiary oil recovery equipment	PRC	–	100
Daqing Dominator Pump Manufacture Co., Ltd ("DDPM")	Manufacture and sale of customised pumps	PRC	–	100
<u>Held by DDPM</u>				
Beijing High Grade Chemical Engineering Technology Co., Ltd	Research and development of tertiary oil recovery technology	PRC	–	100
North Winner (Beijing) Technology Development Co., Ltd	Research and development of tertiary oil recovery technology	PRC	–	100

⁽¹⁾ Not required to be audited

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

6 Subsidiary (cont'd)

The subsidiaries in Hong Kong and the PRC are audited by Certified Public Accountants in Hong Kong and the PRC for the purpose of local statutory reporting. The subsidiaries in the Group are re-audited by Foo Kon Tan LLP for the purpose of consolidation to comply with IFRS.

The Company's investment in subsidiary was reclassified to disposal group held for sale following the signing of the conditional sale and purchase agreement on 27 December 2013 to dispose of all the subsidiaries in the Group (Note 9).

7 Other investments

	2014 RMB'000	2013 RMB'000
The Group		
Financial assets at fair value through profit or loss:		
At 1 January	–	5,338
Net change in fair value recognised in profit or loss	–	1,108
Disposals	–	(5,664)
Reclassified to assets held for sale (Note 9)	–	(782)
At 31 December	–	–
Represented by:		
Quoted equity investments	–	–

Other investments are classified as held for trading.

The fair value of quoted equity investments is determined by reference to stock exchange quoted bid prices.

8 Cash and bank balances

	The Company 2014 RMB'000	The Group and the Company 2013 RMB'000
Cash at banks	598	4,371

For the purpose of the consolidated statement of cash flows, cash and bank balances comprise the following:

	2014 RMB'000	2013 RMB'000
The Group		
Held for use	598	4,371
Held for sale (Note 9)	–	8,986
	598	13,357

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

8 Cash and bank balances (cont'd)

Cash and bank balances are denominated in the following currencies:

	The Company 2014 RMB'000	The Group and the Company 2013 RMB'000
Singapore dollar	1	407
United States dollar	597	3,964
	598	4,371

At the end of the reporting period, cash and bank balances have a weighted average effective interest rate of 0.35% (2013: 0.35%) per annum.

9 Disposal group classified as held for sale

On 27 December 2013, the Company entered into a conditional sale and purchase agreement with Gao Yanming, the Executive Chairman and controlling shareholder of the Company, pursuant to which the Company will dispose of all the subsidiaries in the Group for a cash consideration of RMB 2,000,000.

Accordingly, the disposal group in respect of the Group's tertiary oil recovery business, which was previously reported in the enhanced oil recovery segment and energy saving segment, was classified as held for sale at the end of the reporting period. The proposed disposal was approved by the Company's shareholders in the Extraordinary General Meeting and completed on 3 April 2014.

There is no impairment loss arising on the remeasurement of the disposal group to the lower of its carrying amount and fair value less costs to sell.

As at 31 December 2013, the disposal group comprise the following assets and liabilities of the Group:

The Group	Note	2013 RMB'000
Assets		
Property, plant and equipment	3	–
Land use right	4	14,169
Intangible assets	5	–
Long-term deposits		19,735
Trade and other receivables		23,353
Other investments	7	782
Cash and bank balances	8	8,986
Assets classified as held for sale		67,025
Liabilities		
Borrowings		(190,000)
Trade and other payables		(22,569)
Current tax payable		(435)
Liabilities classified as held for sale		(213,004)
Net liabilities classified as held for sale		(145,979)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

9 Disposal group classified as held for sale (cont'd)

The Company	Note	2013 RMB'000
<u>Assets</u>		
Subsidiary	6	–
Amounts due from subsidiaries (non-trade)		–
Assets classified as held for sale		–

10 Share capital

The Company 2014 '000	The Group and the Company 2013 '000	The Company 2014 RMB'000	The Group and the Company 2013 RMB'000
Number of ordinary shares			

Issued and fully paid, with no par value

At 1 January and 31 December	728,595	728,595	352,903	352,903
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The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Company's residual assets.

