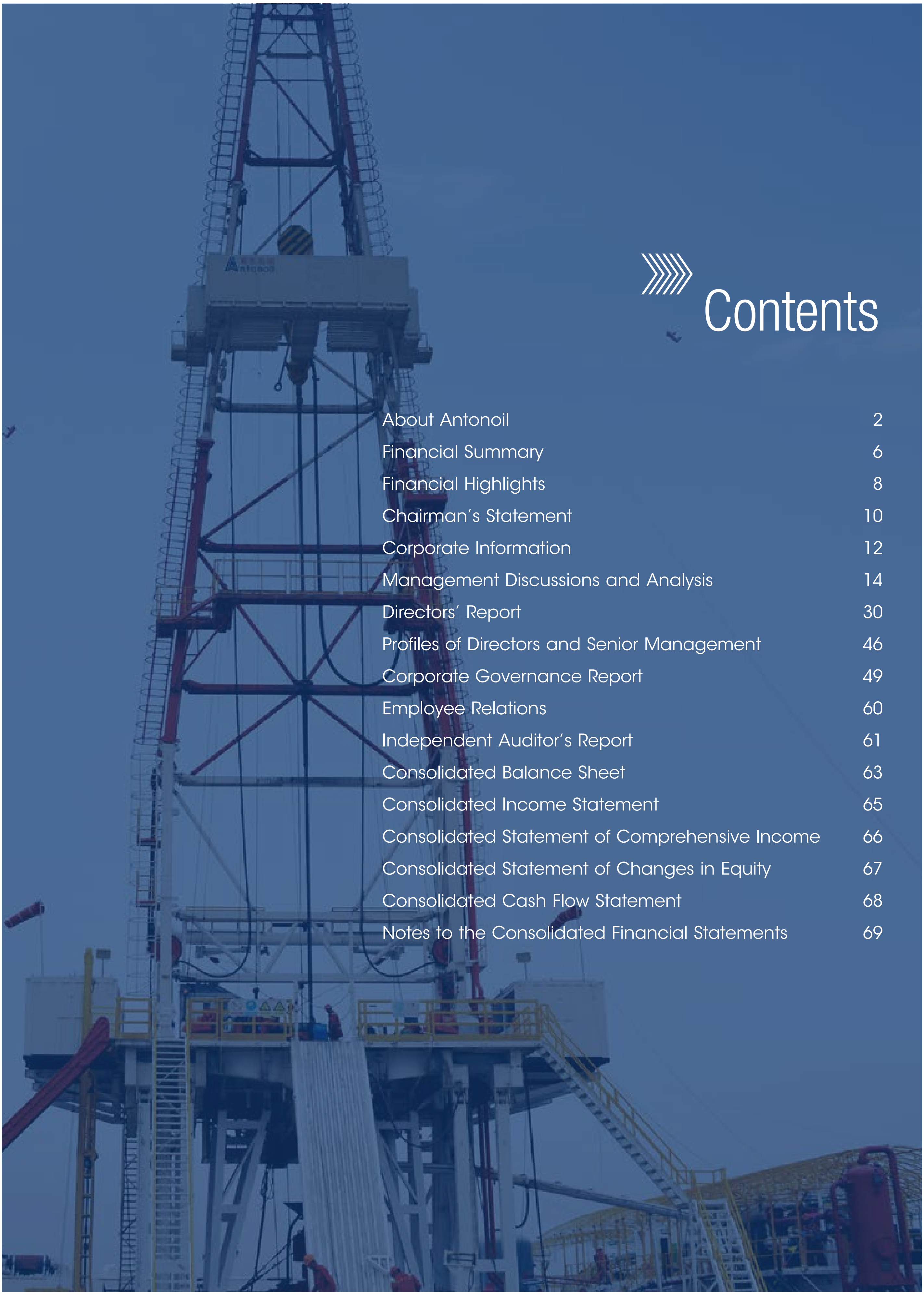
ANTON 安東

安 東 油 田 服 務 集 團
Anton Oilfield Services Group

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3337)

Annual Report 2015



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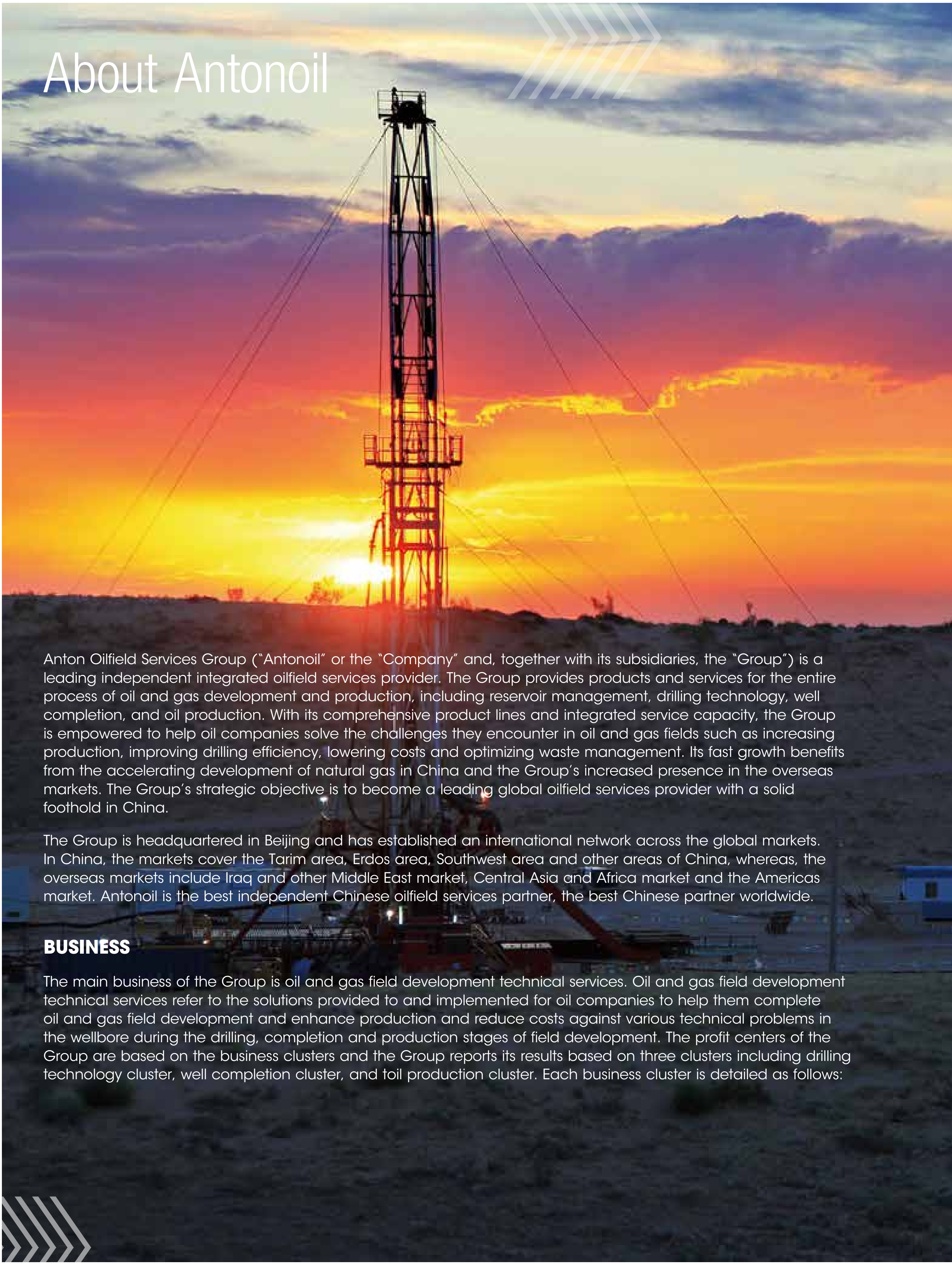


About Antonoil

Anton Oilfield Services Group ("Antonoil" or the "Company" and, together with its subsidiaries, the "Group") is a leading independent integrated oilfield services provider. The Group provides products and services for the entire process of oil and gas development and production, including reservoir management, drilling technology, well completion, and oil production. With its comprehensive product lines and integrated service capacity, the Group is empowered to help oil companies solve the challenges they encounter in oil and gas fields such as increasing production, improving drilling efficiency, lowering costs and optimizing waste management. Its fast growth benefits from the accelerating development of natural gas in China and the Group's increased presence in the overseas markets. The Group's strategic objective is to become a leading global oilfield services provider with a solid foothold in China.

The Group is headquartered in Beijing and has established an international network across the global markets. In China, the markets cover the Tarim area, Erdos area, Southwest area and other areas of China, whereas, the overseas markets include Iraq and other Middle East market, Central Asia and Africa market and the Americas market. Antonoil is the best independent Chinese oilfield services partner, the best Chinese partner worldwide.

BUSINESS

The main business of the Group is oil and gas field development technical services. Oil and gas field development technical services refer to the solutions provided to and implemented for oil companies to help them complete oil and gas field development and enhance production and reduce costs against various technical problems in the wellbore during the drilling, completion and production stages of field development. The profit centers of the Group are based on the business clusters and the Group reports its results based on three clusters including drilling technology cluster, well completion cluster, and toil production cluster. Each business cluster is detailed as follows:

DRILLING TECHNOLOGY CLUSTER

Drilling technology cluster provides engineering technical services and products during the drilling stage to solve problems encountered in directional drilling, drilling assessment, drilling acceleration, enhanced reservoir contact and integrated drilling, the Group is a leading drilling technical service provider in China.

Integrated Services Management

It implements project organization and economic assessment through reservoir geological assessment and integrated geological and engineering design. Provides integrated oil and gas field development engineering and technical management services, from design, organize resources to the project implementation, provide geological, reservoir, engineering, and integration of one-stop turnkey service.

Integrated Drilling Services

It integrates new technologies for drilling, well completion and special tools; provides comprehensive technical services from design to matching tools, production technique and related equipment; integrates individual competitive drilling technologies and provides integrated drilling and well completion technical solutions.

Directional Drilling

It is operated by engineers who operate the drilling tool set to drill wellbores along the pre-set path to enhance the oil and gas recovery rate by reaching the best position in the reserves. The Group is a leading directional drilling service provider in China and its services include directional drilling technology, sidetracking drilling technology and steerable drilling technology.

Drilling and Completion Fluid Service

It provides drilling fluid system comprising oil-based muds and high-performance water-based muds, intended to address down-hole complications, shorten the drilling cycle and increase drilling speed. The Group has a team of senior drilling fluid technical experts, oil-based mud station, R&D center and the mud materials plant with first class equipment, providing customers with integrated services including drilling fluid on-site services, drilling fluid technology R&D, technical research and design, and sales services.

Drilling Tool Rental and Technical Service

It provides drilling tool rental, rehabilitation and anti-abrasion service, tubular processing and manufacturing and storage solutions.

Land Drilling Service

It operates rigs to complete drilling jobs, including the delivery of service with self-owned rigs and third party owned rigs under management.

Oilfield Waste Management

It applies advanced technology and combines domestic and international resources to offer waste and pollutants management service throughout oil and gas exploration and development such as oil-based drilling fluid and drill cutting treatment and fracture fluid treatment.

Oil and Gas Production Facilities Inspection and Assessment Technology

It enjoys China National Accreditation Service (CNAS) lab status for instruments and Chinese and US Non-destructive Testing (NDT) qualifications; adopts international standards to conduct site testing service for oil production equipment, devices and instruments for customers across petrochemical, pharmaceutical, machinery manufacturing and electronics. It also concludes tubular helium testing services which use the mixed gas of helium and nitrogen to test tubing threaded connector against helium leak in the natural gas wells, thus solving the problem of helium connector leak. It is important to guarantee production safety of high pressure wells, sulfur-rich wells and key natural gas wells.

WELL COMPLETION CLUSTER

It provides integrated well completion and stimulation services from integrated solutions for well cementing and completion, production well completion, equipment, tools and materials. The Group is a leading well completion technical service and tool provider in China, which provides technical services and products to solve various technical problems experienced by oil companies during well completion stage. It designs well completion solutions and techniques comprised of various well completion tools for different formations and reservoirs, thus completing the preparation works as necessary for wellbore completion and oil production. Its services include well completion integration, screen well completion, gravel packing completion and oil production tools.

Integrated Completion Services

It provides well completion engineering design and implementation service for low-permeability naturally fractured reservoirs and shale gas reservoirs; provides integrated services ranging from reservoir geological analysis consulting to well completion engineering design, well completion tools and liquid material; provides monitoring service for stimulation measures.

Completion Tools

It provides a host of well cementing and completion tools and production well completion tool services; addresses various kinds of technical complications in open-hole well completion and casing well completion. It also has capacity of production proprietary tools.

Sand Screen and Water Control services

It provides the most diverse range of sand control completion tools and integrated design for sand control well completion, sandscreen and water control; provides sand control well completion stimulation service with high-pressure gravel packing as the core offering; provides supporting services for AICD water control. The screen well completion tools of the Group include composite screens, punched slotted screens, sand screens, pack screens, wire wrapped screens, slotted screens and innovative water control screens.

Fracturing/Acidizing Technique and Chemical materials

It focus on acidizing and fracturing stimulation technologies development, provides integrated solutions from stimulation technology evaluation, design, down-hole chemicals and equipment engineering to enable integrated stimulation; provides R&D, manufacturing, marketing and technical services for down-hole chemicals for acidizing, fracturing, killing, and oil production (inflow and profile control) operations.

Fracturing and Pumping

It harnesses the hydraulic horsepower (HHP) of the pressure pumping equipment and other related operational capabilities to help clients implement pressure pumping design and solutions of varying scales, with the benefit of expanding the permeability of oil and gas reservoirs and improving production capacity. Pressure pumping has become the necessary measure to developing unconventional oil and gas reservoirs.

Coiled Tubing Services

It combines equipment and tools to form different processes and technologies with broad applications, including stimulation in low-permeability wells, special operations in ultra-complicated wells and regular operations in conventional wells including horizontal well cable testing and workover services such as sidetrack drilling, milling and fishing services.

Proppant

It is an important material in oil development process when applying fracturing to stimulate oil and gas production. Its role is to support the fractures and keep oil and gas passage in order to increase production.

OIL PRODUCTION CLUSTER

It provides engineering services and products for oil companies during well completion and production; enables economic recovery based on reservoir geological conditions through production operation management and ground process services.

Production Operation Management

It provides production operation management services for oilfield ground stations, including power engineering construction, operation, inspection and maintenance, artificial lift technology design, management, optimization operation support, water injection, profile control, ground equipment maintenance and rehabilitation, re-engineering, installation overhaul and oil and gas field ground construction projects.

Workover Services

It provides conventional and major workover for oil and gas wells, sidetrack, fishing, oil testing and well completion integrated operation and routine maintenance operation services.

Tubing/Casing Repair and Anti-corrosion Service

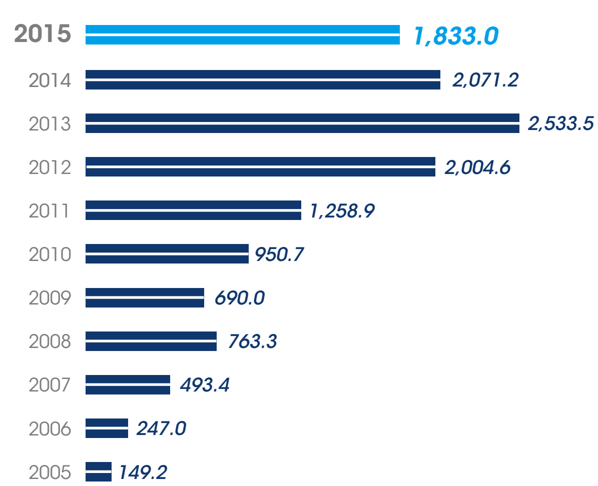
It provides featured tubing and casing technical services with Premium Thread Design as the core offering; a reputable supplier of specialized tubes and casings for Chinese and overseas customers.

