



SKY China Petroleum Services Ltd.
(Company Registration No: 200312303R)

Financial Statement Announcement for 1st Quarter ended 31 March 2012

Part 1 - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1 (a)(i) Income statement and statement of comprehensive income for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

The Board of Directors announces the unaudited results of the Group for the 1st quarter ended 31 March 2012.

	Group		Increase / (Decrease) %
	1st Qtr 2012 S\$'000	1st Qtr 2011 S\$'000	
Revenue	9,645	15,226	(37%)
Cost of services	(5,774)	(6,321)	(9%)
Gross profit	3,871	8,905	(57%)
Other operating income	137	144	(5%)
Administrative expenses	(1,522)	(2,193)	(31%)
Finance costs	-	(80)	(100%)
Profit before tax	2,486	6,776	(63%)
Income tax expense	(142)	(983)	(86%)
Profit for the period	2,344	5,793	(60%)
Other comprehensive income, net of tax			
Foreign currency translation	(5,452)	(2,242)	n.m.
Total comprehensive income / (expense) for the period	(3,108)	3,551	n.m.
Net profit attributable to:			
Owners of the parent	1,739	4,182	(58%)
Non-controlling interests	605	1,611	
	2,344	5,793	
Total comprehensive income / (expense) attributable to:			
Owners of the parent	(2,580)	2,466	
Non-controlling interests	(528)	1,085	
	(3,108)	3,551	

n.m. Not meaningful

1 (a)(ii) Included in the determination of profit before tax are the following items:

	Group		Increase / (Decrease) %
	1st Qtr 2012 S\$'000	1st Qtr 2011 S\$'000	
Depreciation	1,633	1,778	(8%)
Amortisation of intangible assets	204	433	(53%)
Interest income	(119)	(142)	(16%)
Interest expense	-	80	(100%)
Net foreign exchange loss	254	403	(37%)

n.m. Not meaningful

1(b) Statements of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Notes	Group		Company	
		31-Mar-12 S\$'000	31-Dec-11 S\$'000	31-Mar-12 S\$'000	31-Dec-11 S\$'000
ASSETS					
Non-current assets:					
Investments in subsidiaries		-	-	82,606	52,606
Plant and equipment		108,755	80,765	1	3
Intangible assets	IV	11,786	12,152	-	-
Total non-current assets		120,541	92,917	82,607	52,609
Current assets:					
Cash and bank balances	I	37,067	31,219	691	659
Trade receivables	II	1,608	1,980	-	-
Other receivables	III	47,485	83,565	14,750	46,638
Deferred expense		46	129	-	-
Total current assets		86,206	116,893	15,441	47,297
Total assets		206,747	209,810	98,048	99,906
LIABILITIES AND EQUITY					
Current liabilities:					
Other payables		8,351	8,188	470	415
Due to a director		914	768	-	-
Receipt in advance	V	2,040	1,499	-	-
Income tax payable		8,795	9,659	8	8
Total current liabilities		20,100	20,114	478	423
Non-current liability:					
Deferred tax liabilities		5,134	5,075	150	150
Total non-current liabilities		5,134	5,075	150	150
Total liabilities		25,234	25,189	628	573
Equity attributable to owners of the parent					
Issued capital		68,080	68,080	68,080	68,080
Share option reserve		166	166	166	166
Currency translation reserve		(1,348)	2,971	-	-
General reserves		21,802	21,792	-	-
Accumulated profits		59,467	57,738	29,174	31,087
		148,167	150,747	97,420	99,333
Non-controlling interests		33,346	33,874	-	-
Total equity		181,513	184,621	97,420	99,333
Total liabilities and equity		206,747	209,810	98,048	99,906

1(b)(i) Notes to Statements of financial position**I Cash and bank balances**

Net cash and cash balances increased by S\$5.8 million from previous financial year to S\$37.1 million. The net increase was mainly due to the following transactions:

- i) Payment of S\$0.6 million for the Corporate Income Taxes due in the PRC; and
- ii) Receipt of fixed asset disposal proceeds of S\$4.8 million;
- iii) Balance payments of S\$3.2 million made in respect of the new DWT8,800 vessel and 20 sets MWDs; and
- iv) Cash generated from operations.