11 Reserves

	The Group 2013 RMB'000	The Company 2014 RMB'000	The Company 2013 RMB'000
Share premium	307,817	307,817	307,817
Merger reserve	(161,707)	–	–
Statutory reserve	32,262	–	–
Accumulated losses	(680,622)	(660,710)	(664,088)
	(502,250)	(352,893)	(356,271)

Share premium

Share premium represents the excess of proceeds from the issue of new ordinary shares over the nominal value of the shares issued, net of share issue expenses. Under The Companies Law (revised) of the Cayman Islands, the balance in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Merger reserve

The merger reserve of the Group represents the difference between the consolidated net assets value of the subsidiaries acquired pursuant to the restructuring exercise over the nominal value of the shares of the Company issued in exchange thereof.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

11 Reserves (cont'd)

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, each subsidiary in the PRC is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory net profit for each year, as determined in accordance with the applicable PRC accounting standards and regulations, must be allocated to the SRF until the cumulative total of the SRF reaches at least 50% of the registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital. The SRF is not available for dividend distribution to owners. The directors have decided that 10% of the net profit, as reported in the statutory financial statements of the PRC subsidiaries, be appropriated each year to the SRF. For the capitalisation of the SRF into the registered capital, the remaining amount of the SRF shall not be less than 25% of the registered capital.

12 Deferred government grant

	2014 RMB'000	2013 RMB'000
The Group		
At 1 January	–	2,555
Amortisation (Note 17)	–	(2,555)
At 31 December	–	–

Deferred government grant relates to an interest-free loan obtained from a local government authority in the PRC and is amortised in profit or loss over the term of the loan of three years.

13 Other payables and accruals

	The Company 2014 RMB'000	The Group and the Company 2013 RMB'000
Accrued expenses	588	4,813
Amounts due to directors (non-trade)	–	3,040
	588	7,853

The non-trade amounts due to directors, which represent remuneration and advances from and payments on behalf by the directors, are unsecured, interest-free and repayable on demand.

Other payables and accruals are denominated in the following currencies:

	The Company 2014 RMB'000	The Group and the Company 2013 RMB'000
Hong Kong dollar	3	471
Renminbi	450	7,072
Singapore dollar	135	310
	588	7,853

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

14 Other income

	2014 RMB'000	2013 RMB'000
The Group		
Exchange gain	79	–
Interest income	2	3
Waiver of debts payable	2,615	1,148
	2,696	1,151

15 Taxation

	2014 RMB'000	2013 RMB'000
The Group		
Current taxation		
- continuing operations	–	–
- discontinued operations	–	–
	–	–

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the applicable rate of income tax on losses as a result of the following:

	2014 RMB'000	2013 RMB'000
The Group		
Profit/(Loss) before taxation from continuing operations	1,462	(3,822)
Profit/(Loss) before taxation from discontinued operations (Note 16)	18,450	(41,333)
Total profit/(loss) before taxation	19,912	(45,155)
Tax at statutory rates applicable to different jurisdictions	3,162	(8,010)
Tax effect on non-taxable income	(936)	(736)
Tax exemption	(4,282)	648
Deferred tax assets on temporary differences not recognised	2,056	8,098
	–	–

Cayman Islands

The Company is not subject to taxes on profit, income or dividends in the Cayman Islands.

British Virgin Islands

There is no income tax expense for the subsidiary in the British Virgin Islands as the income of the subsidiary is tax exempted under the laws of the British Virgin Islands.

Hong Kong

The corporate income tax rate applicable to the subsidiary in Hong Kong is 16.5% (2013: 16.5%) for the financial year ended 31 December 2014. No income tax has been provided as the subsidiary has no assessable profits for the financial years ended 31 December 2014 and 2013.