Financial Summary

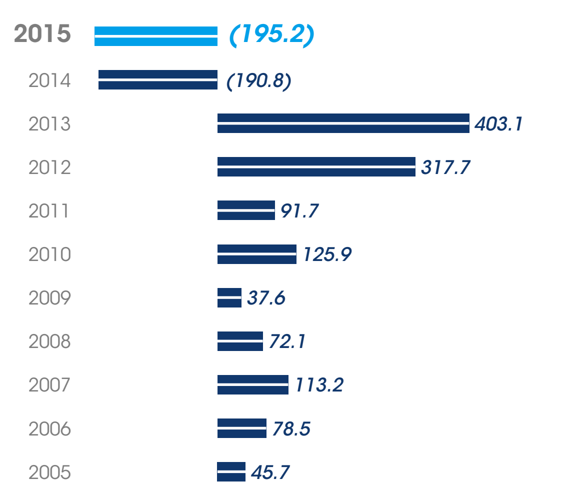
CONDENSED CONSOLIDATED INCOME STATEMENTS

RMB ('000)	For the year ended 31 December 2011	2012	2013	2014	**2015**
Revenue	1,258,909	2,004,583	2,533,536	2,071,205	**1,833,006**
Other (losses)/gains, net	2,155	10,646	19,950	(1,839)	**20,689**
Operating costs	(1,086,209)	(1,617,250)	(1,981,130)	(2,031,392)	**(1,761,221)**
Operating profit	174,855	397,979	572,356	37,974	**92,474**
Finance costs, net	(16,094)	(30,610)	(72,678)	(178,464)	**(254,770)**
(Loss)/Profit before income tax	112,517	367,369	489,977	(159,550)	**(163,338)**
(Loss)/Profit for the year	91,668	317,705	403,138	(190,805)	**(195,248)**
Attributable to: Equity holders of the Company	77,344	302,579	382,568	(198,213)	**(194,731)**
Non-controlling interests	14,324	15,126	20,570	7,408	**(517)**
Dividends	35,700	97,600	119,953	—	**—**
(Loss)/earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)					
Basic	0.0369	0.1430	0.1779	(0.0902)	**(0.0878)**
Diluted	0.0365	0.1402	0.1733	(0.0902)	**(0.0878)**

REVENUE (RMB million)



(LOSS)/PROFIT FOR THE YEAR (RMB million)

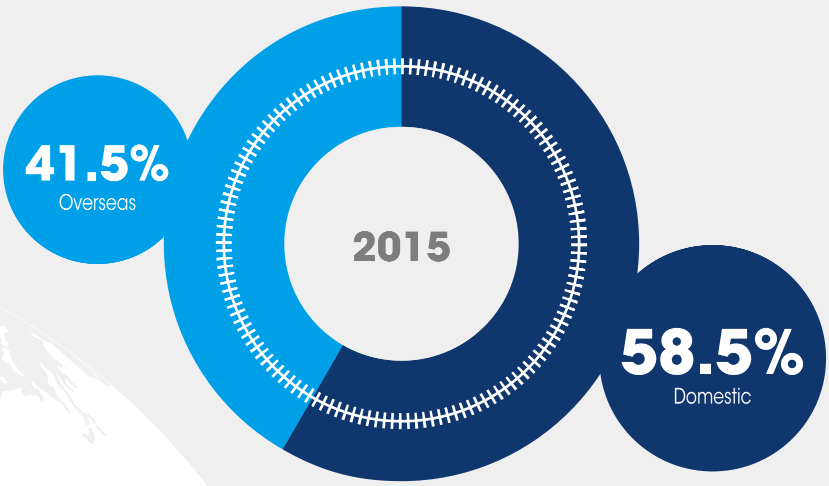


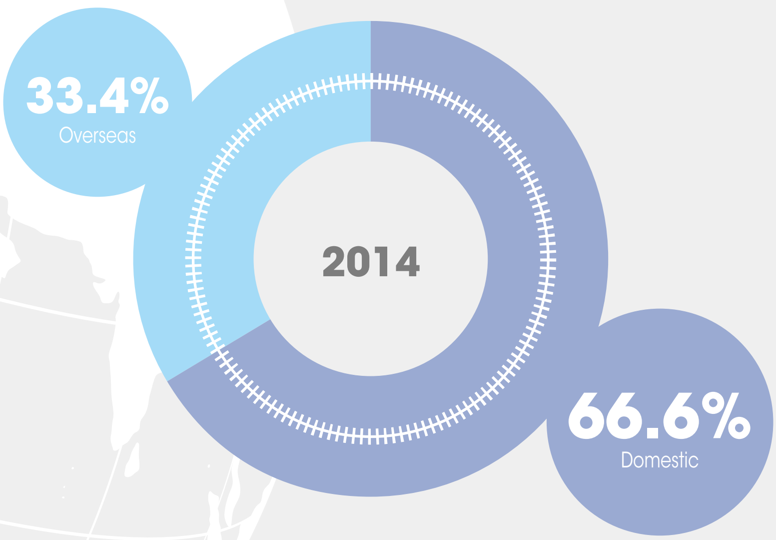
CONDENSED CONSOLIDATED BALANCE SHEETS

RMB ('000)	2011	2012	As at 31 December 2013	2014	**2015**
Assets					
Non-current assets	956,922	1,378,551	2,100,954	2,934,952	**3,063,576**
Current assets	1,540,698	2,214,283	3,866,898	3,556,215	**3,119,584**
Total Assets	2,497,620	3,592,834	5,967,852	6,491,167	**6,183,160**
Total Equity	1,740,097	2,080,954	2,375,297	2,148,756	**1,959,612**
Liabilities					
Non-current liabilities	15,804	303,286	1,984,305	1,700,487	**1,589,010**
Current liabilities	741,719	1,208,594	1,608,250	2,641,924	**2,634,538**
Total liabilities	757,523	1,511,880	3,592,555	4,342,411	**4,223,548**
Total equity and liabilities	2,497,620	3,592,834	5,967,852	6,491,167	**6,183,160**
Net current assets	798,979	1,005,689	2,258,648	914,291	**485,046**
Total assets less current liabilities	1,755,901	2,384,240	4,359,602	3,849,243	**3,548,622**

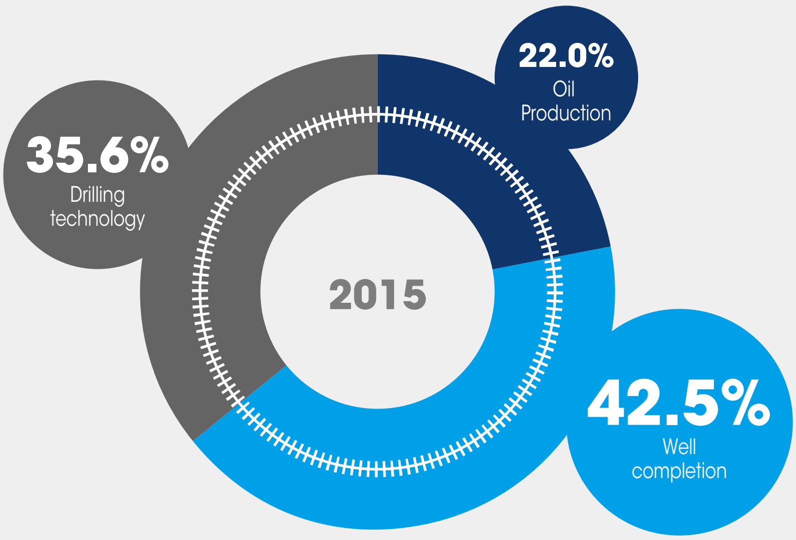
Financial Highlight

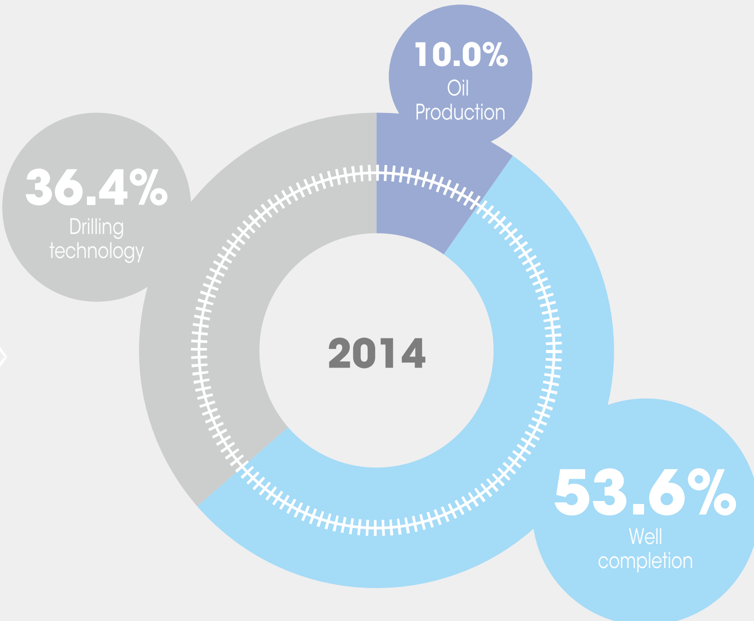
REVENUE BREAKDOWN BY REGION





REVENUE BREAKDOWN BY CLUSTER





Chairman's Statement

Dear Shareholders,

In 2015, international oil prices slumped further, the market for oil and gas globally became more difficult and complex. Recognizing the daunting market challenges, we responded swiftly, even though the revenue still dropped due to the market, the decline narrowed, better than the industry average, and we made a new breakthrough in orders, obtained abundant order backlog; overseas markets saw a rapid growth during the current year, new orders hit record high, share of overseas revenue further increased, notably Iraqi market. Business transformation showed results, share of revenue from oilfield OPEX activities increased significantly and mitigated the impact of CAPEX reduction of oil companies. At the same time, we continue to implement cost control policies, our profitability has been enhanced, financial management ability improved and achieved positive operating cash flow.

REVIEW

Domestically, falling oil and gas prices caused tremendous stress on the production and operation of oil companies. Capital expenditure on upstream exploration and development was further squeezed, leading to downward pressure on the market and rising protectionism. The tumbling price caused a huge strain on oil-producing countries. Oil companies axed their capital expenditure to prepare for a prolonged industry winter and postponed certain engineering projects. At the same time, oil exploration and development activity continued unabated in the Middle East on the back of a comparative cost advantage.

Recognizing the daunting market challenges, we responded swiftly. In terms of market strategy, we prioritized overseas markets, adopted the market strategy of 'covering regions across the globe where Chinese companies have competitive advantages' and intensified market development spending, we quickly seized market shares in regions where Chinese companies excelled and spurred continued growth of the international revenue. In the Middle East, we gradually moved beyond the "follow-up" strategy to pursue cooperation with customers from Chinese companies to international oil companies, obtained long-term general contract. In Central Asia and Africa, the business highlight was in Ethiopia, provided technology services to a Chinese investor's natural gas project. In the Americas, despite a massive contraction of the overall market, we continued to press ahead with market and customer engagement through benefit from economies of scale on proprietary products, achieved stable new orders. Domestically, affected by the market shrinking, new orders and revenue was declined, but benefiting from the accelerating of unconventional resources development, we fully penetrated the market with advancement of unconventional technology, mitigated the impact of downturn in domestic market. In terms of product, the Group consolidated and regrouped its business clusters with more focus on services related to the

OPEX of oil companies that had remained stable. Oil production business was singled out as a stand-alone cluster in terms of growth and management. On cost control, we further contained raw material costs, sales expenses and management overhead to increase our profit margin against the persistently low oil prices. On financial management, we developed a more robust process for account receivable collection, strictly capped expenses in relation to collections, and improved capital turnover efficiency.

OUTLOOK

Looking into 2016, global oil prices struggle in the trough, large number of projects of oil companies will start gradually along with the recovery of oil prices. Chinese OFS companies are gradually displacing international OFS firms for oil companies are crying for cost control, China increases exploration and development investment in countries along the Belt and Road. Domestically, natural gas development persists in China and SOE reform brings about new opportunities

In 2016, our order backlog has reached a record high, which providing security for our resume growth. On market, we will continue to speed up on overseas market development, focus on the national oil companies and international oil companies, and the project of Chinese companies invested in the overseas oilfield. Domestically, we will stablize market share, maintain the leading position in the high-end market. On product, we will be stick to "light- asset" strategy, tighten control on investment scale, improve utilization through reasonable allocation asset into overseas market improve profitability through technology innovation. On management, we will advance on cost reduction on labor cost, raw material cost and operational expense, optimize cost structure by shutting down the product lines of low profit and high cost temporarily, and expand profitable product lines. With the help of new SAP management system, we can promote refined project management to gain efficiency. On financial management, we will further improve working capital management, set project decision-making based on cash flow occupancy scale and time, tighten working capital management, reduce its occupancy.

In 2016, we still face a harsh environment and challenges, but we will brave all difficulties with proactive adjustments, take advantage of market distribution and full-covered product lines, to realize recovery growth amid the difficult industry environment.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to express my heartfelt thanks to our customer, employees, partners and shareholders. It is owing to your enduring trust and support that we were able to find resilience and amass strengths in a cold winter of the industry. In 2016, we are fully prepared to embrace the upcoming challenges and opportunities.

Chairman
LUO Lin

28 March 2016

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LUO Lin (Chairman)
Mr. WU Di
Mr. PI Zhifeng (Chief Executive Officer)

Independent Non-executive Directors

Mr. ZHANG Yongyi
Mr. ZHU Xiaoping
Mr. WANG Mingcai

AUDIT COMMITTEE

Mr. ZHU Xiaoping (Committee Chairman)
Mr. ZHANG Yongyi
Mr. WANG Mingcai

REMUNERATION COMMITTEE

Mr. WANG Mingcai (Committee Chairman)
Mr. ZHU Xiaoping
Mr. LUO Lin

NOMINATION COMMITTEE

Mr. ZHANG Yongyi (Committee Chairman)
Mr. WANG Mingcai
Mr. LUO Lin

QHSE ("QUALITY, HEALTH, SAFETY AND ENVIRONMENT") COMMITTEE

Mr. PI Zhifeng (Committee Chairman)
Mr. LUO Lin

AUTHORIZED REPRESENTATIVES

Mr. LUO Lin
Dr. NGAI Wai Fung

COMPANY SECRETARY

Dr. NGAI Wai Fung (FCIS, FCS (PE), CPA, FCCA)

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PRINCIPAL PLACE OF BUSINESS IN PRC

No. 8, Pingcui West Road, Donghuqu
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Beijing, China 100102

REGISTERED OFFICE

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Grand Cayman KY1-1104
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

as to Hong Kong and U.S. law:

Sidley Austin

as to PRC law:

RRDS LAW OFFICES

as to Cayman Islands law:

Maples and Calder

PRINCIPAL BANKS

Bank of China
China Merchants Bank
Bank of Beijing
Agricultural Bank of China

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

3337

DATE OF LISTING

14 December 2007

Management Discussions and Analysis

BUSINESS REVIEW

Amid slow recovery and torpid growth of the world economy throughout 2015 and as a result of major oil-producing countries maintaining production levels, the supply and demand imbalance further widened. Global oil prices slumped further. The market for oil and gas globally became more difficult and complex.

Domestic market remained challenging and market-based reform progressed slowly

In 2015, growth in China's energy demand decelerated further. Domestically, falling oil and gas prices caused tremendous stress on the production and operation of oil companies. Capital expenditure on upstream exploration and development was further squeezed, leading to downward pressure on the market and rising protectionism. In a market largely filled with overcapacity, competition intensified across the board, service fee continued to decline and the market faced severe challenges. Meanwhile, in order to enhance recovery and minimize costs, oil companies increased the demand for unconventional technology used to develop old oil and gas fields and conventional resources. Some pilots of tight oil development with unconventional technology were launched in China. In addition, shale gas development continued to advance in Southwest China. The market opportunities for the deployment of unconventional technology increased. Relying on advanced technology and low cost to gain market share became a clear competitive strategy.

International oil price dipped further, but new market opportunities emerged

International oil prices continued to plunge. The price of Brent crude spot reached a record low since 2008 during the current year. The tumbling price caused a huge strain on oil-producing countries. Oil companies axed their capital expenditure to prepare for a prolonged industry winter and postponed certain engineering projects. At the same time, oil exploration and development activity continued unabated in the Middle East on the back of a comparative cost advantage. As oil companies raised the bar on project development cost, OFS firms with Chinese background began to outperform and already started to displace their international peers in some regional markets.

Business Performance

Recognizing the daunting market challenges in 2015, the Group responded swiftly. In terms of market strategy, the Group prioritized overseas markets in order to meet the needs of OPEC countries in the Middle East for increasing crude production and international oil companies for cost efficiency under the pressure of low oil prices. It adopted the market strategy of `covering regions across the globe where Chinese companies have competitive advantages' and intensified market development spending. Drawing upon its long and stellar track record and strong brand image, the Group quickly seized market shares in regions where Chinese companies excelled and spurred continued growth of its international revenue. Domestically, the Group maintained its strategic focus on natural gas and unconventional, fully harnessed technological advantages to capture market opportunities and defended its domestic market share. In terms of product mix, the Group's drilling and well completion clusters were affected by further capex cuts by oil companies. As market dynamics changed, the Group consolidated and regrouped its business clusters with more focus on services related to the opex of oil companies that had remained stable. Oil production was singled out as a stand-alone cluster in terms of growth and management. On cost control, the previous talent buildup of the Group before 2014 generated enormous overhead under the current market conditions. In 2015, the Group aggressively streamlined and optimized its workforce, implemented a leaner organizational structure and improved managerial efficiency. At the same time, the Group further contained raw material costs, sales expenses and management overhead to increase its profit margin against the persistently low oil prices. On capex, the Group refrained from adding significant capex. Its capex mainly revolved around the technological improvement of its light-asset product lines and follow-up payments of its previous investment commitments. On financial management, the Group developed a more robust process for account receivable collection, strictly capped expenses in relation to collections, and improved capital turnover efficiency.

For the year ended 31 December 2015, the Group saw positive results of its adaptive efforts. On market, the order volume from overseas markets increased significantly. As at the end of 31 December 2015, incremental orders from overseas markets amounted to RMB1,901.8 million, increased RMB635.0 million than that of the same period of 2014. On product, both the order volume and revenue from the oil production services which focused on the opex of oil companies, increased markedly, representing 21.9% of total Group revenue for 2015, up 94.6% year on year. On cost control, the Group reduced its workforce by forty percent in 2015, which is expected to generate RMB150.0 million savings in 2016 and greatly lift the cost constraint. On capex, the Group incurred RMB209.8 million in capex in 2015, RMB357.8 million less than in 2014, mainly for paying its previous commitments. On financial management, the Group collected RMB2,079.5 million in receivables in 2015, an increase of RMB142.5 million compared with the same period of 2014. Meanwhile, the Group recorded RMB157.4 million net cash from operating activities, a significant jump of 777.3 million from the same period of 2014.

For the year ended 31 December 2015, the Group recorded total revenue of RMB1,833.0 million, down RMB238.2 million or 11.5% year on year. Despite the challenging market conditions, the Group was able to stabilize its revenue decline. As a result, the year-on-year decline narrowed compared with 18.2% in 2014.

For the year ended 31 December 2015, the Group booked an operating profit of RMB92.5 million, an increase of RMB54.5 million, or 143.4%, from RMB38.0 million for 2014. The Group substantially boosted its profitability in under 12 months.

For the year ended 31 December 2015, the Group booked a net loss of RMB195.2 million, which was RMB4.4 million or 2.3% higher than the loss of RMB190.8 million from 2014. Loss attributable to equity holders of the Company was RMB194.7 million, RMB3.5 million or 1.8% lower than RMB198.2 million for the same period of 2014. The margin of net profit attributable to equity holders of the Company was -10.6%, down 1.0 percentage points, from -9.6% of the same period of 2014. The Group's profit margin was affected by various financial factors. The marginal increase in loss was mainly due to the Group's USD-denominated bond issued in 2013 incurring an additional currency translation loss this year.

On financial management, as at 31 December 2015, the Group collected RMB2,079.5 million accounts receivable, RMB 142.5 million more than the amount of 2014. The average accounts receivable turnover days were 248 days, an increase of 20 days as compared with last year. The average inventory turnover days were 222 days, an increase of 64 days as compared with last year. Average accounts payable turnover days was 155 days, an increase of 2 day as compared with last year. Net cash flow from operating activities was RMB157.4 million, a significant increase of RMB777.3 million compared with RMB-619.9 million of 2014. Financial management overall improved significantly.