For details, please refer to the cashflow statements in 1(c).

II Trade receivables

	Group		Turnover days		Subsequent receipts S\$'000
	31-Mar-12 S\$'000	31-Dec-11 S\$'000	31-Mar-12	31-Dec-11	
Amount receivable from:					
- drilling services rendered	99	309	23	67	99
- transportation of petroleum products	1,509	1,671	27	19	1,509
	<u>1,608</u>	<u>1,980</u>			

III Other receivables

	Group		Company	
	31-Mar-12 S\$'000	31-Dec-11 S\$'000	31-Mar-12 S\$'000	31-Dec-11 S\$'000
<u>Current</u>				
Receivable from a customer	5,540	5,639	-	-
Refundable deposits	29,759	60,722	122	79
Fixed asset disposal proceeds receivable	11,411	16,727	-	-
Prepayments	775	477	156	81
Due from subsidiaries	-	-	14,472	46,478
	<u>47,485</u>	<u>83,565</u>	<u>14,750</u>	<u>46,638</u>

The decrease in other receivables (current) was mainly due to the transfer of the deposits paid for the purpose of building the DWT8,800 vessel and the acquisition of 20 sets of MWDs to "Plant and equipment" as the results of their deliveries and commencement of revenue contributions.

Two installments were received in accordance with the Sales and Purchase Agreement regarding the disposed rig in FY2011.

Amount due from subsidiaries decreased due to a reclassification of a long term nature receivable as quasi-investments in a subsidiary and the repayments made during the current period.

IV Intangible assets

	Group	
	31-Mar-12 S\$'000	31-Dec-11 S\$'000
Goodwill	7,045	7,045
Customer relationship, net	4,741	5,107
	<u>11,786</u>	<u>12,152</u>

Goodwill represents the excess of the cost of a business combination over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities arising upon the acquisition of Xinghai. The cost of customer relationship acquired in a business combination is its fair value as at the date of the acquisition.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit that is expected to benefit from the synergies of the combination and is tested annually for impairment. Customer relationship is carried at cost less any accumulated amortisation and any accumulated impairment losses. Customer relationship is amortised on a straight-line basis over the estimated economic useful lives of 8 years.

V Receipt in advance

This represents the rental payments received in advance in respect of the drilling facilities.

1(b)(ii) Aggregate amount of group's borrowings and debt securities

	Group			
	31-Mar-12		31-Dec-11	
	Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
Amount repayable in one year or less, or on demand	-	-	-	-
Amount repayable after one year	-	-	-	-
	-	-	-	-

Details of any collateral

The group did not have any borrowings or outstanding debt securities as at 31 March 2012 and 31 December 2011.

1(c) Statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	1st Qtr 2012	1st Qtr 2011
	S\$'000	S\$'000
Operating activities		
Profit before income tax	2,486	6,776
Adjustments for:		
Depreciation of plant and equipment	1,633	1,778
Interest income	(119)	(142)
Interest expenses	-	80
Amortisation of deferred expenses	90	90
Amortisation of deferred income	-	(80)
Amortisation of intangible asset	204	433
Translation differences	786	486
Operating cash flow before movements in working capital	5,080	9,421
Trade receivables	372	427
Other receivables	(298)	(144)
Due to a director	146	336
Receipt in advance	541	(24)
Other payables	163	(819)
Cash generated from operations	6,004	9,197
Income tax paid	(575)	(760)
Net cash generated from operating activities	5,429	8,437
Investing activities		
Interest received	41	51
Proceeds from disposal of fixed assets	4,771	-
Deposit for purchase of plant and equipment	-	(8,204)
Purchase of plant and equipment (II)	(3,208)	(146)
Net cash used in investing activities	1,604	(8,299)
Financing activities		
Repayment of loan to a related party	-	(227)
Net cash used in financing activities	-	(227)
Effect of exchange rate changes on the balance of cash held in foreign currencies	(1,185)	(969)
Net increase / (decrease) in cash and cash equivalents	5,848	(1,058)
Cash and cash equivalents at beginning of quarter	31,219	65,809
Cash and cash equivalents at end of quarter (I)	37,067	64,751