United States of America

The corporate income tax rate applicable to the subsidiary in the United States of America is 40% (2013: 40%) for the financial year ended 31 December 2014. No income tax has been provided as the subsidiary has no assessable profits for the financial years ended 31 December 2014 and 2013.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

15 Taxation (cont'd)

People's Republic of China

On 16 March 2007, the National People's Congress of the PRC enacted the Enterprise Income Tax ("EIT") Law which took effect on 1 January 2008. In accordance with the EIT Law, a unified EIT rate of 25% and unified tax deduction standards will be applied equally to both domestic invested enterprises and wholly foreign-owned enterprises. Accordingly, the PRC subsidiaries are subject to the applicable EIT rate of 25% (2013: 25%) for the financial year ended 31 December 2014.

Unused tax losses

As at 31 December 2013, the Group had unutilised tax losses of RMB 32,392,000 from its PRC subsidiaries. The unutilised tax losses are allowed to be carried forward for five years and used to offset against future taxable profits of the PRC subsidiaries in which the losses arose, subject to agreement by the relevant tax authorities and compliance with the applicable tax regulations in the PRC in which the subsidiaries operate. Deferred tax assets have not been recognised in respect of these items due to the uncertainty whether future taxable profits will be available against which the PRC subsidiaries can utilise the benefits.

16 Discontinued operations

On 27 December 2013, the Company entered into a conditional sale and purchase agreement with Gao Yanming, the Executive Chairman and controlling shareholder of the Company, pursuant to which the Company will dispose of all the subsidiaries in the Group for a cash consideration of RMB 2,000,000. The proposed disposal was undertaken in view of the poor financial performance of the existing tertiary oil recovery business of the subsidiaries in the Group, the ongoing unfavourable operating environment and challenging market conditions which are expected to continue in the foreseeable future, and the financial burden to the Company.

Accordingly, the results relating to the subsidiaries have been presented in the consolidated statement of profit or loss and other comprehensive income as "loss from discontinued operations, net of tax".

		2014	2013
The Group	Note	RMB'000	RMB'000
Other income		4,912	8,462
Selling and distribution expenses		(1,391)	(4,737)
Administrative expenses		(2,709)	(20,753)
Other expenses		–	(13,056)
Finance costs		(2,798)	(11,249)
Gain on disposal of subsidiaries		20,436	–
Profit/(Loss) before taxation		18,450	(41,333)
Taxation attributable to ordinary activities of discontinued operations	15	–	–
Profit/(Loss) from discontinued operations, net of tax		18,450	(41,333)
Profit/(Loss) attributable to:			
Owners of the Company		18,450	(41,333)
Non-controlling interest		–	–
		18,450	(41,333)
Basic and diluted earnings/(loss) per share (RMB cents)	18	2.53	(5.67)

The basic and diluted earnings/(loss) per share from discontinued operations are calculated by dividing the profit from discontinued operations, net of tax, attributable to owners of the Company of RMB 18,450,000 (2013: loss of RMB 41,333,000), by the weighted average number of ordinary shares outstanding of 728,595,000 (2013: 728,595,000) (Note 18).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

16 Discontinued operations (cont'd)

The cash flows attributable to the discontinued operations are as follows:

	2014 RMB'000	2013 RMB'000
The Group		
Net cash (used in)/generated from operating activities	(6,200)	9,406
Net cash generated from investing activities	12	220
Net cash used in financing activities	(2,798)	(34,698)
Net cash flows for the year	(8,986)	(25,072)

17 Profit/(Loss) for the year

	Note	2014 RMB'000	2013 RMB'000
The Group			
Profit/(Loss) for the year has been arrived at after (crediting)/charging:			
Amortisation of deferred government grant	12	–	(2,555)
Amortisation of land use right	4	–	331
Consultancy income		(3,167)	(4,252)
Dividend income		–	(23)
Fair value loss/(gain) on financial assets at fair value through profit or loss		89	(1,108)
Gain on disposal of subsidiaries	16	(20,436)	–
Government grant		(1,100)	–
Interest expense		2,798	11,249
Interest income		(78)	(197)
Inventories written off		–	13,056
Operating lease expense		77	510
Rental income		–	(24)
<u>Staff costs</u>			
Directors:			
Directors' fees		–	557
Directors' remuneration other than fees:			
- salaries and other related costs		108	2,191
- contributions to defined contribution plans		14	99
		122	2,847
Key management personnel (other than directors):			
- salaries and other related costs		50	1,612
- contributions to defined contribution plans		2	44
		52	1,656
Other than directors and other key management personnel:			
- salaries and other related costs		2,169	10,197
- contributions to defined contribution plans		105	850
		2,274	11,047
		2,448	15,550