Geographical Market Analysis

For the year ended 31 December 2015, revenue from overseas markets grew rapidly in absolute terms and as a share of total Group revenue. The number of new orders overseas reached record high. In the domestic market, the Group protected its market share by anchoring on its unconventional know-how. In 2015, the Group saw its overseas orders increased to RMB1,901.8 million, up RMB 635.0 million or 50.1% from RMB1,266.8 million of the same period of 2014. Overseas revenue amounted to RMB760.9 million, representing an increase of RMB68.3 million, or 9.9%, from RMB692.6 million in 2014. The share of overseas revenue in total Group revenue already reached 41.5%. New orders from the domestic market amounted to RMB1,166.8 million, down RMB155.0 million or 11.7% from RMB1,321.8 million of the same period of 2014. Domestic revenue amounted to RMB1,072.1 million, down RMB306.5 million or 22.2% from RMB1,378.6 million in 2014. The share of domestic revenue in total Group revenue was 58.5%.

Breakdown of New Orders by Market

	2015 *(RMB million)*	2014 *(RMB million)*	Change *(%)*	**Share of Total Value of New Orders** **2015**	2014
Domestic	**1,166.8**	1,321.8	-11.7%	**38.0%**	51.1%
Overseas	**1,901.8**	1,266.8	50.1%	**62.0%**	48.9%
Total	**3,068.6**	2,588.6	18.5%	**100%**	100%

Breakdown of Revenue by Market

	2015 *(RMB million)*	2014 *(RMB million)*	Change *(%)*	**Share of Total Group Revenue** **2015**	2014
Domestic	**1,072.1**	1,378.6	-22.2%	**58.5%**	66.6%
Overseas	**760.9**	692.6	9.9%	**41.5%**	33.4%
Total	**1,833.0**	2,071.2	-11.5%	**100%**	100%

Revenue Analysis of Domestic Market

	2015 (RMB million)	2014 (RMB million)	Change (%)	Share of Domestic Revenue 2015	2014
Northwest China	**514.7**	597.7	-13.9%	**48.0%**	43.4%
North China	**318.1**	552.8	-42.5%	**29.7%**	40.1%
Southwest China	**204.2**	89.4	128.4%	**19.0%**	6.5%
Northeast China and other Chinese regions	**35.1**	138.7	-74.7%	**3.3%**	10.0%
Total	**1,072.1**	1,378.6	–22.2%	**100.0%**	100.0%

Revenue Analysis of Overseas Market

	2015 (RMB million)	2014 (RMB million)	Change (%)	Share of Overseas Revenue 2015	2014
Middle East	**556.6**	498.5	11.7%	**73.2%**	72.0%
Americas	**67.2**	90.0	-25.3%	**8.8%**	13.0%
Central Asia & Africa	**137.1**	104.1	31.7%	**18.0%**	15.0%
Total	**760.9**	692.6	9.9%	**100.0%**	100.0%

Domestic Market

In 2015, domestic economic growth slowed and oil prices continued to plummet. Major Chinese oil companies further slashed upstream capex and postponed certain regional projects. Due to insufficient capacity utilization overall, state-owned companies took a more defensive position on regular services, posing big challenges to the Group's operations. Recognizing the changes in the market, the Group adapted proactively. By leveraging its technological strength and tapping into the market opportunities of NOCs adopting unconventional technology for the development of old oilfields, the Group won multiple contracts for developing tight oil and gas with unconventional technology in both oilfields in the eastern and the western regions. Meanwhile, the Group capitalized on its favorable brand positioning as China's best independent engineering technology partner to address the opportunity of market-based reform of NOCs and to deepen partnerships with them. In 2015, the Group contracted such projects again in the northwest, thus establishing its position as a preferred long-term partner for NOCs in deepening market-based reform. The success of such projects will help secure the Group's leadership position in the current climate and prepare it for a head-start as soon as the market fully recovers.

Major developments in the domestic market

- In Northwest China, the Group won multiple contracts from tight oil and gas development projects. It received accolade for outstanding service rendered for an old oilfield workover project undertaken in 2015 for which it was contracted to service the project for an additional term of three years. The Group cemented its long-term partnerships with NOCs on market-based reform. However, as a result of customers scaling back their investment in the region, peer competition had intensified. The decline of service volume and price pushed down the revenue for 2015 as compared with that of 2014.

- In North China, OFS in the Erdos Basin progressed slowly in the first half of 2015 due to the enactment of the new environmental law. The implementation of projects with which the Group had contracts was also affected. Equipment utilization dropped. In the second half of 2015, service activity in the region gradually recovered, but revenue for the year slid nonetheless compared with that of 2014.

- In Southwest China, benefiting from the advancement of shale gas development in the Sichuan Basin, the Group fully penetrated the market with its winning unconventional technology and gained continuous service contracts for pressure pumping, coiled tubing and directional drilling. Meanwhile, the Group made significant progress on the sales of fracturing proppant, a newly developed product line. Oilfield waste management service gained steady growth. In 2015, the revenue from Southwest China rose significantly compared with that of 2014.

- In Eastern China, the market shrank overall in 2015 and service demand was dented. Through new market development efforts, the Group successfully marketed its services to oilfields in Daqing and Jilin and coal-bed methane projects in Shanxi. It also successfully advanced directional drilling and fracturing services.

Overseas Markets

In 2015, depressed oil prices generated huge stress on oil companies, which were in urgent need of reducing production costs. They started to look for Chinese partners with reliable services and competitive pricing. Thanks to its proven track record in overseas markets, excellent QHSE (quality, health, safety and environment) management and reputable brand in the past, the Group vigorously engaged customers and new markets. Having moved beyond its previous 'follow-up' strategy, the Group sough to cover regions where Chinese companies have competitive advantages and quickened the pace of displacing international OFS firms. The share of overseas markets in total Group revenue rose further. At the same time, overseas order value reached a record of RMB1,901.8 million as at 31 December 2015.

Major developments in overseas markets

- In the Middle East, benefiting from low costs of exploration and development, the Middle East saw a continued boom in oil and gas development activities throughout the year. Major oil-producing countries all raised production to gain market share. In particular, oil production services in Iraq, an overseas priority for the Group, the demand for OFS remained brisk. Under the pressure of falling oil prices, oil companies continued to compress development costs and improve efficiency, creating an excellent fit for the Group given its comparative advantage. In 2015, the Group scaled up partnerships with international oil companies in Iraq by winning high-value long-term contracts consecutively. In Iran, the Group actively sought new market opportunities from the resumption of oil and gas production after the embargo was fully lifted.

- In the Americas, despite a massive contraction of the overall market, the Group continued to press ahead with market and customer engagement and started to benefit from economies of scale on proprietary products.

- In Central Asia and Africa, the Group seized the market opportunities under the Belt and Road Initiative. As a technical service-provider for the development of overseas oilfield assets by Chinese investors, the Group followed in the footstep of such Chinese investors into a new market. In Ethiopia, it launched drilling fluid and well completion services. In 2015, revenue from the region increased significantly.

Business Cluster Analysis

In 2015, with the changing environment, the Group's conducted a reclassification of its original business cluster and each product lines in order to further optimize the industrial structure, improve the overall strength, operation organization and management efficiency of each business module, enhance synergies between businesses and reduce costs. After the adjustments, businesses of the Group were classified into three main divisions including: drilling technology cluster, well completion services cluster and oil production services cluster.

The main changes of the business reclassification:

1. The former oil production services business which was previously under down-hole operation cluster, has now been separated as an independent cluster, that is, the oil production services cluster so as to focus on its development. Apart from the original product lines including production operation service and workover service, the oil tubing and casing and anti-corrosion technology service which was previously under the tubular services cluster was reclassified into the oil production services cluster.

2. Canceled the down-hole operation cluster, other than the helium testing service which was reclassified into drilling technology cluster, all other product lines previously under the downhole operation cluster were reclassified into the well completion services cluster.

3. The tubular services cluster, a supplementary business of the Group previously administered separately was now canceled, among which the inspection and evaluation service and drilling tool rental and technology service were reclassified to the drilling technology cluster, oil tubing and casing and anti-corrosion technology service was reclassified into the oil production services cluster.

The comparison between original business divisions and new business divisions are as follows:

<table>
<tr><th colspan="2">Classification by new business divisions</th><th colspan="2">Classification by original business divisions</th></tr>
<tr><td rowspan="9">Drilling technology cluster</td><td>Integrated service of oil and gas field development</td><td rowspan="6">Drilling technology cluster</td><td>Integrated module:
Reservoir production management
Integrated project management</td></tr>
<tr><td>Integrated drilling</td><td>Integrated drilling</td></tr>
<tr><td>Directional drilling</td><td>Directional drilling</td></tr>
<tr><td>Drilling fluid</td><td>Drilling fluid</td></tr>
<tr><td>Land drilling</td><td>Land drilling</td></tr>
<tr><td>Oilfield waste management</td><td>Oilfield waste management</td></tr>
<tr><td>Drilling tool rental and technology</td><td rowspan="2">Tubular services cluster</td><td>Drilling tool rental and technology</td></tr>
<tr><td rowspan="2">Oil and gas production facilities inspection and evaluation</td><td>Inspection and evaluation</td></tr>
<tr><td rowspan="7">Down-hole operation cluster</td><td>Helium testing</td></tr>
<tr><td rowspan="10">Well completion cluster</td><td>Pressure pumping</td><td>Pressure pumping</td></tr>
<tr><td>Coiled tubing</td><td>Coiled tubing</td></tr>
<tr><td rowspan="2">Fracturing/acidizing and chemical materials</td><td>Oilfield chemicals</td></tr>
<tr><td>Stimulation operation</td></tr>
<tr><td>Proppant</td><td>Proppant</td></tr>
<tr><td rowspan="4">Well Completion Integration</td><td>Stimulation Operation</td></tr>
<tr><td rowspan="4">Well completion cluster</td><td>Well completion tools</td></tr>
<tr><td>Integrated well completion</td></tr>
<tr><td>Sand and water control technology</td></tr>
<tr><td>Gravel packing</td><td>Gravel packing</td></tr>
<tr><td rowspan="3">Oil Production Services Cluster</td><td>Production operation service</td><td rowspan="2">Down-hole operation cluster</td><td>Production operation service</td></tr>
<tr><td>Workover service</td><td>Workover service</td></tr>
<tr><td>Oil tubing and casing and anti-corrosion technology</td><td>Tubular services cluster</td><td>Oil tubing and casing and anti-corrosion technology</td></tr>
</table>

Business performance of each cluster in 2015

In 2015, owing to the grim situation in both domestic and international markets, business of the Group was affect in varying degrees. Facing great difficulties, the Group strictly controlled capital expenditure, strengthened proprietary technology capacity, promoted the construction and introduction of new technologies and unique technology, continued to develop asset-light product lines. Thanks to the past investment in oil production business, it continued to grow robustly this year. In the domestic market, the Group undertook large production operation service projects in cooperation with state-owned oil companies in the reform projects. In overseas, the new markets in Middle East and Africa have achieved a breakthrough with continuous access to new orders. In the current situation of low oil prices, oil production business helped to improve the revenue structure and profitability and provide a strong support as a long-term stable source of income. For a better development of oil production services, this business has been reclassified as a separate business cluster.

For the year ended 31 December 2015, the Group's drilling technology cluster posted RMB652.0 million in revenue, the well completion cluster recorded revenue of RMB778.4 million, the revenue of oil production services cluster was RMB402.6 million. In terms of the share in the Group's revenue, the well completion cluster was the top contributor with a share of 42.5%, in the second place was the drilling technology cluster, accounting for 35.6% of the Group's revenue, the oil production services cluster accounted for 21.9% of the Group's revenue.

Revenue Breakdown by Cluster

				As a percentage of total revenue	
	2015 *(million RMB)*	2014 *(million RMB)*	Change *(%)*	**2015**	2014
Drilling technology cluster	**652.0**	753.6	-13.5%	**35.6%**	36.4%
Well completion cluster	**778.4**	1,110.7	-29.9%	**42.5%**	53.6%
Oil production services cluster	**402.6**	206.9	94.6%	**21.9%**	10.0%
Total	**1,833.0**	2,071.2	-11.5%	**100%**	100%

* To enable investors to have a clear understanding of each product line's revenue trend and changes, the revenue of each product line in 2014 was reclassified based on the new cluster division.

Drilling Technology Cluster

For the year ended 31 December 2015, the drilling technology cluster posted RMB652.0 million in revenue, a decline of 13.5% from RMB753.6 million in 2014. The declining revenue of this cluster was mainly due to the delay of certain signed projects and also severer competition has led to the downwards of the service price.

The drilling technology cluster comprises the following business lines:

1) Integrated service of oil and gas field development. In 2015, this product line booked no revenue, and its revenue in 2014 is RMB61.1 million;

2) Integrated drilling service. In 2015, this product line booked RMB145.0 million in revenue, an increase of 10.6% from RMB131.1 million in 2014;

3) Directional drilling. In 2015, this product line booked RMB116.6 million in revenue, a decrease of 39.8% from RMB193.6 million in 2014;

4) Drilling fluid service. In 2015, this product line recorded RMB123.9 million in revenue, an increase of 75.5% from RMB70.6 million in 2014;

5) Drilling tool rental and technology service. In 2015, the Group reclassified its drilling tool rental and technology service from tubular service cluster to drilling technology cluster. In 2015, this product line recorded RMB69.2 million in revenue, a decrease of 35.9% from RMB107.9 million in 2014;

6) Land drilling service. In 2015, this product line booked RMB80.1 million in revenue, an increase of 6.9% from RMB74.9 million in 2014;

7) Oilfield waste management service. In 2015, this product line recorded RMB29.5 million in revenue, an increase of RMB27.9 million from RMB1.6 million in 2014; and

8) Oil and gas production facilities inspection and evaluation service. In 2015, the Group consolidated product lines in same category, reclassified and merged the inspection and evaluation service from tubular service cluster and helium testing service from original down-hole operation cluster. In 2015, this product line booked RMB87.7 million in revenue, a decrease of 22.3% from RMB112.8 million in 2014.

EBITDA of the drilling technology cluster decreased 6.9% from RMB198.1 million in 2014 to RMB184.4 million in 2015. EBITDA margin for 2015 was 28.3%, increased 2.0 percentage points from 26.3% in 2014.

Major Development in the Drilling Technology Cluster

- Integrated drilling service saw revenue increase in 2015. Cementing service obtained long-term stable workload in the Ethiopian market. In the new market in Northwest China, the Group accomplished the tight oil pilot projects which included drilling and fracturing integrated projects. Such projects have further room for expansion; At the same time, the Group introduced vertical drilling, speed drilling and other new technologies, improved its an integrated service capabilities with more comprehensive solutions.

- Directional drilling service saw severe decline in 2015 due to domestic market shrinking and service price dropping. In Northeast China, the Group's autonomous rotary geological steering service gradually entered in Jilin new markets; In Southwest China, rotary geological steering service entered into shale gas market. Meanwhile, overseas markets remain stable, steady increase was recorded in the Iraqi market.

- Land drilling service saw projects delays in the Erdos region affected by the implementation of new environmental protection laws, which has led to workload reduced throughout the year in 2015. In the overseas markets, two rigs had been deployed to Iraq in early 2015 with acceptance confirmed by the customer, but still remained on standby.

- Drilling fluid service had entered a new phase in its development in 2015 under such grim situation. Revenues and profits were raised due to its continues expansion in the new markets. Domestically, in Tarim, oil-based mud business remain stable, market share has been further consolidated; In Southwest China, successfully obtained the mud station construction qualification in the shale gas market, had prepared to enter the market in the future. Overseas, in Ethiopia markets, drilling fluid service obtained long-term orders and achieve sustained revenue in the current year, in addition, drilling mud material selling has entered to the Iraqi market.

- Oilfield waste management service came into large scale in 2015, under the new requirements of oil fields in environmental protection, the Group obtained water based fluids and cuttings management and fracturing flow-back fluid management projects in Erdos, Xinjiang and Daqing and also the shale gas markets in Southeast China. Through importing new technologies and develop the research on water based fluids and cuttings management technology, flow-back fluid technology and drilling production water technology, In 2015, 10 sets of equipment were completed and put into use. The Group has formed its proprietary system of oilfield environmental protection.

- Oil and gas production facilities inspection and evaluation service covered oil drilling tools inspection, oil casing and tubing inspection, and instrument and device inspection and recalibration. For its inspection and evaluation capabilities, the Group already gained the status as a leading independent third-party inspection service provider in China. In 2015, its profiting ability is powerful despite of the declined revenue.
- Drilling tool rental and technology service, influenced by the reduced cost from customers and the shrunk occupying rate of drilling tool, its workload encountered obvious decrease.

Well Completion Cluster

For the year ended 31 December 2015, the well completion cluster recorded RMB778.4 million in revenue, down 29.9% compared with RMB1,110.7 million in 2014,which was mainly caused by the large reduction in domestic capital expenditure and the intensifying competition.

The well completion cluster comprises the following businesses:

1) Well completion integration. This business includes stimulation operation, well completion tools, integrated well completion and sand and water control technology. In 2015, this product line recorded RMB316.6 million in revenue, down 38.7% from RMB516.4 million in 2014;
2) Pressure pumping service. In 2015, this product line recorded RMB147.9 million in revenue, down 0.3% from RMB148.4 million in 2014;
3) Coiled tubing service. In 2015, this product line recorded RMB241.8 million in revenue, down 30.8% from RMB349.2 million in 2014;
4) Fracturing/acidizing technique and chemical materials. This product line recorded RMB9.7 million in revenue, down 49.2% from RMB19.1 million in 2014;
5) Proppant. In 2015, this product line recorded RMB31.1million in revenue, increased RMB30.0 million from RMB1.1million in 2014; and
6) Gravel Packing Service, this product line comes from Shandong Precede, a majority subsidiary acquired by the Group. In 2015, it recorded RMB31.3 million in revenue, down 59.1% from RMB76.5 million in 2014.

EBITDA of the well completion cluster decreased by 16.3% from RMB375.6 million in 2014 to RMB314.2 million in 2015. EBITDA margin for 2015 was 40.4%, up by 6.6 percentage points from 33.8% in 2014, which was mainly attributed by the spread of proprietary tools, the improved technology and the downsized stuff.

Major Development in the Well Completion Cluster

- Integrated well completion service. Domestically, the job volume of full-bore multi-stage fracturing and horizontal well stage frac project in Xinjiang was on a par with that of the same period of 2014. In the Southwest, the focus was on promoting the micro-seismic fissure monitoring and the proprietary well cementing sliding sleeve project. In the Northeast market, the micro-seismic fissure monitoring project made a breakthrough. In the overseas markets, the production well completion service was being performed steadily in Iraq.
- Well completion tools service saw market demand shrunk in 2015, customers cut service price making inexpensive processes and technologies look more attractive, the Group's proprietary tool producing capacity in Tianjin has been improved, it promoted automatic staged fracturing tool in the main market in China, which was well received by the markets.
- Pressure pumping service saw a job volume drop in the first half due to customer's delays, the Group actively engaged in the opportunity in shale gas, tight oil and gas and coal bed methane markets in domestic market, which had mitigated the impact of market downturns.
- Coiled tubing service saw a decline in revenue caused by the downturn of service price.
- Proppant. This product line officially commenced production in June 2014 and has since enjoyed a smooth run, however, due to contraction of market needs, the sales volumes didn't meet its expectation.