1(c) Notes to statement of cash flows

I Cash and cash equivalents

	Group	
	1st Qtr 2012	1st Qtr 2011
	S\$'000	S\$'000
Cash at banks and on hand	37,067	54,856
Fixed deposits	-	9,895
	<u>37,067</u>	<u>64,751</u>

II Purchase of plant and equipment

Additions to plant and equipment	32,064	146
less: Deposit for plant and equipment made last year	(28,856)	-
	<u>3,208</u>	<u>146</u>

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated Statement of Changes in Equity for the period ended 31 March, 2012

Group	Share capital	Share option reserve	Currency translation reserve (deficit)	General reserve	Accumulated profits	Equity attributable to the owners of the parent	Non-controlling interests	Total
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Balance at 1 January, 2011	68,080	166	(3,130)	21,314	44,942	131,372	27,463	158,835
Translation adjustment recognised directly in equity	-	-	6,101	-	-	6,101	1,810	7,911
Profit for the year	-	-	-	-	15,201	15,201	4,601	19,802
Total comprehensive income for the year	-	-	6,101	-	15,201	21,302	6,411	27,713
Dividends on ordinary shares	-	-	-	-	(1,927)	(1,927)	-	(1,927)
Transfer to general reserve	-	-	-	478	(478)	-	-	-
Balance at 31 December, 2011	68,080	166	2,971	21,792	57,738	150,747	33,874	184,621
Translation adjustment recognised directly in equity	-	-	(4,319)	-	-	(4,319)	(1,133)	(5,452)
Profit for the period	-	-	-	-	1,739	1,739	605	2,344
Total comprehensive income (expenses) for the period	-	-	(4,319)	-	1,739	(2,580)	(528)	(3,108)
Transfer to general reserve	-	-	-	10	(10)	-	-	-
Balance at 31 March, 2012	68,080	166	(1,348)	21,802	59,467	148,167	33,346	181,513

Statement of Changes in Equity of the Company for the period ended 31 March, 2012

Company	Share capital	Share option reserve	Accumulated profits	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000
Balance at 1 January, 2011	68,080	166	19,534	87,780
Total comprehensive income / (expenses) for the year	-	-	13,480	13,480
Dividends on ordinary shares	-	-	(1,927)	(1,927)
Balance at 31 December, 2011	68,080	166	31,087	99,333
Total comprehensive expenses for the period	-	-	(1,913)	(1,913)
Balance at 31 March, 2012	68,080	166	29,174	97,420

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares or cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

Share Capital	No. of shares
Ordinary shares issued and fully paid	('000)
Balance as at 1 January 2012	
and as at 31 March 2012	<u>401,430</u>

During the period ended 31 March 2012, our Company did not issued new shares under the SKY China Employee Share Option Scheme. As at 31 March 2012, options to subscribe for ordinary shares in our Company remained outstanding as follows:

	As at 31 March 2012 No. of shares	As at 31 Dec 2011 No. of shares
Pursuant to SKY China Employee Share Option Scheme	<u>1,785,000</u>	<u>1,785,000</u>

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at end of the immediately preceding year.

The Company's total number of issued shares (excluding treasury shares) as at 31 March 2012 was 401,429,540 (31 December 2011: 401,429,540).

- 2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the auditors.

- 3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not Applicable.

- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Except as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of the audited financial statements as at 31 December 2011.