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

18 Earnings/(Loss) per share

The calculation of basic and diluted earnings/(loss) per share was based on the profit attributable to ordinary shareholders of RMB 19,912,000 (2013: loss of RMB 45,155,000) and a weighted average number of ordinary shares outstanding of 728,595,000 (2013: 728,595,000), calculated as follows:

Profit/(Loss) attributable to ordinary shareholders

	Continuing operations RMB'000	Discontinued operations RMB'000	Total RMB'000
The Group			
2014			
Profit attributable to ordinary shareholders	1,462	18,450	19,912
2013			
Loss attributable to ordinary shareholders	(3,822)	(41,333)	(45,155)

Basic and diluted earnings/(loss) per share attributable to ordinary shareholders

	Continuing operations RMB cents	Discontinued operations RMB cents	Total RMB cents
The Group			
2014			
Basic and diluted earnings per share attributable to ordinary shareholders	0.20	2.53	2.73
2013			
Basic and diluted loss per share attributable to ordinary shareholders	(0.53)	(5.67)	(6.20)

There are no dilutive potential ordinary shares during the financial years.

19 Operating segments

For the financial years ended 31 December 2014 and 2013, the Group ceased to engage in any business activities and the Group's operating results were monitored by the its executive directors based on discrete financial information of the Group as a whole in the internal reports presented to the executive directors. Consequently, there was a single reportable operating segment.

20 Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following are significant transactions with related parties:

	Note	2014 RMB'000	2013 RMB'000
The Group			
Rental income from related parties	(i)	–	24
Sale of raw materials to related parties	(ii)	–	170

- (i) This relates to the leasing of office and warehouse premises to 凯明风电塔筒制造有限公司, 凯明(大庆)新能源开发有限公司 and 大庆大丰油田科技有限公司, of which Gao Yanming is a common director and controlling shareholder. The rental incomes were charged in accordance with the terms negotiated between the Group and the related parties.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

20 Related party transactions (cont'd)

- (ii) This relates to the sale of raw materials to 凯明风电塔筒制造有限公司 and 凯明(大庆)新能源开发有限公司, of which Gao Yanming is a common director and controlling shareholder. The sales consideration was determined based on the terms negotiated between the Group and the related parties.

21 Operating lease commitments (non-cancellable)

Where the Group is the lessee,

As at 31 December 2013, the Group was committed to making the following payments in respect of non-cancellable operating leases of office premises:

	2014 RMB'000	2013 RMB'000
The Group		
Not later than one year	–	196

The leases run for an initial period of two years, with options to renew the leases and renegotiate the terms at the expiry dates as mutually agreed between the Group and the respective lessors. None of the leases includes contingent rentals.

Where the Group is the lessor,

As at 31 December 2013, the Group had the following rental income under non-cancellable operating leases of office premises:

	2014 RMB'000	2013 RMB'000
The Group		
Not later than one year	–	45
Later than one year and not later than five years	–	27
	–	72

The Group leases a portion of its office premises as the lessor under operating lease arrangement for a term of three years. The lease contains an option to renew and renegotiate the terms at the expiry date or at a date mutually agreed between the Group and the lessee. The lease does not include contingent rentals.

22 Financial risk management objectives and policies

The Group has documented financial risk management policies. These policies set out the Group's overall business strategies and risk management philosophy. The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks. Market risk exposures are measured using sensitivity analysis for interest rate risk (Note 22.3), foreign currency risk (Note 22.4) and market price risk (Note 22.5).

The Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

22 Financial risk management objectives and policies (cont'd)

22.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group's exposure to credit risk arises primarily from trade and other receivables. For trade receivables, the Group adopts the practice of dealing only with those customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

The Group's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

The Group has established a credit policy under which the creditworthiness of each new customer is evaluated individually before the Group grants credit to the customer. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the directors. Payments will be required to be made upfront by customers which do not meet the Group's credit requirements.

Amounts due from customers are closely monitored and reviewed on a regular basis to identify any non-payment or delay in payment, and to understand the reasons, so that appropriate actions can be taken promptly. Through ongoing credit monitoring and existing collection procedures in place, credit risk is mitigated substantially.

The Group evaluates whether there is any objective evidence that trade and other receivables are impaired, and determines the amount of impairment loss as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the trade receivable balances, creditworthiness of the debtors and historical write-off experience. If the financial conditions of the debtors were to deteriorate, actual write-offs would be higher than estimated.

Amount not paid after the credit period granted will be considered past due. The credit terms granted to customers are based on the Group's assessment of their creditworthiness and in accordance with the Group's policy.

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the trade and other receivables from the date credit was initially granted up to the end of the reporting period.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

Exposure to credit risk

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position.

At the end of the reporting period, the Company's major class of financial assets is bank deposits, which are held with established financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

22 Financial risk management objectives and policies (cont'd)

22.2 Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's financial liabilities comprising other payables and accruals with contractual undiscounted cash flows approximating the carrying amount mature in less than one year. Nevertheless, the Group and the Company ensure that there are adequate funds to meet all their obligations in a timely and cost-effective manner. The Group and the Company maintain sufficient level of cash and bank balances, have available adequate amount of committed credit facilities from financial institutions and obtain written continuing financial support from the controlling shareholder to meet their working capital requirements.

The State Administration of Foreign Exchange of the PRC imposes control over foreign currencies. Renminbi, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

Exchanges of Renminbi for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Renminbi into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

22.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from bank balances at floating rates. All other financial assets and liabilities are interest-free.

At the end of the reporting period, the carrying amount of the interest-bearing financial instruments is as follows:

	2014 RMB'000	2013 RMB'000
The Group and the Company		
Variable rate instruments		
Financial assets		
- bank balances	598	4,371

Cash flow sensitivity analysis for variable rate instruments

At the end of the reporting period, if interest rates had been 100 (2013: 100) basis points higher/lower with all other variables held constant, the Group's and the Company's results net of tax and equity would have been RMB 6,000 (2013: RMB 44,000) higher/lower, arising mainly as a result of higher/lower interest income from floating rate bank balances.

The Group's and the Company's policy is to obtain the most favourable interest rates available without increasing its interest rate exposure.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

22 Financial risk management objectives and policies (cont'd)

22.4 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group and the Company have transactional currency exposures arising from transactions that are denominated in a currency other than the respective functional currencies of group entities, Renminbi.

At the end of the reporting period, the Group and the Company have cash and bank balances which are denominated in United States dollar, and other payables and accruals which are denominated in Hong Kong dollar and Singapore dollar.

Consequently, the Group and the Company are exposed to movements in foreign currency exchange rates. However, the Group and the Company do not use any financial derivatives such as foreign currency forward contracts, foreign currency options or swaps for hedging purposes.

The Group's and the Company's exposures in financial instruments to the various foreign currencies are as follows:

	Hong Kong dollar RMB'000	Singapore dollar RMB'000	United States dollar RMB'000
The Group and the Company			
2014			
Cash and bank balances	–	1	597
Other payables and accruals	(3)	(135)	–
Net exposure	<u>(3)</u>	<u>(134)</u>	<u>597</u>
2013			
Cash and bank balances	–	407	3,964
Other payables and accruals	(471)	(310)	–
Net exposure	<u>(471)</u>	<u>97</u>	<u>3,964</u>

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to reasonably possible changes in the Hong Kong dollar (HKD), Singapore dollar (SGD) and United States dollar (USD) exchange rates (against Renminbi), with all other variables held constant, of the Group's and the Company's results net of tax and equity.