Oil Production Services Cluster

In 2015, the oil production services cluster recorded RMB402.6 million in revenue, up 94.6% from RMB206.9 million in 2014. In 2015, the Group vigorously developed the oil production services cluster, which holds the high speed growth in both Northwest China and Iraqi market.

The oil production services cluster includes:

1) Production operation services. In 2015, this product line recorded RMB203.3 million in revenue, up 63.2% from RMB124.6 million in 2014;

2) Workover service. In 2015, this product line recorded RMB107.9 million in revenue, up 464.9% from RMB19.1 million in 2014;

3) Oil tubing and casing and anti-corrosion technology. This product line was included in the tubular service cluster, in 2015, this product line recorded RMB91.4 million in revenue, up 44.6% from RMB63.2 million in 2014.

EBITDA for the oil production services cluster increased by 109.6% from RMB74.8 million in 2014 to RMB156.8 million in 2015. The EBITDA margin of the cluster was 38.9% in 2015, an increase of 2.7 percentage points from 36.2% in 2014.

Major Development in the Oil Production Services Cluster

- In 2015, production operation service kept steady expansion of overseas business and brought the rapid growth. In the Iraq market, the Group implemented annual service contracts steadily. Meanwhile, taking advantage of project experience, the power plant operating projects and other maintenance projects have been completed successfully. This product line has formed a certain scale which was capable of undertaking more oil production operation and maintenance projects, having a broad space for development.

- Workover service has 4 units of own workover team in Tarim market and 16 units of workover equipment managing for our customer In Turpan market. This year, workover services completed a full workload and achieved a stable income accordingly. Benefited from the excellent quality of service, the product line has got another three years' service order in Xinjiang market. Also, the product line achieved comprehensive breakthrough in overseas market this year, and obtained long-term and large orders.

- Oil tubing and casing and anti-corrosion technology service achieved breakthrough in Iraq market, successfully. The overall workload increased substantially compared to last year, and the profit level has increased.

Alignment of Strategic Resources

In 2015, the Group quickly adapted its strategy in light of the market trends. Specifically, it redefined the strategies for investment, technological capacity building and human resources and strictly reined in capital expenditure. On technological capacity building, it focused primarily on the improvement and adjustment of various product lines. Existing products lines were made more robust for growth and light-asset product lines were developed. Emphasis was put on innovation and technology transfer. Aggressive efforts were made to create a leaner workforce with substantially lower overhead costs. In 2015, the Group made RMB209.8 million in capital expenditure, mostly related to payment for committed projects, a decrease of 63.0% compared with RMB567.6 million in 2014.

Alignment of Investment

In 2015, the Group added no significant investment. In light of its business development, the Group invested primarily in additional high-potential projects to protect and boost profit margins across products lines, without exceeding the capex limit.

Major Investment in Equipment and Facility

– In drilling technology cluster: completed aligned investments in equipment for the well completion project in Ethiopia, equipment for the disposal of water-based and oil-based slurry waste in the oilfield waste management segment and Research and Development on certain proprietary accessory tools for directional drilling instruments

– In oil production cluster: completed aligned investment in two workover units for the domestic market and added similar need-based aligned investment for overseas workover projects

– In terms of building captive manufacturing capacity and proprietary bases: as at the date of this announcement, the well completion tools base in the Tianjin Binhai New Area had been completed and launched. The new base in Luntai, Xinjiang had been completed and launched.

Major Investment in Merger and Acquisition

– During the year ended 31 December 2015, the Group have not conducted any major merger and acquisition.

Alignment of Research and Development Resource

In the first half of 2015, the Group engaged in the improvement and innovation of relevant technologies and tools based on actual needs and in light of the renewed customer focus on production stimulation and cost saving. In 2015, the Group invested RMB49.4 million in Research and Development, 61.0% down than RMB126.8 million in 2014.

Key Research and Development Pipelines

– Research and deployment of oil-based drilling fluid technology

– Research on proprietary directional drilling tools

– Research on cement-filled multi-stage fracturing of horizontal well

– Research on the application of proprietary optical fiber testing technology

– Rotary liner hanger

Alignment of Human Resources

In terms of human resources, the Group implemented a comprehensive workforce optimization and streamlining program in 2015, coupled with internal redeployment to improve the staff mix. As at 31 December 2015, the total headcount decreased by nearly 40%. The Group expects overhead savings of RMB150.0 million in 2016.

Major Development on Human Resources

– Optimized and contained the workforce across business lines, emphasized elimination through performance review. As a result, total headcount decreased nearly 40% compared with that in the beginning of 2015;

– Improved organizational structure across the board, consolidated and condensed non-productive functions and jobs, streamlined management process and improved managerial efficiency;

– Continued to attract highly qualified graduates based on needs to reserve talent for the future and continue to bring in seasoned leading industry professionals;

– Adjusted the compensation scheme, increased the correlation between pay and performance and encouraged employees to weather the difficult times in one heart as the Group.

Major Development on Cost Discipline

Recognizing the tough market environment, the Group developed comprehensive cost discipline objectives for 2015. As at 31 December 2015, the Group had implemented cost reductions primarily in the following areas:

– Cost of raw materials and technical services: increased the use of tools and accessories manufactured in-house and domestically; lowered costs through mass procurement; increased operational efficiency and minimized material and service waste through refined engineering.

– Human resource overhead: please refer to 'Major Development on Human Resources'.

– Cost of day-to-day operation: strengthened tendering and settlement audits and significantly downsized logistic and support functions.

– Financial expenses: 'diversified revenues and minimized expenses' and intensified accounts receivable collection. In 2015, the Group paid down its mid-term notes with cash on its balance sheet, intensified capital management, adopted revenue-based budgeting for cash flow security and conducted multi-channel financing.

Outlook

Looking ahead to 2016, the market overall remains grim. Despite showing an incipient recovery, international oil prices still face uncertainties. Excess capacity in the OFS sector is likely to persist. While major oil-producing countries compete for market shares, cost remains one of the most critical differentiators on their checklist. For OFS companies globally, how to readapt their strategy proactively, implement management and technology innovation, maximize the efficiency of allocating assets and human resources, improve competencies and risk preparedness thus become the most important questions.

With respect to market strategy, the Group continues to adopt an internationalization approach and prioritizes overseas markets with a view to increasing the share of overseas revenue to approximately 50% of total Group revenue for 2016. In light of the market condition, the persistently low oil prices have caused tremendous difficulties for the development activities of most oil-producing countries. At the same time, these countries continue to compete with each other in order to gain market share. In times of depressed oil prices, international oil companies put more emphasis on cost saving as a source of competitiveness. By this metric, Chinese OFS firms enjoy a clear comparative advantage in terms of value for money and responsiveness and are increasingly preferred partners for international customers. Currently in Iraq and Iran and South America, Chinese OFS companies are fast displacing their international peers. Among the various independent OFS companies in China, the Group clearly outperforms on brand and technology and has a long track record of excellence. It is a distinct market leader in terms of QHSE (Quality, Health, Safety and Environment) management. On the other hand, the Chinese government is advancing the Belt and Road Initiative and leading the way with financial capital with the goals of acquiring resources essential for China's growth and for exporting domestic capacity. Amid low oil prices, more Chinese companies are venturing abroad and investing in overseas oilfield assets. This has presented opportunities for large lump-sum contracts for Chinese OFS firms. The Group's market priorities are highly aligned with the Belt and Road Initiative and its services are now available in more than 20 countries in the Middle East, Central Asia, Africa and South America covered by the initiative.

Domestically, industry restructuring is still ongoing. Oil companies will continue to rein in capex, competition is intensifying and the market remains challenging. The Group remains committed to natural gas and unconventional as the two prongs of its strategy. It is proactively coping with the formidable industry headwinds and further solidifying and strengthening its championship in the independent OFS space. Meanwhile, the Group still believes in domestic market opportunities. On the one hand, unconventional technologies and solutions are fully deployed in the market under the new circumstances in order to save cost and improve efficiency for the customers. As a result, the demand for unconventional-related OFS has expanded. The comparative advantage of the Group on cost and technology and its winning formula of integrated services will help the Group gain steady growth. Its success in the unconventional space such as tight gas, tight oil and shale gas development will help the Group maintain its market footing. On the other hand, the State Council has introduced a master strategy for SOE reform in 2015, calling for 'faithfully eliminating institutional barriers and improving the modern enterprise system and the administration of state-owned assets'. Against this backdrop, the trend of deepening the comprehensive reform of Chinese national oil companies for cost-efficiency and the disposal of non-essential business such as OFS will likely prevail. This will create opportunities for Chinese independent OFS firms with reputable brands to thrive. The Group previously succeeded in its joint pilot of oil production service in Northwest China in partnership with oil companies and won serial orders for the next three years. The Group expects that in 2016, by riding on the wave of further deepening reform of NOCs and the successful pilot, the Group is likely to gain bigger opportunities for leap-frog growth under the SOE reform program.

On product, the Group remains committed to a light-asset strategy, featuring higher equipment utilization and stronger proprietary capacity and technological competency. It will increase the revenue share of proprietary technologies and tools, reduce costs across the board and increase the profit margin on products and technologies. At the same time, it will continue to optimize its industry configuration by vigorously developing oil production service. It will encourage the development and adoption of new technologies and featured technologies and closely tie technology dissemination with regional technological needs so as to maximize the gains on its winning technologies.

On human resource, having completed a massive workforce redeployment program in early 2015, the Group expects overhead savings of RMB150 million in 2016. The Group will further fine-tune its organizational structure to enable globalized management. It will further streamline the workforce, reduce the management hierarchy and consolidate positions. It will reconfigure its talent pool to increase the share of internationally deployable talent to over 50%. At the same time, it will redefine the compensation scheme, cut overheads, reduce base salary and increase variable pay linked to stronger performance-based incentives to hold the employees accountable for their performance.

On financial management, the Group adopts the principles of growing revenue, saving costs, improving productivity and optimizing management. It manages marketing campaigns based on cash flows, implements effective financial management and strictly contains expenses within its budgetary framework. Meanwhile, it lowers financial costs throughout the business and closely monitors such metrics as leverage ratio. It diversifies funding channels including bank loan, financial lease, equity financing and project financing, improves access to external funding and maintains cash flow security.

On the whole, the Group now operates on a solid foundation and is fully prepared for the new industrial landscape in 2016 after sweeping changes were made throughout 2015. Guided by the strategy of 'light-asset' and 'internationalization', the Group will continue to expand into overseas markets while defending its domestic market share so as to come back on the track of revenue growth. At the same time, it will reduce costs in all aspects, set profit turnaround despite low oil prices as its primary objective and overtake its domestic competitors on all fronts.

FINANCIAL REVIEW

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

Revenue

The Group's revenue in 2015 amounted to RMB1,833.0 million, representing a decrease of RMB238.2 million or 11.5% as compared to RMB2,071.2 million in 2014. The decrease in the Group's revenue was mainly attributable to the further downsizing of domestic oil companies' capital expenditure which has led to the shrink of markets and the delay of certain projects, and the increased competition and downward pricing pressure resulting in the decline of revenue in the domestic market.

Costs of Sales

The costs of sales in 2015 decreased to RMB1,250.3 million, representing a decrease of 12.3%, from RMB1,425.8 million in 2014. The decrease was mainly attributable to lower revenue and lower raw material cost.

Other Gains

Other gains in 2015 increased to RMB20.7million from losses of RMB1.8 million in 2014. The increase was mainly attributable to more subsidy revenue granted by the PRC government in 2015.

Selling Expenses

Selling expenses in 2015 amounted to RMB137.5 million, representing a decrease of RMB53.4 million or 28.0% as compared to RMB190.9 million in 2014. This was mainly attributable to the rapid downsizing and adjustment of human resources and strengthening of cost control in the harsh market environment.

Administrative Expenses

Administrative expenses in 2015 amounted to RMB339.0 million, representing a decrease of RMB22.2 million or 6.1% as compared to RMB361.2 million in 2014. This was mainly attributable to the downsizing and adjustment of human resources and strengthening of cost control.

Research and Development Expenses

Research and Development expenses in 2015 amounted to RMB18.9 million, representing a decrease of RMB18.7 million or 49.7% as compared to RMB37.6 million in 2014. This was mainly attributable to that the Group planned and implemented the Research and Development projects more targeted under such market environment.

Sales Tax and Surcharges

Sales tax and surcharge in 2015 amounted to RMB15.6 million, representing a decrease of RMB0.4 million or 2.5% as compared to RMB16.0 million in 2014. This remains stable with last year.

Operating Profit

As a result of the foregoing, the operating profit of the Group in 2015 amounted to RMB92.5 million, representing an increase of RMB54.5 million or 143.4% as compared to RMB38.0 million in 2014. The operating profit margin for 2015 was 5.0%, representing an increase of 3.2 percentage points from 1.8% in 2014.

Finance Costs (Net)

Net finance costs in 2015 was RMB254.8 million, an increase of approximately RMB76.3 million as compared to RMB178.5 million in 2014. The increase was mainly due to the devaluation of RMB in the current year has led to currency translation loss on the USD senior note issued by the Group in late 2013.

Share of Loss of Joint Ventures

The share of loss of joint ventures in 2015 amounted to RMB1.0 million, mainly because of losses recorded in the joint venture 'Tongzhou IPM'.

Income Tax Expense

Income tax expense in 2015 amounted to RMB31.9 million, representing an increase of RMB0.6 million from RMB31.3 million in 2014.

Loss for the Year

As a result of the foregoing, the Group's loss for 2015 was RMB195.2 million, representing an increase of RMB4.4 million, or 2.3%, compared to 2014.

Loss Attributable to Equity Holders of the Company

The Group's loss attributable to equity holders of the Company in 2015 amounted to RMB194.7 million, reduced by RMB3.5 million, or 1.8% as compared to 2014.

Trade and Notes Receivables

As at 31 December 2015, the Group's net trade and notes receivables were RMB1,284.4 million, representing a decrease of RMB303.8 million as compared to 31 December 2014. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in 2015 were 248 days, representing an increase of 20 days as compared to 2014. This was mainly attributable to customer adjusted its business strategy under severe environment in domestic market.

Inventories

As at 31 December 2015, the Group's inventories were RMB834.2 million, representing an increase of RMB124.5 million as compared to 31 December 2014, mainly due to delays of certain projects of the Group.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2015, the Group's cash and bank deposits amounted to approximately RMB627.4 million (including: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing a decrease of RMB212.7 million as compared to 31 December 2014.

As at 31 December 2015, the Group's outstanding short-term loans amounted to RMB675.0 million. Credit facilities granted to the Group by domestic banks in China amounted to RMB910.0 million, of which approximately RMB670.0 million were not used. The aggregate principal amount of Medium-term Notes of the Group registered at the National Association of Financial Market Institutional Investors totals RMB200.0 million.

As at 31 December 2015, the liability-to-asset ratio (total liabilities divided by total assets) of the Group was 68.3%, representing an increase of 1.4 percentage points from the liability-to-asset ratio of 66.9% as at 31 December 2014. As at 31 December 2015, the gearing ratio of the Group was 60.8%, representing a decrease of 0.4 percentage points from the gearing ratio of 61.2% as at 31 December 2014. The gearing ratio is calculated as total borrowings divided by total capital. Total borrowings include borrowings, bonds and trade and notes payables, as shown in the consolidated balance sheet. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus total borrowings.

The equity attributable to equity holders of the Company decreased from RMB2,053.9 million as at 31 December 2014 to RMB1,894.0 million as at 31 December 2015.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at 31 December 2015, the Group did not have any significant acquisitions or disposals of subsidiaries, associates and joint ventures.

EXCHANGE RISK

The exchange risk of the Group mainly arises from its foreign currency deposits, trade receivables denominated in foreign currencies and the Group's USD-denominated bond issued in 2013. Any fluctuations in RMB exchange rate against the US dollar may have a negative impact on the Group's operating results and financial position.

CASH FLOW FROM OPERATING ACTIVITIES

For the year ended 31 December 2015, net cash inflow from operating activities of the Group amounted to RMB157.4 million, representing an increase of RMB777.3 million compared to 2014. This was mainly because of the Group's tightened account receivables collection, and improved capital turnover efficiency.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for 2015 was RMB209.8 million, of which, investments in fixed assets were RMB174.4 million, investments in intangible assets (including land use rights) were RMB35.4 million. The Group's net capital expenditure was RMB133.3 million, which included an RMB79.5 million recouping investments capital.

CONTRACTUAL LIABILITY

The Group's contractual commitments mainly consist of payment obligations under the Group's operating lease arrangements and capital commitments. The Group leases offices and certain equipment and machinery through operating leases. As at 31 December 2015, the Group's operating lease commitments amounted to approximately RMB49.7 million. As at the balance sheet date (31 December 2015), the Group had capital commitments of approximately RMB49.8 million, which was not provided for in the balance sheet.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2015, the Group's pledge of assets including property, plant and equipment with a net book value of RMB178.3 million, land use rights with a net book value of RMB11.1 million and notes receivables with a net book value of RMB10.0 million.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2015, the Group did not have any off-balance sheet arrangement.

Directors' Report

The Board of the Company is pleased to present the Directors' Report together with the audited financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group provides integrated oil and gas field development technical services covering the entire life cycle of oil and gas field development, including drilling, completion and production stages.

RESULTS OF OPERATIONS

The financial results of the Group for 2015 are set out on pages 63 to 130 of this Annual Report.

FIVE YEAR FINANCIAL SUMMARY

The five year financial summary of the Group is set out on pages 6 to 7 in the section headed "Financial Summary" of this Annual Report.

FINAL DIVIDEND

At the Board meeting held on 28 March 2016, the Board did not recommend a payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

BUSINESS REVIEW

Overview

The fair review of the Group's business is detailed in the Management Discussion and Analysis on pages 14 to 25 of this annual report. The discussion constitutes a part of this Director's Report.

Principal Risks and Uncertainties

The Group provides oil and gas fields technical services, the main market risk and uncertainties come from the fluctuation of oil and gas price and oil and gas development activities. The Board of the Company pays close attention to the market condition and will change the Group's market strategy according to the market changes to ensure a stable business development of the Group.