- 5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

In the current year, the Group and the Company adopted all the new and revised Singapore Financial Reporting Standards (FRSs) and Interpretation of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2012.

The adoption of the following new/revised FRSs and INT FRS did not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior periods:

Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets
Amendments to FRS 101 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to FRS 107 Transfers of Financial Assets

- 6 Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:-
(a) Based on the weighted average number of ordinary shares on issue; and
(b) On a fully diluted basis (detailing any adjustments made to the earnings).

	Group	
	1st Qtr 2012	1st Qtr 2011
Earnings per ordinary share:		
(i) Based on weighted average no. of ordinary shares in issue (cents)	0.43	1.04
(ii) On a fully diluted basis (cents)	0.43	1.04
Number of shares in issue:		
(i) Based on weighted average no. of ordinary shares in issue (in million)	401.43	401.43
(ii) On a fully diluted basis (in million)	403.21	403.21

Earnings per ordinary share is calculated based on the Group's profit for the financial period attributable to the owners of the Company divided by the weighted average number of ordinary shares in issue during the period under review.

Diluted earnings per ordinary share is calculated based on the same basis as earnings per share by applying the weighted average number of ordinary shares and adjusted to include the outstanding share options.

- 7 **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-**
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	31-Mar-12	31-Dec-11	31-Mar-12	31-Dec-11
Net Assets Value (S\$ '000)	148,167	150,747	97,420	99,333
Based on existing issued share capital (cents per share)	36.91	37.55	24.27	24.74
Net Assets Value has been computed based on the share capital of (in million of shares)	401.430	401,430	401.430	401,430

- 8 **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Revenue

Our Group recorded an overall revenue of S\$9.6 million in Q1 FY2012, a decrease of S\$5.6 million (37%) as compared to the previous corresponding quarter. The decrease was due to the combined effects of the followings:

- There was no rental income from the disposed drilling rig as compared to FY2011;
- The monthly rental rate for an aged drilling rig was revised downward by 33% due to its decreased efficiency;
- As disclosed in the Q4 FY2011 results announcement, our time charter business in the Transportation Segment ceased in January 2012, which caused the decline in revenue from this segment in Q1 FY2012;
- In addition, we had two vessels undergoing double hull modifications, which were made to meet our customers' demands, and hence affected our fleet capacity. Efforts by management to seek alternative leases of larger vessels were not successful and these caused the decline in the revenue in the Transportation Segment.
- Lower revenue from spot charter business also resulted from the decreased of unit price as the demand of the refined oil transportation segment was not fully recovered from the high oil price and uncertainties of the PRC macro economy when compared to FY2011 same period; and
- The Group took the delivery of the new DWT8,800 new vessel, however this new vessel had only commenced its maiden revenue voyage on 14 March 2012 after obtained all compliance certificates, therefore its contributions to the Group's revenue and profit were only limited for two weeks in Q1 FY2012.

Details for revenue generated from each segment are as follows:

	Group		
	1st Qtr 2012 S\$'000	1st Qtr 2011 S\$'000	Increase / (Decrease) %
Rental of Drilling Rig	4,220	6,444	-35%
Drilling Services	319	297	7%
Oil well maintenance	53	37	43%
Transportation Services	5,053	8,448	-40%
Total	9,645	15,226	-37%

Contribution from Drilling Services Segment amounted to S\$0.3 million for each quarter. This revenue is derived from the contract signed with Botenaer, which will be ended by April 2012.

Oil Well Maintenance Segment contribution is not significant.

Profitability

Due to the decrease in contributions from the disposed rig and Xinghai's operations, together with the lower rental of an aged drilling rig, overall gross profit decreased by 57% to S\$3.9 million when compared to Q1 2011.