		2014 RMB'000	2013 RMB'000
The Group and the Company			
HKD	- strengthened 5% (2013: 5%)	–	(24)
	- weakened 5% (2013: 5%)	–	24
SGD	- strengthened 5% (2013: 5%)	(7)	5
	- weakened 5% (2013: 5%)	7	(5)
USD	- strengthened 5% (2013: 5%)	30	198
	- weakened 5% (2013: 5%)	<u>(30)</u>	<u>(198)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

22 Financial risk management objectives and policies (cont'd)

22.5 Market price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

As at 31 December 2013, the Group is exposed to market price risks arising from its investments in listed equity securities classified as fair value through profit or loss. These securities are listed in the Hong Kong stock exchange.

23 Capital management

The Company's objectives when managing capital are:

- (a) To safeguard the Company's ability to continue as a going concern;
- (b) To support the Company's stability and growth;
- (c) To provide capital for the purpose of strengthening the Company's risk management capability; and
- (d) To provide an adequate return to shareholders.

The Company actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Company currently does not adopt any formal dividend policy.

There were no changes in the Company's approach to capital management during the financial year.

The Company is not subject to externally imposed capital requirements.

As disclosed in Note 11, the subsidiaries in the PRC are required by the relevant laws and regulations of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is restricted. This externally imposed capital requirement has been complied with by the PRC subsidiaries for the financial year ended 31 December 2013.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt comprises other payables and accruals, less cash and bank balances. Total capital represents equity attributable to owners of the Company.

	2014 RMB'000	2013 RMB'000
The Company		
Other payables and accruals (Note 13)	588	7,853
Less: Cash and bank balances (Note 8)	(598)	(4,371)
Net (cash)/debt	(10)	3,482
Equity attributable to owners of the Company	10	(149,347)
Gearing ratio	N.A.	N.A.

N.A.: Not applicable

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2014

23 Capital management (cont'd)

The disposal of all the subsidiaries in the Group was approved by the Company's shareholders in the Extraordinary General Meeting and completed on 3 April 2014. Upon the completion of the disposal of the subsidiaries, the Company ceased to have any operating business and was deemed as a cash company under Rule 1018 of the SGX-ST Listing Manual.

On 28 February 2015, the Company announced that it had submitted an application to the SGX-ST for an extension of time of six months, up to 5 September 2015, for it to satisfy the requirements under Rule 1314(1) of the SGX-ST Listing Manual and to submit an application for its removal from the Watchlist of the SGX-ST. As at 28 February 2015, the Company was unable to enter into a definitive agreement for the acquisition of a new business that would enable the Company to meet the requirement for removal from the Watchlist.

The Company received a Notification of Delisting on 3 March 2015 from the SGX-ST, wherein the Company was informed that the SGX-ST would proceed to delist the Company pursuant to Rule 1315 of the SGX-ST Listing Manual. The Company was also requested to inform the SGX-ST of the exit offer proposal no later than one month from the date of the Notification of Delisting.

In its letter dated 31 March 2015, the Company informed the SGX-ST that the Company had not been able to procure a reasonable exit offer for shareholders. In order to comply with Rule 1306 of the SGX-ST Listing Manual, the Company has proposed to undertake a voluntary liquidation, and has convened an extraordinary general meeting to seek shareholders' approval for the voluntary liquidation.

24 Financial instruments

Fair values

The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approximate their fair values.

However, the Company does not anticipate that the carrying amounts recorded at the end of the reporting period would be significantly different from the values that would eventually be received or settled.

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, comprising cash and bank balances and other payables and accruals, are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

STATISTICS OF SHAREHOLDINGS

As at 3 July 2015

Authorised Share Capital	:	HK\$500,000,000
Issued and fully paid-up capital	:	HK\$364,297,500
Number of shares	:	728,595,000
Class of shares	:	Ordinary shares of HK \$0.50 each
Voting rights	:	One vote per share

The Company does not hold any treasury shares.