Important Events

The Board has not identified any important events affecting the Group that have occurred since the end of the financial year.

Future Development

The future business development of the Group is detailed in the Management Discussion and Analysis on pages 26 to 27 of this annual report. The discussion constitutes a part of this Director's Report.

Key Performance Indicators

The key performance indicators are detailed in the financial review set out in the Management Discussion and Analysis on pages 27 to 29 of this annual report. This discussion constitutes a part of this Directors' Report.

Environmental Policies and Performance

The Group pays close attention to the environment protection. An oilfield waste management services unit was set under the Group's business lines to minimize the affection of the environment from oil and gas development activities. The Group has also set a QHSE (Quality, Health, Safety, Environment) committee under the Board to emphasize the environment protection as well as ensure the services quality.

Compliance with Laws And Regulations

To the best of the knowledge of the Board and the management, the Group complied with the relevant laws and regulations which constitutes material impact on the business and operation of the Company and its subsidiaries in all material respects.

Relationships with Employees

The relationships with employees is detailed in the Employee Relations on page 60 of this annual report. The discussion constitutes a part of this Director's Report.

Relationships with Customers and Suppliers

Main customers of the Group are domestic and overseas oil companies. The Group aims to provide its customer with high quality services as well as low costs and high efficiency. Target of the Group is to make oil and gas development much easier through the services it provides. The Group has formed a long- term strategic partnership with its main customers.

Main providers of the Group are equipment, tools and chemicals providers of this industry. The Group keeps good communication with those providers and formed close cooperation for the production and delivery according to the Group's business needs as well as lowering material costs according to long- term cooperation and batch purchases.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group accounted for approximately 15.87% and 46.04% respectively of the Group's revenues for the year ended 31 December 2015.

For the year ended 31 December 2015, the total amount of purchases made by the Group from its five largest suppliers amounted to RMB62.0 million, and accounted for 34.00% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB20.4 million, and accounted for 11.00% of the total purchases for the year. One of the five largest suppliers of the Group is an affiliate of Schlumberger NV, a substantial shareholder of the Company. Save as disclosed above, as far as the Company is aware, none of the Directors,their associates and shareholders who are interested in more than 5% of the share capital of the Company has any interest in the five largest suppliers and customers.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 9 to the consolidated financial statements.

PROPERTIES, PLANT AND EQUIPMENT

Additions to the property, plant and equipment of the Group for the year ended 31 December 2015 totaled RMB347.9 million. Details of movements are shown under Note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 16(a) to the consolidated financial statements.

Shares were issued during the year on exercise of share options. Details about the issue of shares are also set out in note 16(b) to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive right under the Articles of Association of the Company and the Cayman Islands laws, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

RESERVES

Details of movements in the reserves of the Company during the year ended 31 December 2015 are set out in Notes 17 and 34 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the aggregate amount of reserves which is available for distribution to the equity shareholders of the Company was RMB772.1 million.

BOND AND SENIOR NOTES

Details of the bonds and senior notes are set out in Note 18 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save as the share option scheme of the Company disclosed in this Directors' Report on pages 37 to 43, and notes 16 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the year.

DIRECTORS

The members of the Board during the year and up to the date of this Annual Report are:

Executive Directors

Mr. Luo Lin	(appointed on 3 August 2007)
Mr. Wu Di	(appointed on 22 March 2010)
Mr. Liu Enlong	(resigned on 25 March 2015)
Mr. Pi Zhifeng	(appointed on 25 March 2015)

Non-executive Director

Mr. Jean Francois Poupeau	(resigned on 16 January 2015)

Independent Non-executive Directors

Mr. Zhang Yongyi	(appointed on 17 November 2007)
Mr. Zhu Xiaoping	(appointed on 17 November 2007)
Mr. Wang Mingcai	(appointed on 17 November 2007)

The biographical details of the Directors and senior management are set out under the section headed "Profiles of Directors and Senior Management" of this Annual Report.

In accordance with Article 130 of the Articles of Association, one-third of the Directors shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Luo Lin, an Executive Director shall retire and being eligible, will offer himself for re-election at the forthcoming annual general meeting (the "AGM") of the Company.

In accordance with the letters of appointment for all the Independent Non-executive Directors, namely Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai, the Independent Non-executive Directors shall retire and being eligible, will offer themselves for re-election at the AGM.

Resignation of Directors

On 16 January 2015, Mr. Jean Francois Poupeau has resigned as the Non-executive Director in order to devote more time and energy to other work.

On 25 March 2015, Mr. Liu Enlong has been resigned as the Executive Director in order to focus on the America market business of the Group.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Mr. Luo Lin, being the Executive Director, has entered into a service contract with the Company for a term of three years commencing from 4 June 2013, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Wu Di, being the Executive Director, has entered into a service contract with the Company for a term of three years commencing from 1 April 2016, which may be terminated by not less than three months' notice in writing served by either party on the other.

Mr. Pi Zhifeng, being the Executive Director, has entered into a service agreement with the Company for a term of three years commencing from 26 May 2015, which may be terminated by not less than three months' notice in writing served by either party on the other.

The letter of appointment of each of Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai, being the Independent Non-executive Directors, has been renewed by the Company for a term of one year commencing from 9 January 2016, which may be terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, no Director for re-election at the AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

There was no transactions, arrangements or contract of significance connected to the business of the Group to which the Company, its subsidiaries, or its holding company or any of its fellow subsidiaries was a party and in which any Director and the Director's connected party had a direct or indirect material interest, subsisting at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

During the financial year, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors. The permitted indemnity provisions are provided for in the Company's Articles of Association in respect of potential loses and liability associated with legal proceedings that may be brought against such Directors and the payment of any sum primarily due from the Company that may be liable by the Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the company were entered into or exited during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Jean Francois Poupeau, the former Non-executive Director, resigned effective 16 January 2015, is an Executive Vice President of Schlumberger Limited, the world's leading oilfield services company, which is engaged in similar businesses as the Group.

Save as disclosed above, none of the Directors and their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") had an interest in any business which competes or may compete with the business in which the Group is engaged during the year.

Pro Development Holdings Corp. is beneficially controlled by Mr. Luo Lin, the Executive Director, who is the controlling shareholder of the Company.

The controlling shareholder and the Executive Directors have provided the Company with annual confirmations in respect of the compliance with non-competition undertaking given by them.

The Independent Non-executive Directors have also reviewed the compliance by the controlling shareholder and the Executive Directors with the Non-competition Undertaking during the year. The Independent Non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of the controlling shareholder and the Executive Directors of the non-competition undertaking given by them.

REMUNERATION OF DIRECTORS

In compliance with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules, the Company has established a remuneration committee (the "Remuneration Committee") to make recommendations to the Board on the Company's policy and structure for all the Directors' remuneration. The Director's remuneration structure may include a director's fee, a fixed salary, share options and performance bonus. The Directors' remuneration is determined by the Board with reference to the Directors' duties and responsibilities, the recommendations of the Remuneration Committee and the performance and results of the Group. Details of the remuneration of the Directors are set out in Note 35 to the consolidated financial statements of this Annual Report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and considers that all the Independent Non-executive Directors, namely Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai to be independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

As at 31 December 2015, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers of the Listing Rules (the "Model Code") were as follows:

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

Name of Director	Note	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Luo Lin	1	Founder of a discretionary trust and beneficial owner	717,012,818	32.28%
Pi Zhifeng		Beneficial owner	448,000	0.02%
Wang Mingcai		Beneficial owner	550,000	0.02%
Zhang Yongyi		Beneficial owner	440,000	0.02%

1. Mr. Luo Lin is the founder of the Loles Trust, which is indirectly interested in the entire issued share capital of Pro Development Holdings Corp., which in turn is interested in 707,958,150 shares. Mr. Luo Lin and his family members are the beneficiaries of the Loles Trust. Mr. Luo Lin also holds 9,054,668 shares of the capacity of a beneficial owner.

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

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

Save as disclosed above, at no time during the year ended 31 December 2015, the Directors and chief executive (including their spouses and children under the age of 18 years) had or was deemed to have any interests or short position, in the shares, underlying shares or debentures of the Company, its specified undertakings and its associated corporations required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap.622) or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2015, the Company had been notified of the substantial shareholders and other persons (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

Name of substantial shareholder	Note	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Credit Suisse Trust Limited	1	Trustee	707,958,150	31.87%
Seletar Limited	1	Trustee	707,958,150	31.87%
Serangoon Limited	1	Trustee	707,958,150	31.87%
Avalon Assets Limited	1	Trustee	707,958,150	31.87%
Pro Development Holdings Corp.	1	Beneficial owner	707,958,150	31.87%
Schlumberger NV	2	Interest of controlled corporation	423,361,944	19.06%

Notes:

1. The707,958,150 shares referred to the same batch of shares.

2. Schlumberger Far East, Inc. directly holds 423,361,944 shares of the Company. Schlumberger Far East, Inc. is a wholly-owned subsidiary of Schlumberger Holding Limited. Schlumberger Holding Limited is a wholly-owned subsidiary of Schlumberger Oilfield Holding Limited. Schlumberger Oilfield Holding Limited is a wholly-owned subsidiary of Schlumberger NV.

Save as disclosed above, as at 31 December 2015, so far was known to the Directors, no other persons (other than the Directors or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company conditionally adopted its share option scheme on 17 November 2007 and amended its terms on 27 May 2010 (the "Share Option Scheme"). The Share Option Scheme shall be valid and effective for a period of 10 years from 17 November 2007, subject to early termination by the Company in a general meeting or by the Board. The purpose of the Share Option Scheme is to grant option to the eligible participants in recognition and acknowledgement of their contributions made or to be made to the Group. Under the Share Option Scheme, the Board may offer to grant an option to any director or employee, or any advisor, consultant, suppliers, customers or agents.

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time.

The maximum number of shares available for issue under options which may be granted under the Share Option Scheme or other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares in issue as at the date of approval of the refreshment of the Scheme limit (i.e. 26 May 2015), being 222,035,204 shares.

As at the date of this Annual Report, the total number of shares available for issue which includes share options available to be granted and outstanding options under the Share Option Scheme was 253,259,653 shares, representing 11.43% of the issued share capital of the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue as at the date of grant unless approved by the shareholders in general meeting.

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be determined by the Board provided that it shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average of closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

As at 31 December 2015, the Directors individually and other employees of the Company in aggregate had the following interests in options to subscribe for shares of the Company under the Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company of HK$0.10 each.

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share HK$	Notes	Number of share options as at 1 January 2015	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options lapsed during the year	Number of share options as at 31 December 2015
Directors										
Zhang Yongyi	19 January 2012	19 January 2013 to 18 January 2015	1.072	2,9	250,000	–	250,000	–	–	–
	10 January 2013	10 January 2014 to 9 January 2016	3.878	2,14	500,000	–	–	–	–	500,000
	12 May 2014	12 May 2015 to 11 May 2020	5.200	5,19	244,000	–	–	–	–	244,000
	24 April 2015	24 April 2016 to 23 April 2021	1.820	5,21	–	480,000	–	–	–	480,000
				Subtotal:	994,000	480,000	250,000	–	–	1,224,000
Zhu Xiaoping	10 January 2013	10 January 2014 to 9 January 2016	3.878	2,14	500,000	–	–	–	–	500,000
	12 May 2014	12 May 2015 to 11 May 2020	5.200	5,19	244,000	–	–	–	–	244,000
	24 April 2015	24 April 2016 to 23 April 2021	1.820	5,21	–	480,000	–	–	–	480,000
				Subtotal:	744,000	480,000	–	–	–	1,224,000
Wang Mingcai	19 January 2012	19 January 2013 to 18 January 2015	1.072	2,9	250,000	–	250,000	–	–	–
	10 January 2013	10 January 2014 to 9 January 2016	3.878	2,14	250,000	–	–	–	–	250,000
	12 May 2014	12 May 2015 to 11 May 2020	5.200	5,19	244,000	–	–	–	–	244,000
	24 April 2015	24 April 2016 to 23 April 2021	1.820	5,21	–	480,000	–	–	–	480,000
				Subtotal:	744,000	480,000	250,000	–	–	974,000

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share *HK$*	Notes	Number of share options as at 1 January 2015	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options lapsed during the year	Number of share options as at 31 December 2015
Luo Lin	20 May 2011	20 May 2012 to 19 May 2015	1.450	1,8	666,668	–	666,668	–	–	–
	19 January 2012	19 January 2013 to 18 January 2016	1.072	1,9	66,667	–	–	–	–	66,667
	18 June 2012	18 June 2013 to 17 June 2016	1.160	1,11	1,266,667	–	–	–	–	1,266,667
	10 January 2013	10 January 2014 to 9 January 2017	3.878	1,14	86,667	–	–	–	–	86,667
	21 June 2013	21 June 2014 to 20 June 2019	5.742	4,15	796,000	–	–	–	–	796,000
	12 May 2014	12 May 2015 to 11 May 2020	5.200	4,19	80,000	–	–	–	–	80,000
	24 April 2015	24 April 2016 to 23 April 2021	1.820	4,21	–	2,100,000	–	–	–	2,100,000
				Subtotal:	2,962,669	2,100,000	666,668	–	–	4,396,001
Wu Di	19 January 2012	19 January 2013 to 18 January 2016	1.072	1,9	300,000	–	–	–	–	300,000
	18 June 2012	18 June 2013 to 17 June 2016	1.160	1,11	68,000	–	–	–	–	68,000
	10 January 2013	10 January 2014 to 9 January 2017	3.878	1,14	400,000	–	–	–	–	400,000
	12 May 2014	12 May 2015 to 11 May 2020	5.200	4,19	434,000	–	–	–	–	434,000
	24 April 2015	24 April 2016 to 23 April 2021	1.820	4,21	–	860,000	–	–	–	860,000
				Subtotal:	1,202,000	860,000	–	–	–	2,062,000
Pi Zhifeng	20 May 2011	20 May 2012 to 19 May 2015	1.450	1,8	300,000	–	300,000	–	–	–
	19 January 2012	19 January 2013 to 18 June 2016	1.072	1,9	470,000	–	–	–	–	470,000
	10 January 2013	10 January 2014 to 9 January 2017	3.878	1,14	1,000,000	–	–	–	–	1,000,000
	12 May 2014	12 May 2015 to 11 May 2020	5.200	4,19	704,000	–	–	–	–	704,000
	24 April 2015	24 April 2016 to 23 April 2021	1.820	4,21	–	1,400,000	–	–	–	1,400,000
				Subtotal:	2,474,000	1,400,000	300,000	–	–	3,574,000

Grantees	Date of grant of share options	Exercise period of share options	Exercise price per share *HK$*	Notes	Number of share options as at 1 January 2015	Number of share options granted during the year	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options lapsed during the year	Number of share options as at 31 December 2015
Employees in aggregate	20 May 2011	20 May 2012 to 19 May 2015	1.450	1,8	3,672,662	–	3,504,994	–	167,668	–
	19 January 2012	19 January 2013 to 18 January 2016	1.072	1,9	16,427,446	–	4,514,468	–	628,668	11,284,310
	16 April 2012	16 April 2013 to 15 April 2016	1.240	3,10	2,520,000	–	–	–	–	2,520,000
	18 June 2012	18 June 2013 to 17 June 2016	1.160	3,11	34,000	–	666	–	–	33,334
	22 November 2012	22 November 2013 to 21 November 2016	2.610	3,12	4,000,000	–	–	–	–	4,000,000
	22 November 2012	22 November 2013 to 21 November 2016	2.610	1,12	395,632	–	–	–	395,632	–
	28 December 2012	28 December 2013 to 27 December 2016	3.820	1,13	82,800	–	–	–	–	82,800
	10 January 2013	10 January 2014 to 9 January 2017	3.878	1,14	23,299,664	–	–	–	3,300,683	19,998,981
	21 June 2013	21 June 2014 to 20 June 2019	5.742	4,15	500,000	–	–	–	–	500,000
	28 June 2013	28 June 2014 to 27 June 2019	5.600	4,16	298,000	–	–	–	–	298,000
	16 August 2013	16 August 2014 to 15 August 2019	5.570	4,17	54,000	–	–	–	–	54,000
	20 November 2013	20 November 2014 to 19 November 2019	4.960	4,18	246,000	–	–	–	56,000	190,000
	12 May 2014	12 May 2015 to 11 May 2020	5.200	4,19	19,750,000	–	–	17,078,000	2,672,000	–
	18 September 2014	18 September 2015 to 17 September 2020	3.120	4,20	2,512,000	–	–	890,000	1,622,000	–
	24 April 2015	24 April 2016 to 23 April 2021	1.820	4,21	–	43,700,000	–	–	43,700,000	–
				Subtotal:	73,792,204	43,700,000	8,020,128	17,968,000	52,542,651	38,961,425
				Total:	82,912,873	49,500,000	9,486,796	17,968,000	52,542,651	52,415,426

Notes:

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

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

3. The grantee may not exercise the options to subscribe for shares until after twelve months from the date of grant. If the grantee has worked for less than twelve months, all options of the grantee will lapse automatically and will no longer be exercisable. If the grantee has worked for thirty-six months or above, the grantee can exercise all options. If the grantee has worked for twelve months or above but less than thirty-six months, the number of effective options the grantee actually obtains is "the number of options granted X the number of working quarters of the grantee/12 (only the number of full quarters is counted)". The remaining options will lapse automatically. All options are entitled to be exercised before the forth anniversaries of the date of grant.

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

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

6. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.75*.

7. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$0.76*.

8. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.44*.

9. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.08*.

10. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.28*.

11. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.16*.

12. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$2.60*.

13. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$3.70*.

14. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$3.54*.

15. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$5.73*.

16. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$5.47*.

17. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$5.63*.

18. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$4.99*.

19. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$5.10*.

20. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$3.08*.

21. The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK$1.73*.

* Source from Bloomberg

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float in compliance with the requirement of the Listing Rules during the year and to the date of this Annual Report.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" above, at no time during or at the end of the year was the Company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in, debentures of, the Company or any other body corporate.

TAXATION

For the year ended 31 December 2015, no foreign shareholder who is not resident of the PRC is liable for individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owing and disposing of the Company's shares.

DONATION

For the year ended 31 December 2015, the Company contributed a total of RMB0.09 million as charitable and other donations. In the future, the Company will continue to fulfill its commitment to be an enterprise with sound social responsibilities.