	Group			
	1st Qtr 2012 S\$'000		1st Qtr 2011 S\$'000	
	GP%		GP%	
Rental of Drilling Rig	2,709	64.2%	4,734	73.5%
Drilling Services	290	91.0%	270	90.8%
Oil well maintenance	(38)	n.m.	5	16.0%
Transportation Services	910	18.0%	3,896	46.1%
Total	3,871	40.1%	8,905	58.5%

Rental of Drilling Rig

The gross profit margin for this segment remains high and the cost of service for this segment only includes salaries of technical personnel and depreciation charges. This segment is currently the major contributor to our Group's profits.

The profit margins for the Q1 FY2012 was comparatively lower by 9.3 percentage points than the same periods in FY2011. The margin was slightly affected by the revised rental of a drilling rig. This caused a slight dip in the overall profit margins for the Drilling Rigs Rental Segment.

Drilling services

The gross profit margin for our Directional Drilling Segment remained high as under the relevant agreement, we only need to provide a team of engineers.

Transportation Services

In Q1 FY2012, the Transportation Segment recorded a gross profit figure of S\$0.9 million, which was lower than the same period in Q1 FY2011, it was mainly caused by the increase in the crew fees together with higher fuel cost in the Q1 FY2012. On the other hand, the demand of the refined oil transportation segment was not fully recovered from the high oil price and PRC macro economy when compared to FY2011 same period, the average freight dropped from RMB127 per ton in Q1 FY2011 to RMB107 per ton in Q1 FY2012, while the utilisation of our vessels were maintained at the similar level when compared to the same period in FY2011.

The time charter business was ceased in January 2012 and there was no contribution from the time charter business in Q1 FY2012.

Oil well maintenance

The operations from this segment is not significant.

Net profit attributable to the owners of the parent

Profit for Q1 FY2012 (net of tax) decreased by 60% to S\$2.3 million when compared to Q1 FY2011 due to lower contributions from our underlying business segments, namely the lower contributions from both the Rental Segment and the Transportation Segment as previously explained above.

The decrease in administrative expenses was mainly caused by lower amortisation of intangible assets and lower non-cash exchange loss incurred in Q1 FY2012.

There was no finance cost in the Q1 FY2012 as there were no borrowings or outstanding debt securities in Q1 FY2012. The finance costs incurred in Q1 FY2011 related to an outstanding loan, which was fully repaid in April 2011.

Overall net profit attributable to the shareholders for the Q1 FY2012 decreased by S\$2.4 million to S\$1.7 million, after deducting the non-controlling shareholders' share of profits in Xinghai.

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not Applicable.

10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The PRC economy seemed to be growing at a slower pace and there have been changes in the coastal refined oil transportation sector as well as the oil rig businesses.

Taking into consideration the factors affecting demand, management have undertaken changes in renewing our revenue generating assets in the past few months for the drilling equipment rental business.

For the transportation services, we will continue to upgrade our vessels to fulfil the requirements and needs of our customers, to ensure that we remain competitive in the industry.

Our new vessel of DWT8800 has commenced generating revenue in March 2012 and we are evaluating opportunities that can increase our current fleet capacity.

Barring unforeseen circumstances, the Group expects to be profitable in FY2012.

11 Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

No dividend has been declared or recommended.

(b) Corresponding Period of the Immediately Preceding Financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No dividend was declared or recommended.

(c) Date payable

Not Applicable

(d) Books closure date

Not Applicable

- 12 To disclose in the quarterly and full year announcements whether the group has obtained a general mandate from shareholders for Interested Person Transactions (IPT), and the aggregate value of such transactions. If no IPT mandate has been obtained, a statement is required.**

No IPT mandate has been obtained from our shareholders.

- 13 Negative assurance confirmation on interim financial results under SGX Listing Rule 705(4) of the Listing Manual**

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the first quarter ended 31 March 2012 financial results to be false or misleading.

ON BEHALF OF THE DIRECTORS

LIU QING ZENG
Chief Executive Officer

GAO YU LIN
Chief Operating Officer

BY ORDER OF THE BOARD
4 May 2012