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHAREHOLDINGS
1 - 99	1	0.01	90	0.00
100 - 1,000	260	3.92	258,800	0.04
1,001 - 10,000	3,434	51.73	21,489,110	2.95
10,001 - 1,000,000	2,920	43.99	206,581,400	28.35
1,000,001 and above	23	0.35	500,265,600	68.66
TOTAL	6,638	100.00	728,595,000	100.00

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Gao Yanming	231,150,000	31.73	–	–
Liu Jing Xiang	73,000,000	10.02	–	–

STATISTICS OF SHAREHOLDINGS

As at 3 July 2015

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	CITIBANK NOMINEES SINGAPORE PTE LTD	340,095,000	46.68
2	PHILLIP SECURITIES PTE LTD	41,652,000	5.72
3	RHB SECURITIES SINGAPORE PTE. LTD.	36,896,000	5.06
4	OCBC SECURITIES PRIVATE LIMITED	19,455,000	2.67
5	XU JIAN	8,176,600	1.12
6	HL BANK NOMINEES (SINGAPORE) PTE LTD	7,029,000	0.96
7	HSBC (SINGAPORE) NOMINEES PTE LTD	6,806,000	0.93
8	MAYBANK KIM ENG SECURITIES PTE. LTD.	6,053,000	0.83
9	CITIBANK CONSUMER NOMINEES PTE LTD	5,148,000	0.71
10	LIM & TAN SECURITIES PTE LTD	5,056,000	0.69
11	UOB KAY HIAN PRIVATE LIMITED	4,741,000	0.65
12	ONG SIEW YAP	2,529,000	0.35
13	LIM JWEE KWANG	2,339,000	0.32
14	TANG HIANG KHOON	2,302,000	0.32
15	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	1,993,000	0.27
16	TENG YEW MENG	1,557,000	0.21
17	TAN ROSALIND	1,550,000	0.21
18	LIM PENG SIANG	1,300,000	0.18
19	NG HWEE PIAK STEPHENIE	1,201,000	0.16
20	TEO PENG SENG	1,192,000	0.16
	TOTAL	497,070,600	68.20

SHARES HELD BY PUBLIC

Based on the information provided to the Company as at 3 July 2015, approximately 58.25% of the issued ordinary shares of the Company was held by the public. Accordingly, Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited has been complied with.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of CHINA OILFIELD TECHNOLOGY SERVICES GROUP LIMITED will be held at M Hotel Singapore, Anson III, Level 2, 81 Anson Road, Singapore 079908 on Friday, 31 July 2015 at 3.00 p.m. for the following purposes:-

AS ORDINARY BUSINESS

Resolution 1

1. To receive and adopt the audited accounts, together with the Directors' Report, the Statement by Directors and the Independent Auditors' Report, for the financial year ended 31 December 2014.

Resolution 2

2. To re-elect Mr Gao Yanming, who is retiring pursuant to Article 86(1) of the Company's Articles of Association, as a Director.
3. To transact any other ordinary business that may be properly transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

Gao Yanming
Executive Chairman
Singapore
16 July 2015

NOTES:

1. With the exception of The Central Depository (Pte) Ltd. (the "Depository") who may appoint more than two proxies, a shareholder of the Company entitled to attend and vote at the above meeting who hold two or more shares is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
2. Where a form of proxy appoints more than one proxy (including the case where such appointment results from a nomination by the Depository), the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.
3. A corporation which is a shareholder of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its corporate representative at the meeting.
4. To be valid, the instrument appointing a proxy or proxies and the power of attorney or other authority, if any, under which it is signed on behalf of the appointor (include a Depositor), or a certified copy of such power or authority, must be deposited at the office of Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not less than 48 hours before the time appointed for holding the meeting or at any adjournment thereof. Detailed instructions can be found on the Proxy Form(s).



**China Oilfield
Technology**

China Oilfield Technology Services Group Limited

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