RELATED PARTY/CONTINUING CONNECTED TRANSACTIONS

The related party transactions for the year ended 31 December 2015 are set out in Note 33 to the Financial Statements of this Annual Report.

On 24 April 2013, the Company entered into a master mutual supply and purchase agreement (the "Master Agreement") with Schlumberger NV ("Schlumberger"), pursuant to which the Group agreed to supply products and services to Schlumberger and Schlumberger agreed to supply and procure its affiliates to supply to the Group products and services for a period of three financial years until 31 December 2015. Please refer to the announcement of the Company dated 24 April 2013 and the circular of the Company dated 16 May 2013 for further details.

On 23 December 2015, the Company and Schlumberger entered into the 2015 Master Agreement to renew the Master Agreement. The 2015 Master Agreement has a fixed term of three years commencing from 1 January 2016 to 31 December 2018. Please refer to the announcement of the Company dated 23 December 2015 for further details.

Schlumberger is a substantial shareholder of the Company interested in approximately 19.06% of the issued share capital of the Company as at 31 December 2015. Accordingly, Schlumberger is a connected person of the Company for the purpose of the Listing Rules and the entering into of the 2015 Master Agreement between the Company and Schlumberger constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios exceed 0.1% but are all less than 5%, the entering of the 2015 Master Agreement and the transactions contemplated thereunder is subject to the reporting and announcement requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The transaction amounts pursuant to the Master Agreement during the financial year of 2015 were as follows:

	RMB'000	US'000
Supply of Products and Services by the Group to Schlumberger or Affiliates	4,264	657
Supply of Products and Services by Schlumberger or Affiliates to the Group	59,331	9,137

* The translation of Renminbi amounts into US dollar amounts has been made at rate of RMB6.4936 to US$1.00. The exchange rates are in the release of Bank of China on 31 December 2015.

The Independent Non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that they were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the Company's auditors, were engaged to report on the Company's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Company in accordance with Rule 14A.55 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

POST BALANCE SHEET EVENTS

The Company has repurchased a total of 4,296,000 shares of the Company on the Stock Exchange in January 2016.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

There was no significant change in the Company's constitutional documents during the year ended 31 December 2015.

AUDIT COMMITTEE

Pursuant to the requirements of the Code and the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely, Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Mr. Wang Mingcai. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2015.

AUDITORS

The consolidated financial statements for the year ended 31 December 2015 have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution for the reappointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the Board

Luo Lin
Chairman

28 March 2016

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

LUO Lin (羅林), aged 49, is the Chairman and the founder of the Group. Prior to establishing the Group, Mr. Luo worked at the Tarim Basin and was the Deputy General Manager of a subsidiary of the Southwest Petroleum Bureau (西南石油局) responsible for marketing from 1992 to 1999. Mr. Luo has 22 years of experience in the petroleum industry. He has an Executive Master of Business Administration (EMBA) degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院). Mr. Luo is also a certified lawyer and a chartered accountant in the PRC.

WU Di (吳迪), aged 49, is an Executive Director of the Company. Mr. Wu joined the Group in 2010, and is now an Executive Vice President in charge of the business supporting and counselling. Prior to joining the Group, Mr. Wu was employed by China National Petroleum Corporation (CNPC) between 1990 and 2010 and was appointed as the Chief Geologist of the Development Business Department of Tarim Oilfield Company (塔里木油田分公司) and the Director of its Development Department. He has more than 26 years of experience in the petroleum industry. Mr. Wu has a master's degree in oil and gas field development engineering from China University of Petroleum, Beijing and a bachelor's degree in oil reservoir engineering from Southwest Petroleum Institute (西南石油學院), and is also a senior engineer with professorship.

PI Zhifeng (皮至峰), aged 38, is the Executive Director and Chief Executive Officer of the Company, in charge of the overall business of the Group. Mr. Pi joined the Group in 2004, and was responsible for the management of strategies, business establishment and capital market. Prior to joining the Group, Mr. Pi was responsible for investment in China Chengxin Financial Consultancy Co., Ltd (中誠信財務顧問有限公司). Mr. Pi has a Master of Business Administration degree from the University of Chicago Booth School of Business in the U.S.

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHANG Yongyi (張永一), aged 80, is an Independent Non-executive Director of the Company. Mr. Zhang has extensive experience in the petroleum industry. Mr. Zhang was appointed as the Deputy General Manager of CNPC in 1992. Prior to this, he had taught in the Southwest Petroleum Institute (西南石油學院) for more than 32 years. Mr. Zhang was appointed as Chairman of the Supervisory Committee for State-owned Large and Medium Enterprises (國有大中型企業監事會主席) in 2000 and appointed by the State Council of the PRC as inspector (國務院稽察特派員) in 1998.

ZHU Xiaoping (朱小平), aged 67, is the Independent Non-executive Director. Mr. Zhu has extensive experience in corporate finance and is currently an Accounting Professor of the Renmin University of China (中國人民大學). He served as the Director of the China Accounting Society (中國會計學會理事) and Director of the China Audit Society (中國審計學會理事). Mr. Zhu is also a Director of Linzhou Heavy Machinery Group Co., Ltd. (林州重機集團股份有限公司) list on the Shenzhen Stock Exchange and China Resources Double-crane Pharmaceutical Co., Ltd. (華潤雙鶴藥業股份有限公司) listed on the Shanghai Stock Exchange.

WANG Mingcai (王明才), aged 71, is the Independent Non-executive Director. Mr. Wang has extensive experience in the petroleum industry, and was the General Manager and Chairman of the board of directors of Sino-U.S. Oil Development Corporation (中美石油開發公司).Mr. Wang has previously worked as the Vice Chief Engineer of Exploring and Development Bureau of China National Petroleum Company (中國石油天然氣總公司). He also held positions such as Vice General Manager of China National Oil & Gas Exploration and Development Corporation (中國石油天然氣堪探開發公司), President of CNPC Venezuela Corporation (中油國際委內瑞拉公司), and Executive Director of Kunlun Energy Company Limited (昆侖能源有限公司), formerly named CNPC (Hong Kong) Limited (中國（香港）石油有限公司) (Stock Code: 0135), a company listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

FAN Yonghong (范永洪), aged 46, is the President of the Company, and is responsible for daily operations of the Company. Mr. Fan joined the Group in 2004, and was responsible for the setup of the well service business and the management of business clusters of the Group. Prior to joining the Group, Mr. Fan was employed by PetroChina Tarim Oilfield Company (中石油塔里木油田分公司) between 1991 and 2004 and once served as the deputy section chief. He has 25 years of experience in the petroleum industry. Mr. Fan has an Executive Master of Business Administration (EMBA) degree from China Europe International Business School (CEIBS) and graduated from China University of Petroleum, majoring in petroleum engineering.

SHEN Haihong (沈海洪), aged 47, is an Executive Vice President of the Company, and is in charge of operation, quality control and QHSE management. Mr. Shen joined the Group in 2007, and was in charge of the tubular service cluster as well as operational management and operational support of the Group. Prior to joining the Group, Mr. Shen was employed by CNPC between 1991 and 2006 and was appointed as the deputy general manager of Toha Oilfield Drilling Company (吐哈石油鑽井公司), and as the deputy director of the Enterprises Department of Toha Directorate (吐哈指揮部企管處). He has more than 25 years of experience in the petroleum industry. Mr. Shen has a Master of Business Administration degree from Tsinghua University and a bachelor's degree in well bore engineering from Southwest Petroleum Institute (西南石油學院), and is also a senior engineer in well bore engineering.

LI Kang (李康), aged 52, is an Executive Vice President of the Company, and is in charge of the Group's human resources management, organizational development, talent management, administration and staff services . Mr. Li joined the Group in 2012. Prior to joining the Group, Mr. Li was the human resources director of Asia-Pacific region at Motorola. He has 22 years of experience in human resources management. Mr. Li has a doctoral degree in management science from Tianjin University (天津大學).

GUAN Minjuan (關敏娟), aged 47, is an Executive Vice President of the Company, and is responsible for the Group's financial accounting, financial management and asset and capital management, and supporting budget management, as well as capital market. Ms. Guan joined the Group in 2014. Prior to joining the Group, Ms. Guan engaged in financial work in Petrochina Kunlun Gas Co.,Ltd. (中石油昆侖燃气有限公司). Ms. Guan has a Master of Business Administration (MBA) degree from National School of Development at Peking University (北京大学国家发展研究院).

LI Pandeng (李攀登), aged 39, is an Executive Vice President of the Company, and is responsible for the capital market. Mr. Li joined the Group in 2001, and was responsible for operation management, strategy management and tubular services. Prior to joining the Group, Mr. Li worked for PKU Management Consultants Ltd. (北大縱橫管理咨询公司). Mr. Li has a Master of Business Administration (MBA) degree from Tsinghua University.

LI Bingnan (李冰南), aged 47, is an Executive Vice President of the Company, and is in charge of the internal audit, law, marketing and contracting work. Mr. Li joined the Group in 2002, and was responsible for the business development of the Group in the early stage, marketing in the northwest market, management of the tubular service cluster, and human resources management of the Group. Prior to joining the Group, Mr. Li was employed by Jianghan Petroleum Bureau (江漢石油管理局) between 1991 and 2002, and was appointed as a manager for the environmental protection equipment plant of the Jianghan Petroleum Bureau in 2000. He has more than 25 years of experience in the petroleum industry. Mr. Li has an Executive Master of Business Administration (EMBA) degree from China Europe International Business School (CEIBS) and has a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

Yan Yonggang (嚴永剛), aged 33, is an Executive Vice President of the Company, and is in charge of the drilling technology cluster. Mr. Yan joined the Group in 2007, Mr. Yan has a bachelor's degree in Petroleum Engineering from Jianghan Petroleum Institute (江漢石油學院).

GONG Caixi (龔才喜), aged 54, is an Executive Vice President of the Company, and is in charge of the integrated business, as well as supporting marketing and key accounts work. Mr. Gong joined the Group in 2014. Prior to joining the Group, Mr. Gong worked for North China branch of Sinopec as a deputy chief engineer, and has 34 years of experiences in the petroleum industry. Mr. Gong has a bachelor's degree in Petroleum Geological Survey from Jianghan Petroleum Institute (江漢石油學院).

MA Jian (馬健), aged 48, is an Executive Vice President of the Company, and is in charge of the Middle East market, as well as supporting overseas integrations projects, EPC projects, overseas drilling business as well as marketing and key accounts work. Mr. Ma joined the Group in 2002, and was responsible for business development of the Group in the early stage, marketing in the domestic market and various management operations. Prior to joining the Group, Mr. Ma worked at Halliburton China from 2000 to 2002 as a Well Bore Projects Manager. From 1991 to 1999, he worked as a Petroleum Engineer at the drilling company in Jianghan Oilfield (江漢油田鑽井工程處), and has 25 years of experience in the petroleum industry. Mr. Ma has a doctoral degree from China University of Petroleum and is a guest professor at Yangtze University (長江大學). Mr. Ma has a master's degree in business administration from Huazhong University of Science and Technology (華中科技大學) and a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院).

LIU Enlong (劉恩龍), aged 55, is an Executive Vice President of the Company, and is responsible for the Americas market, as well as supporting marketing and key accounts work, and supporting the CTO on technology cooperation work. Mr. Liu joined the Group in 2010. Prior to joining the Group, Mr. Liu was employed by Canadian Energy Technology Company in 2005 responsible for technical services, employed by CNPC between 1982 and 2001, and was appointed as the Deputy Manager and Chief Engineer of Tarim Oilfield No.4 Exploration Corporation (塔里木油田第四勘探公司) in 1997. He has more than 34 years of experience in the petroleum industry. Mr. Liu has a bachelor's degree in well bore engineering from Jianghan Petroleum Institute (江漢石油學院) and is also a senior engineer in well bore engineering.

COMPANY SECRETARY

Dr. NGAI Wai Fung (魏偉峰), aged 54, is the Company Secretary of the Company. Dr. Ngai currently is the director and chief executive officer of SW Corporate Services Group Limited. Dr. Ngai has over 24 years' experience and knowledge in senior management and professional matters in listed companies, including IPO, Merger and Acquisition, corporate financing, internal control, governance and company secretary etc. Dr. Ngai is a fellow of the Hong Kong Institute of Chartered Secretaries and a fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom. He also is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Dr. Ngai obtained a Doctorate in Finance from the Shanghai University of Finance and Economics, a Master's degree in Corporate Finance from the Hong Kong Polytechnic University, a Master's degree in Business Administration (MBA) from Andrews University of the United States and a Bachelor's degree (Honours) in Law from the University of Wolverhampton, the United Kingdom.

Corporate Governance Report

Since the listing of its shares on the Stock Exchange on 14 December 2007, the Company is committed to maintaining high standard of corporate governance and has adopted the code provisions (the "Code Provision(s)") under Appendix 14 to the Listing Rules as its own code. The Company has been in compliance with all the applicable Code Provisions (other than those deviating from the Code Provision A.2.1) for the year ended 31 December 2015.

Under the structure of the existing Board of Directors, there are three Executive Directors and three Independent Non-executive Directors to ensure the independent and objective running of the Board, and the relevant Board committees play an important role in the Company's decision-making, monitoring and advisory work.

CORPORATE GOVERNANCE STRUCTURE

As the core of corporate governance for the Company, the Board has distinct duties from those of the management. The Board is responsible for providing direction to and effective supervision of the management, while the management is in charge of executing established strategies and directions. Generally speaking, the Board is responsible for:

- formulating long term strategies of the Group and supervising their execution, its subsidiaries and associated companies;
- approval of operational plan and financial budget;
- approval of the relevant annual and interim results;
- reviewing and monitoring the risk management and internal control of the Group; and
- ensuring good corporate governance and compliance.

The Board authorised the management to execute established strategies and directions of the Group, the management is in charge of the Group's daily operation and reports to the Board. Accordingly, the Board has set out clear written guidelines, in particular, it clearly determined the scope of authority of the management, and those items requiring the Board's approval.

There are agreed procedures for the Directors, upon reasonable request, to seek independent professional advice at the Company's expense in appropriate circumstances.

BOARD OF DIRECTORS

Board Composition

The constitution of Board adheres strictly to the principle of ensuring balance, fairness and diversity in the backgrounds of our Board members, and the Board strives to recruit the most suitable candidates to lead the Group towards a rapid and healthy growth. As at the date of this Annual Report, the Board currently comprises three Executive Directors namely, Mr. Luo Lin, Mr. Wu Di and Mr. Pi Zhifeng, and three Independent Non-executive Directors namely, Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai. The Chairman of the Board is Mr. Luo Lin. The background of these Directors brings different expertise and experiences to the Board. The biographical details of all the Directors are set out under the section headed "Profiles of Directors and Senior Management" of this Annual Report.

To the best knowledge of the Company, there is no relationship (including financial, business, family or other material relationship) among members of the Board.

Board Diversity

The Board recognised the benefits of diversity in the Board in enhancing the Board's effectiveness. In this regard, the Board has adopted a Board Diversity Policy (the "Board Diversity Policy") in August 2013 which sets out the approach to achieve diversity on the Board. The Nomination Committee will give consideration to a number of factors as set out in the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service. The Board is considered well balanced and of a diverse mix appropriate for the needs of the Company. The Company will also take into account its own business model and specific needs from time to time to determine the optimal composition of the Board. The Nomination Committee will review the Board Diversity Policy on a regular basis to ensure its continued effectiveness.

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. During the year ended 31 December 2015, the Company has not separated the Chairman's and Chief Executive Officer's duties and Mr. Luo Lin served as both Chairman and Chief Executive Officer.

From 4 February 2016, Mr. Pi Zhifeng has been appointed as the Chief Executive Officer and Mr. Luo Lin only serve as the Chairman of the Company. As the Chairman of the Board of the Group, Mr. Luo Lin will continue to provide leadership for the Board of the Group to ensure that it performs its responsibilities and provide decision and supervision on development strategies, operational plans, financial control and human resources management of the Company; and Mr. PI Zhifeng will be specifically responsible for the day-to-day management of the Group. With the roles of Chairman and Chief Executive Officer served by two individuals, the Company is in compliance with Code Provision A.2.1 from 4 February 2016.

Independence of Independent Non-Executive Directors

The Company has received annual confirmation of independence from all the Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Consequently, the Board is of the opinion that all the current Independent Non-executive Directors comply with the relevant guidelines set out in Rule 3.13 of the Listing Rules, thus the Company regards all the Independent Non-executive Directors as independent parties.

During the year, the Company has complied with the requirements of Rule 3.10 of the Listing Rules and has at least three Independent Non-executive Directors, including one Independent Non-executive Director, Mr. Zhu Xiaoping, with appropriate professional qualifications or accounting or related financial management expertise. Throughout the year, the Board has at least one-third in number of its members comprising Independent Non-executive Directors in compliance with Rule 3.10A of the Listing Rules.

All the Independent Non-executive Directors have served the Board since 17 November 2007. They will serve as an Independent Non-executive Director for more than 9 years in November 2016 after re-election as a Director in the forthcoming annual general meeting of the Company. During their years of appointment, Mr. Zhang Yongyi, Mr. Zhu Xiaoping and Mr. Wang Mingcai have demonstrated their ability to provide an independent view to the Company's matters. Notwithstanding their years of service as Independent Non-executive Directors, the Board is of the view that they are able to continue to fulfill their role as required and thus recommends them for re-election at the annual general meeting of the Company.

Appointment And Re-Election of The Directors

The term of the appointment for the Executive Directors is three years and for the Independent Non-executive Directors is one year. According to the Company's Articles of Association, at every annual general meeting of the Company, one-third of the current Directors shall retire from office by rotation (or if the number of the Directors is not three or a multiple of three, then the nearest but not less than one-third) provided that each Director (including those appointed for a specific term but not including those appointed to fill a casual vacancy or as an addition to the existing Board in accordance with Articles 114 and 115) must retire by rotation at least once every three years. The retiring Directors can be re-elected and continue to participate in the relevant meeting in the capacity as Director.

The newly appointed Directors will receive induction packages containing the duties and responsibilities of directors under the Listing Rules and other applicable rules and regulations.

The Company has arranged appropriate insurance cover to indemnify the Directors and officers of the Group for their potential liabilities incurred by them in discharging their duties.

Corporate Governance Functions

The Board has adopted the written terms of reference on corporate governance functions in March 2012 so as to perform corporate governance functions effectively. The relevant authority and duties are clearly set out in its terms of reference which are summarized as follows:

(a) To develop and review the Company's corporate governance policies and implementation on corporate governance;

(b) To review and monitor the training and continuous professional development of Directors and senior management;

(c) To review and monitor the Company's policies and implementation on compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) To review the Company's compliance with the Code Provisions and disclosure in the Corporate Governance Report.

The following is a summary of the work performed by the Board on corporate governance functions during 2015:

(a) Reviewed the Company's corporate governance policy and the implementation thereof;

(b) Reviewed and monitored the code of conduct and compliance manual applicable to the Directors and employees;

(c) Reviewed the Company's compliance with the Code Provisions; and

(d) Reviewed the Board composition.

DIRECTORS' SECURITIES TRANSACTIONS

The Directors have adopted the Model Code (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of practice for carrying out securities transactions by the Directors. After specific enquiry with all members of the Board, the Company confirms that all the Directors have fully complied with the required standards stipulated in the Model Code during the year.

CONTINUOUS PROFESSIONAL DEVELOPMENT

During the year ended 31 December 2015, the Directors confirmed that they have complied with the Code Provision A.6.5 on Directors' training. During the year, all the Directors have participated in continuous professional development by attending seminars and/or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company.

Name of Directors	Topics on training covered (Notes)	Hours spent
Mr. Luo Lin	C, L, R	7
Mr. Liu Enlong (resigned on 25 March 2015)	C, L, R	2
Mr. Wu Di	C, L, R	7
Mr. Jean Francois Poupeau (resigned on 16 January 2015)	C, L, R	2
Mr. Pi Zhifeng	C, L, R	7
Mr. Zhang Yongyi	C, L, R	7
Mr. Zhu Xiaoping	C, L, R	7
Mr. Wang Mingcai	C, L, R	7

Notes:

C: Corporate governance

L: Listing Rules updates

R: Other relevant regulatory updates

BOARD/BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

The Company has set up the Audit Committee, Remuneration Committee and Nomination Committee on 17 November 2007 and set up QHSE (Quality, Health, Safety, Environment) committee on 21 January 2013. During the reporting year, the Company had convened 8 Board meetings,2 Audit Committee meetings, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and 1 QHSE committee meeting. Also, the Company had convened an Annual General Meeting during the reporting year.

Attendances of meetings by the Directors during the year were set out in the table below:

	Meeting attendance/number of meetings					
Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	QHSE Committee Meeting	Annual General Meeting
Executive Directors						
Mr. Luo Lin (Chairman of the Board)	8/8	N/A	1/1	1/1	1/1	1/1
Mr. Wu Di	8/8	N/A	N/A	N/A	N/A	1/1
Mr. Liu Enlong (resigned on 25 March 2015)	2/8	N/A	N/A	N/A	N/A	N/A
Mr. Pi Zhifeng (Chief Executive Officer)	8/8	N/A	N/A	N/A	1/1	1/1
Non-executive Director						
Mr. Jean Francois Poupeau (resigned on 16 January 2015)	1/8	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Zhang Yongyi	8/8	2/2	N/A	1/1	N/A	1/1
Mr. Zhu Xiaoping	8/8	2/2	1/1	N/A	N/A	1/1
Mr. Wang Mingcai	8/8	2/2	1/1	1/1	N/A	1/1

In addition to the Board Meetings for results announcement, which are held twice per year, the Company also holds Board Meetings every quarter (the "Quarterly Meetings") to better exercise the strategic and monitoring roles of the Board. Senior management is invited to attend to enhance Board and management communications. The Quarterly Meetings mainly focus on key issues in four areas, i.e. strategic work, operation status, financial operation and budgeting, and capital market. Each quarter, a summary report is made on these four areas in the previous quarter and discussions are conducted on the plans in these areas for the next quarter. During the year, the dates of holding the Quarterly Meetings were set out as follows:

	1st Quarterly Meeting	2nd Quarterly Meeting	3rd Quarterly Meeting	4th Quarterly Meeting
Date	16 Jan 2015	16 April 2015	20 July 2015	17 Oct 2015

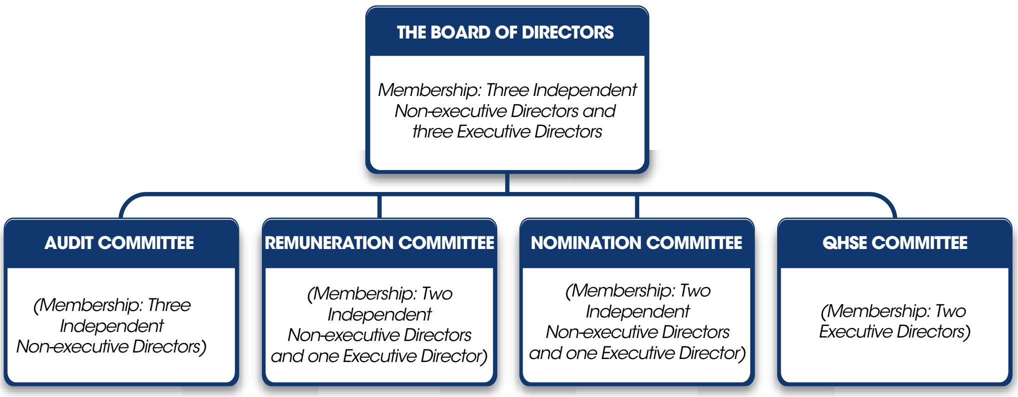
MONTHLY MANAGEMENT REPORT

During the inter-sessional period, each Executive Director receives a copy of the financial report and the management report each month, and holds business meetings with the management to obtain information of monthly operating conditions, monitor business progress, and mentor the management with effective planning.

BOARD COMMITTEES

The Board has established the Audit Committee, Remuneration Committee and Nomination Committee (all chaired by Independent Non-executive Director) with defined terms of reference (available on the Company's website) since the listing of the Company, which are on no less exacting terms than those set out in the Corporate Governance Code.

In addition, the Board has also established QHSE (Quality, Health, Safety, Environment) Committee on 21 January 2013.



Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. To further reinforce independence and effectiveness, all the Audit Committee members are the Independent Non-executive Directors, and the Nomination and Remuneration Committees have been structured with a majority of the Independent Non-executive Directors as members since their establishment in November 2007.

Audit Committee

The Company has set up the Audit Committee since 17 November 2007 which took effect upon listing of the Company.

There are three members in the Audit Committee, all of them are the Independent Non-executive Directors, namely Mr. Zhu Xiaoping, Mr. Zhang Yongyi and Mr. Wang Mingcai. Mr. Zhu Xiaoping is the Chairman of the Audit Committee. Mr. Zhu Xiaoping has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 (2) of the Listing Rules. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Audit Committee are as follows:

(a) To monitor the relationship between the Company and the external auditors, make proposals to the Board on the appointment, renewal and dismissal of the external auditors of the Group as well as the relevant remuneration and terms of appointment;

(b) To review the Company's financial information; and

(c) To oversee of the Company's financial reporting system and internal control procedures.

The Audit Committee held 2 meetings during 2015 and the following major matters were reviewed and discussed in the meetings:

(a) Reviewed the Group's annual results of 2014 and the interim results of 2015 and made recommendations to the Board for approval;

(b) Made recommendation on the re-appointment of the auditor; and

(c) Reviewed the financial reporting system and the internal control system.

Remuneration Committee

The Company has set up the Remuneration Committee since 17 November 2007 which took effect upon listing of the Company. The Remuneration Committee comprises two Independent Non-executive Directors, Mr. Wang Mingcai and Mr. Zhu Xiaoping, and one Executive Director, Mr. Luo Lin. Mr. Wang Mingcai is the Chairman of the Remuneration Committee. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Remuneration Committee are as follows:

(a) To review and recommend the terms of remuneration, benefits, bonus and other allowances of the Directors and senior management;

(b) To submit proposals to the Board on the remuneration policy and structure of all the Directors and senior management; and

(c) To approve and monitor the execution of the Company's Share Option Scheme.

The Board has authority to approve the recommendations made by the Remuneration Committee.

The Remuneration Committee held 1 meeting during 2015 and the following major matters were reviewed and discussed in the meeting:

(a) The general compensation policy of the Company during the year; and

(b) Change of salary structure

Nomination Committee

The Company has set up the Nomination Committee since 17 November 2007 which took effect upon listing of the Company. The Nomination Committee is composed of two Independent Non-executive Directors, Mr. Zhang Yongyi and Mr. Wang Mingcai, and one Executive Director, Mr. Luo Lin. Mr. Zhang Yongyi is the Chairman of the Nomination Committee. The authority and duties of this Committee are clearly set out in its terms of reference.

The major roles and functions of the Nomination Committee are as follows:

(a) To review the structure, number and composition and diversity of the Board and make recommendation to the Board on the policy and procedures for the nomination of Directors;

(b) To identify individuals suitably qualified to become Board members and may select individuals nominated for directorship, and consider individuals on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

(c) To make recommendations to the Board on the appointment or re-appointment of Directors, succession planning for Directors, in particular the chairman and the chief executive;

(d) To review the independence of the Independent Non-executive Directors and submit proposals to the Board; and

(e) To review the Board Diversity Policy in particular the measurable objectives contained therein to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained.

The Nomination Committee held 1 meeting during 2015 and the following major matters were reviewed and discussed in the meeting:

(a) Reviewed the structure, number and composition and diversity of the Board; and

(b) Change of director.

QHSE (Quality, Health, Safety, Environment) Committee

The Company set up the QHSE Committee on 21 January 2013. The QHSE Committee is composed of two Executive Directors, Mr. Luo Lin and Mr. Pi Zhifeng. Mr. Pi Zhifeng is the Chairman of the QHSE Committee. The QHSE Committee is tasked with the responsibilities of providing guidance and advice on the quality, health, safety and environment (QHSE) strategies of the Group. QHSE represents an important standard for oilfield services industry. The Company strives to introduce international standards to enhance its service level at home and abroad. The QHSE Committee meets at least once every year.

The major roles and functions of the QHSE Committee are as follows:

(a) To assist the Board to review the current status of the Group's QHSE performance;

(b) To assist the Board with oversight of the Group's QHSE management, reporting processes and systems;

(c) To assist the Board to formulate the Group's QHSE plans and supervise its effective implementation; and

(d) To make recommendations to the Board in respect of matters affecting the Group's QHSE standards.

The QHSE Committee held 1 meeting during the year to reviewing and discuss the Company's work on QHSE and planning the forthcoming work.

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to Code B.1.5 of the Code Provisions, the remuneration of the members of the senior management by band for the year ended 31 December 2015 was set out below:

Remuneration band	Number of individuals
RMB100,001 to RMB500,000	1
RMB500,001 to RMB1,000,000	3
RMB1,000,001 to RMB1,500,000	3
RMB1,500,001 to RMB2,000,000	3

ACCOUNTABILITY AND AUDIT

The Directors understand that they must assume the responsibility of preparing the financial accounts of each year. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis.

The declaration of duties by the Auditors of the Group on the Group's financial statements is contained on pages 61 and 62 of the Independent Auditor's Report.

The Group has set up the Internal Audit Department, the Legal Department and the Quality Control Department in charge of the internal control and risk management duties. The Executive Directors of the Company receive internal financial report and management report every month for monitoring the operational progress of each business department and making reasonable planning.

During the year, the Group had reviewed its internal control system. Based on the review, the Board was satisfied with the effectiveness of the current internal control system of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's activity and financial reporting function.

AUDITOR'S REMUNERATION

An analysis of the remuneration for audit and non-audit services provided by the auditor appointed by the Group during the year is as follows:

	2015 RMB '000
Audit services	**5,330**
Non-audit services	**80**
Total:	**5,410**

COMPANY SECRETARY

The Company Secretary is Dr. Ngai Wai Fung ("Dr. Ngai"), who has been appointed by the Board. Dr. Ngai is the director and chief executive officer of a corporate service provider, SW Corporate Services Group Limited. The primary corporate contact person at the Company is Mr. Pi Zhi Feng, the Executive Director.

Dr. Ngai has taken no less than 15 hours of relevant professional training during the year ended 31 December 2015 in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company encourages shareholders to attend shareholders' meetings. Directors, chairman of each of Audit Committee, Remuneration Committee, Nomination Committee (or a delegated member of the Committee), chairman of the independent board committee (if any) and management will attend the annual general meeting of the Company to answer queries about the Group's business.

In 2015, the Company had convened one annual general meeting (the "2015 AGM"). The 2015 AGM provided an ideal chance for communication between the Board and the shareholders. The Chairmen of the Board, Audit Committee, Remuneration Committee and Nomination Committee and the Company's external auditor were all present at the AGM held on 26 May 2015, to answer shareholders' inquiries.

THE PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING ("EGM")

Pursuant to the Article 79 of the Articles of Association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee (s)) holding at the date of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company shall deposit the written requisition at the principal office of the Company in Hong Kong, which is presently situated at unit 2109, Cosco Tower, 183 Queen's Road Central, Hong Kong, specifying the objects of the meeting and signed by the requisitionist(s) (the "Requisitionist(s)").

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene a meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months form the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist (s) as a result of the failure of the Board shall be reimbursed to them by the Company.

THE PROCEDURES AND CONTACT DETAILS FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETING

The annual general meeting and other general meetings provide an important opportunity for shareholders to express their views and the Company encourages and promotes shareholder attendance and participation at general meetings.

The Board members, in particular, the chairman or his delegates, appropriate members of management team and external auditors of the Company will attend annual general meetings to answer shareholders' questions.

Shareholders attending at the annual general meeting and other general meetings are allowed to have a reasonable opportunity to ask questions regarding the items on the meeting agenda, including but not limiting to questions to the external auditor regarding the conduct of the audit and the preparation and content of the auditor's report.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year ended 31 December 2015.

THE PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD AND SUFFICIENT CONTACT DETAILS TO ENABLE THESE ENQUIRIES TO BE PROPERLY DIRECTED

Shareholders, investors and members of the public should direct their questions about their shareholdings to the Company's Branch Share Registrar in Hong Kong. The contact details for the Share Registrar are:

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Telephone: (852) 2862 8628
Fax: (852) 2865 0990
Website: www.computershare.com

To contact the Company in relation to your query about the Company, the contact details are as follows:

Tel: (86 10) 5739 7584
(852) 2907 7108
Email: ir@antonoil.com

DISCLAIMERS

The information contained in the section headed "Shareholders' Rights" in this Annual Report is for reference only and does not represent and shall not be regarded as legal or professional advice to the shareholders. Shareholders should seek their own independent legal advice as to their rights as shareholders of the Company. The Company disclaims any and all liabilities and losses that may be incurred by the shareholders for using or relying on any information contained in the section headed "Shareholders' Rights" in this Annual Report.

FINANCIAL CALENDAR 2016

Announcement of 2015 Results

28 March 2016

Last Day to Register for Attending 2016 Annual General Meeting

23 May 2016

2016 Annual General Meeting

26 May 2016

Employee Relations

GROUP

In face of the tough market, the Group strengthened comprehensive management of talents in 2015, washed out employees who ranked bottom in attitude and capacity for their positions and continuously promoted the optimization and simplification of employees. At the same time, through reinforcing internal allocation of employees and allocating appropriate talent to positions in need, the Group improved the efficiency of human resource management and controlled the amount of staff numbers to reduce labour.

SYSTEM

In 2015, the Group made strategic adjustment on institutional framework, integrated original production line and built three business clusters including well drilling, well completion and oil production, improved the comprehensive strength of each business sector and the efficiency in organization and management of production, thus realized better synergetic development among different industries and reduced the cost; integrated the domestic market, realized resource sharing, meanwhile sank in the business, enhanced the operation responsibilities of regional companies and completed the management of regional production; compressed the administrative institutions and posts, further optimized the allocation. At the same time, in accordance to the human resource informatization plan, through implementing the remuneration system of the Group, realized the perfect joint between human resource information system and financial system, strengthened the function of human resource database and promoted the level and efficiency of human resource management of the Group.

In December 2015, the Group was named 'The Best Model Enterprise in Human Resource of China' by 51 job for four consecutive years and won the individual award-'Best Model in Organization Development Strategy' for two consecutive years.

RECRUITMENT AND DISCOVERY OF TALENTS

In 2015, under the circumstance of the industry downturn, the Group still insisted the 'talent first' strategy, focused on recruiting leading and professional talents with global competence, supported the development of oversea business, and continued to enhance the force of local recruitment of oversea mature markets like Iraq, etc. Meanwhile, to further support the construction of production lines like remedial work etc., the Group focused on the introduction of high-end technical talents.

TRAINING

The Group insisted on the self-development of talents, built and gradually completed the Anton training system based on the establishment of "Anton College", expanded the sharing and using of the internal training resource and formed comparatively normative and systematic employee training method. At the same time, the Group focused on training international talents and senior project management talents to support the strategic development need of the Group.

EMPLOYEE RELATIONSHIP

In 2015, to better implement the value of Anton Oil and enforce the sense of corporative culture identity, the Group further concluded and extracted on the basis of current human resource system and policy, formed the 'Assembly of Basic Quality Requirements of Anton Employee and Appraisal System Documents', and organized specific learning activities against the Assembly, through combining the launching learning will and online test, greatly improved employee's understanding of corporative value and identity of corporation.

羅兵咸永道

Independent Auditor's Report
To the Shareholders of Anton Oilfield Services Group
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Anton Oilfield Services Group (the "Company") and its subsidiaries set out on pages 63 to 130, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated 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 judgment, 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 of consolidated financial statements that give a true and fair view 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 the directors, 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 audit opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
Tel: +852 2289 8888, Fax: +852 2810 9888, www.pwchk.com

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2016

Consolidated Balance Sheet

As at 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	As at 31 December 2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,355,538**	2,293,382
Land use rights	7	**59,893**	61,049
Intangible assets	8	**379,538**	392,389
Investments in joint ventures	10	**4,000**	5,042
Prepayments and other receivables	14	**132,693**	37,194
Other non-current assets	11	**67,255**	88,555
Deferred income tax assets	22	**64,659**	57,341
		3,063,576	2,934,952
Current assets			
Inventories	12	**834,223**	709,707
Trade and notes receivables	13	**1,284,354**	1,588,170
Prepayments and other receivables	14	**373,603**	418,267
Restricted bank deposits	15	**158,246**	72,310
Term deposits with initial terms of over three months	15	**11,000**	8,010
Cash and cash equivalents	15	**458,158**	759,751
		3,119,584	3,556,215
Total assets		**6,183,160**	6,491,167

As at 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	As at 31 December 2015	2014
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	**207,629**	206,879
Reserves			
– Proposed final dividend	30	**-**	–
– Others	17	**1,686,397**	1,847,012
		1,894,026	2,053,891
Non-controlling interests		**65,586**	94,865
Total equity		**1,959,612**	2,148,756
LIABILITIES			
Non-current liabilities			
Long-term bonds	18	**1,584,635**	1,696,519
Deferred income tax liabilities	22	**4,375**	3,968
		1,589,010	1,700,487
Current liabilities			
Short-term borrowings	19	**675,000**	693,912
Current portion of long-term bonds	18	**199,514**	299,583
Trade and notes payables	20	**580,348**	694,753
Accruals and other payables	21	**1,154,958**	907,787
Current income tax liabilities		**24,718**	45,889
		2,634,538	2,641,924
Total liabilities		**4,223,548**	4,342,411
Total equity and liabilities		**6,183,160**	6,491,167

The notes on page 69 to 130 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 28 March 2016 and were signed on its behalf.

Executive Director

Executive Director

Consolidated Income Statement

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	Year ended 31 December **2015**	2014
Revenue	23	**1,833,006**	2,071,205
Cost of sales	24	**(1,250,315)**	(1,425,762)
Gross profit		**582,691**	645,443
Other gains/(losses), net	25	**20,689**	(1,839)
Selling expenses	24	**(137,463)**	(190,857)
Administrative expenses	24	**(338,951)**	(361,217)
Research and development expenses	24	**(18,916)**	(37,592)
Sales tax and surcharges	24	**(15,576)**	(15,964)
Operating profit		**92,474**	37,974
Interest income	26	**4,409**	14,234
Finance expenses	26	**(259,179)**	(192,698)
Finance costs, net	26	**(254,770)**	(178,464)
Share of loss of joint ventures	10	**(1,042)**	(19,060)
Loss before income tax		**(163,338)**	(159,550)
Income tax expense	28	**(31,910)**	(31,255)
Loss for the year		**(195,248)**	(190,805)
Loss attributable to:			
Equity holders of the Company		**(194,731)**	(198,213)
Non-controlling interests		**(517)**	7,408
		(195,248)	(190,805)
Loss per share for loss attributable to the equity holders of the Company for the year (expressed in RMB per share)			
– Basic	29	**(0.0878)**	(0.0902)
– Diluted	29	**(0.0878)**	(0.0902)

The notes on page 69 to 130 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	Year ended 31 December **2015**	2014
Loss for the year		**(195,248)**	(190,805)
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss			
Net investment hedge	17	**(54,110)**	–
Currency translation differences		**65,035**	202
Other comprehensive income for the year, net of tax		**10,925**	202
Total comprehensive loss for the year		**(184,323)**	(190,603)
Total comprehensive loss attributable to:			
– Equity holders of the Company		**(183,806)**	(198,011)
– Non-controlling interests		**(517)**	7,408
		(184,323)	(190,603)

The notes on page 69 to 130 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

		Attributable to the equity holders of the Company								
	Note	Share capital	Share premium	Capital reserve	Statutory reserve	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
Balance at 1 January 2014		**202,983**	**494,539**	**368,210**	**77,756**	**1,165,035**	**(25,848)**	**2,282,675**	**92,622**	**2,375,297**
Comprehensive income										
Loss for the year		–	–	–	–	(198,213)	–	(198,213)	7,408	(190,805)
Other comprehensive income										
Currency translation differences		–	–	–	–	–	202	202	–	202
Total comprehensive income		**-**	**-**	**-**	**-**	**(198,213)**	**202**	**(198,011)**	**7,408**	**(190,603)**
Transactions with owners in their capacity as owners										
Share option scheme	16(b)	–	–	32,291	–	–	–	32,291	–	32,291
Share option exercised	16(b)	4,227	81,947	(21,342)	–	–	–	64,832	–	64,832
Repurchase and cancellation of shares	16(a)	(331)	(5,097)	–	–	–	–	(5,428)	–	(5,428)
Capital injection		–	–	–	–	–	–	–	6,590	6,590
Dividends	30	–	(122,468)	–	–	–	–	(122,468)	(11,755)	(134,223)
Total transactions with owners, recognised directly in equity		**3,896**	**(45,618)**	**10,949**	**-**	**-**	**-**	**(30,773)**	**(5,165)**	**(35,938)**
Balance at 31 December 2014		**206,879**	**448,921**	**379,159**	**77,756**	**966,822**	**(25,646)**	**2,053,891**	**94,865**	**2,148,756**
Balance at 1 January 2015		**206,879**	**448,921**	**379,159**	**77,756**	**966,822**	**(25,646)**	**2,053,891**	**94,865**	**2,148,756**
Comprehensive income										
Loss for the year		–	–	–	–	(194,731)	–	(194,731)	(517)	(195,248)
Other comprehensive income										
Net investment hedge		–	–	–	–	–	(54,110)	(54,110)	–	(54,110)
Currency translation differences		–	–	–	–	–	65,035	65,035	–	65,035
Total comprehensive income		–	–	–	–	(194,731)	10,925	(183,806)	(517)	(184,323)
Transactions with owners in their capacity as owners										
Share option scheme	16(b)	–	–	14,571	–	–	–	14,571	–	14,571
Share option exercised	16(a)	750	11,982	(3,362)	–	–	–	9,370	–	9,370
Dividends	30	–	–	–	–	–	–	–	(28,762)	(28,762)
Total transactions with owners, recognised directly in equity		**750**	**11,982**	**11,209**	**-**	**-**	**-**	**23,941**	**(28,762)**	**(4,821)**
Balance at 31 December 2015		**207,629**	**460,903**	**390,368**	**77,756**	**772,091**	**(14,721)**	**1,894,026**	**65,586**	**1,959,612**

The notes on page 69 to 130 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Cash flows from operating activities			
Net cash inflows/(outflows) from operations	31	**407,797**	(390,567)
Interest paid		**(194,812)**	(172,168)
Interest received		**4,409**	14,234
Income tax paid		**(59,992)**	(71,384)
Net cash generated from/(used in) operating activities		**157,402**	(619,885)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(174,448)**	(461,970)
Proceeds from disposal of property, plant and equipment		**79,498**	4,244
Purchase of land use rights		**(180)**	(10,748)
Purchase of intangible assets		**(35,208)**	(89,165)
Acquisition of subsidiaries		**-**	(2,670)
Investment in a joint venture	10	**-**	(7,326)
Increase in term deposits		**(2,990)**	(8,010)
Net cash used in investing activities		**(133,328)**	(575,645)
Cash flows from financing activities			
Proceeds from short-term borrowings		**841,236**	891,500
Repayments of short-term borrowings		**(860,148)**	(632,026)
Repayments of long-term bonds		**(300,000)**	–
Repurchase of long-term bonds		**(8,521)**	–
Repayments of sale and leaseback liability		**-**	(5,558)
Capital injection from non-controlling interests		**-**	6,590
Proceeds from share options exercised	16(b)	**9,370**	65,445
Dividends distribution		**(11,395)**	(127,468)
Repurchase of own shares	16(a)	**-**	(5,428)
Net cash (used in)/generated from financing activities		**(329,458)**	193,055
Net decrease in cash and cash equivalents		**(305,384)**	(1,002,475)
Cash and cash equivalents, at beginning of the year		**759,751**	1,770,155
Exchange gain/(loss) on cash and cash equivalents		**3,791**	(7,929)
Cash and cash equivalents at end of the year		**458,158**	759,751

The notes on page 69 to 130 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendments from annual improvements to IFRS-2010-2012 Cycle, on IFRS 8, "Operating segments", IAS 16, "Property, plant and equipment" and IAS 38, "Intangible assets" and IAS 24, "Related party disclosures".

Amendments from annual improvements to IFRS-2011-2013 Cycle, on IFRS 3, "Business combinations" and IFRS 13, "Fair value measurement".

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(b) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(c) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IAS 9's full impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(c) *New standards and interpretations not yet adopted (Continued)*

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IAS 15.

IFRS 16, "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 "Leases", and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 "Revenue from contracts with customers" at the same time. The Group is currently assessing the impact of IFRS 16.

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

2.1.1 Change in accounting estimate

Useful lives of the Group's assets are subject to regular review by management. Prior to 2015, certain intangible assets, mainly comprising patents and computer software, were amortised at the estimated useful lives of 3 to 8 years and 5 years respectively. After a review, as these assets are still generating economic benefits to the Group, management has determined that the estimated useful lives of these assets are extended to 10 years with effect from 1 January 2015.

The effect of extension has been applied on a prospective basis. As a result of this change, amortisation for the year has been reduced by approximately RMB7,976,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer, vice presidents and directors who make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income as qualifying, cash flow hedges and qualifying net investment hedge.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over joint ventures that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress represents property, plant and equipment under construction and is stated at cost. This includes the costs of construction, machinery and other expenditures necessary for the purpose of preparing the construction-in-progress for its intended use and those borrowing costs incurred before the assets ready for intended use that are eligible for capitalisation. Construction-in-progress is not depreciated until such time as the relevant asset is completed and ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method except for drill pipes are depreciated using unit-of-production method, to allocate their costs to their residual values over their estimated useful lives, as follows:

	Estimated useful life
Buildings	5-50 years
Machinery and equipment	5-10 years
Motor vehicles	5-10 years
Furniture, fixtures and others	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net", in the consolidated income statement.

2.7 Land use rights

Land use rights represent upfront prepayments made for the land use rights and leasehold land located in the PRC, which are classified as operating lease, and are expensed in the consolidated income statement on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the consolidated income statement.

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Computer software

Computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Intangible assets *(Continued)*

(c) Patents

Patents are initially recorded at actual cost incurred to acquire and amortised on a straight-line basis over their estimated useful lives, ranging from 3 to 10 years. Development costs that are directly attributable to the design, development and application of patents are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the patents so that it will be available for use;
- Management intends to complete the patents and use or sell it;
- There is an ability to use or sell the patents;
- It can be demonstrated how the patents will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the patents are available; and
- The expenditure attributable to the patents during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the patent include material costs, patent development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed 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 carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise "term deposits with initial terms of over three months", "restricted bank deposits', "trade and notes receivables", part of "prepayments and other receivables" and "cash and cash equivalents" in the balance sheets.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.4 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a Group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.11 Hedging activities

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Net investment hedge

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in profit or loss.

Gains and losses accumulated in equity are included in the profit or loss when the foreign operation is partially disposed of or sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Pension and other social obligations

The Group has various defined contribution plans for pensions, housing fund and other social obligations in accordance with the local conditions and practices in the municipalities and provinces in which they operate. A defined contribution plan is a pension and/or other social benefits plan under which the Group pays fixed contributions into a separate publicly administered pension and/or other social insurance plan on mandatory bases. The Group will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee benefits *(Continued)*

(b) *Share-based compensation*

The Group operates a number of equity-settled share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period);and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

(a) Sales of goods

Revenue associated with the sales of goods is recognised when the title to the goods, such as drilling tools, tubing and casing, has been passed to the customer, which is at the date when the customer receives and accepts the goods and collectability of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

2.22 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as sale and leasebacks. Sale and leasebacks are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under sale and leasebacks is depreciated over the shorter of the useful life of the asset and the lease term.

2.24 Government grants

Grants from the government are recognised at fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to cost are deferred and recognised in the income statement over the period necessary to match them with the related costs that they are intended to compensate.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposure.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, while the Group also has purchases from and sales to overseas. During the year ended 31 December 2015, the Group developed its businesses overseas with most of the transactions denominated and settled in US dollar ("US$"). Foreign exchange risk also arise from certain bank deposits and borrowings denominated in US$. The Group is exposed to foreign currency exchange risk primarily with respect to US$.

As at 31 December 2015, if RMB had strengthened/weakened by 3% (31 December 2014: 3%) against the US$ with all other variables held constant, loss before income tax for the year would have been RMB33,194,000 (2014: RMB41,229,000) lower/higher mainly as a result of foreign exchange losses/gains on translation of US$-denominated cash and cash equivalent, trade receivables, accruals, other payables and long-term bonds.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term bonds and short-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Long-term bonds obtained at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2015, if interest rates on floating interest borrowings at that date had been higher/lower 100 basic points (31 December 2014: 100 basic points), loss before income tax for the year would have been RMB5,294,000 (2014: RMB4,356,000) higher/lower.

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

A considerable portion of sales were made to the several major oilfield operators of the PRC and their affiliates, which are state-owned entities with good credit reputation, therefore the trade receivables of the Group had concentration risk (Note 5). Most of the Group's cash and cash equivalents were placed with state-owned banks in the PRC and Hong Kong, the relevant credit risk is relatively low.

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated primarily from operating and financing activities.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	As at 31 December 2015		
	Within 1 year	**1-2 years**	**Over 2 years**
Short-term borrowings	**700,300**	**-**	**-**
Trade and notes payables	**580,348**	**-**	**-**
Accruals and other payables	**987,344**	**-**	**-**
Current portion of long-term bonds	**214,600**	**-**	**-**
Long-term bonds	**120,781**	**120,781**	**1,731,194**
	2,603,373	**120,781**	**1,731,194**

	As at 31 December 2014		
	Within 1 year	1-2 years	Over 2 years
Short-term borrowings	729,063	–	–
Trade and notes payables	694,753	–	–
Accruals and other payables	767,710	–	–
Current portion of long-term bonds	319,770	–	–
Long-term bonds	129,331	329,331	1,816,578
	2,640,627	329,331	1,816,578

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include borrowings, bonds and trade and notes payables, as shown in the consolidated balance sheet. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus total borrowings.

The gearing ratios 31 December 2015 and 2014 are as follows:

	As at 31 December	
	2015	2014
Total borrowings	**3,039,497**	3,384,767
Total equity	**1,959,612**	2,148,756
Total capital	**4,999,109**	5,533,523
Gearing ratio	**61%**	61%

3.3 Fair value estimation

The carrying amounts of long-term bonds approximated their fair values as the fluctuation of comparable interest rates with similar terms is relatively low.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the key assumption used by the management in goodwill impairment assessment are set out in Note 8.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Useful lives of patents

The Group's management decided the estimated useful lives of patents and respective amortisation. The expected economic useful lives of patents can be significantly different following technology innovation and development. When the expected economic useful lives differ from the original estimates, management will adjust the useful lives accordingly. It is possible that the estimates made based on existing experience are different to the actual outcomes within the next financial period and could cause an adjustment to the amortisation and carrying amount of patents.

(c) Impairment of trade receivables

The Group's management makes provision for doubtful debts based on the assessment of the recoverability of trade receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

(d) Income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred income tax assets, the Group has assessed the likelihood that the deferred income tax assets could be recovered. Deferred income tax assets mainly relate to deductible tax losses and provision for impairment of receivables and inventories not yet deductible for tax purposes. Deferred income tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

The Group believes it has recorded adequate current tax provision and deferred income taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to current and deferred income taxation may be necessary which would impact the Group's results or financial position.

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

5. SEGMENT INFORMATION

The chief executive officer, executive vice presidents and directors are the Group's chief operating decision-makers. Management has determined the operating segments based on the information reviewed by the chief operating decision makers for the purposes of allocating resources and assessing performance.

The Group's reportable segments are entity or group of entities that offer different products and services, which is the basis by which the chief operating decision makers make decisions about resources to be allocated to the segments and assesses their performance. Financial information of these entities has been separated to present discrete segment information to be reviewed by the chief operating decision makers.

During the year end 31 December 2015, the chief operating decision makers assess performance of three reportable segments: drilling technology, well completion and oil production services, which is different from the segment categorisaiton in prior years according to the restructuring of internal management and reporting structure. The segment information of comparative period has been restated to conform to the current year categorisation.

The measurement of profit or loss, assets and liabilities of the operating segments are the same as those described in the summary of significant accounting policies. The chief operating decision makers evaluate the performance of the operating segments based on profit or loss before income tax expense, depreciation and amortisation, interest income, finance expenses, share of loss of joint ventures, share-based payments and asset impairment provisions ("EBITDA"). The corporate overheads and corporate assets are the general management expenses and assets incurred and held by the headquarters of the Group.

(Amounts expressed in thousands of RMB, unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

	Drilling technology	Well completion	Oil production services	Total
For the year ended 31 December 2015				
Revenue (Note)	651,965	778,425	402,616	1,833,006
EBITDA	184,417	314,184	156,790	655,391
Depreciation and amortisation	(61,515)	(102,617)	(23,853)	(187,985)
Asset impairment provision of				
– Goodwill	–	–	(26,325)	(26,325)
– Inventories	–	(11,607)	–	(11,607)
– Trade receivables	(1,630)	(619)	(7,472)	(9,721)
Interest income	1	782	–	783
Finance expenses, net	(4,929)	50	–	(4,879)
Share of loss of joint ventures	(1,042)	–	–	(1,042)
Income tax expense	(6,017)	(13,987)	(11,906)	(31,910)
For the year ended 31 December 2014 (Restated)				
Revenue (Note)	753,631	1,110,652	206,922	2,071,205
EBITDA	198,122	375,648	74,845	648,615
Depreciation and amortisation	(83,484)	(107,531)	(16,960)	(207,975)
Asset impairment (provision)/reversal of				
– Inventories	(208)	–	–	(208)
– Trade receivables	1,866	458	216	2,540
Interest income	147	37	41	225
Finance expenses, net	(5,264)	(2,929)	(475)	(8,668)
Share of loss of joint ventures	(19,060)	–	–	(19,060)
Income tax expense	(562)	(23,328)	(7,365)	(31,255)

Note: Sales between segments are carried out at terms mutually agreed between relevant Group entities. The revenue from external parties reported to the chief operating decision makers is measured in a manner consistent with that in the income statement.

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

	Drilling technology	Well completion	Oil production services	Total
As at 31 December 2015				
Total assets	1,567,491	2,841,241	211,503	4,620,235
Total assets include:				
Investments in joint ventures	4,000	–	–	4,000
Capital expenditures	96,586	207,303	7,645	311,534
As at 31 December 2014 (Restated)				
Total assets	1,590,532	2,633,871	320,161	4,544,564
Total assets include:				
Investments in joint ventures	5,042	–	–	5,042
Capital expenditures	690,880	363,422	58,018	1,112,320

Disclosure of liabilities has not been included here because these liabilities balances are not allocated to segments.

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

	Year ended 31 December 2015	2014
EBITDA for reportable segments	**655,391**	648,615
Corporate overheads	**(625,606)**	(572,687)
Depreciation	**(168,983)**	(172,653)
Amortisation	**(19,002)**	(35,322)
Interest income	**783**	225
Finance expenses, net	**(4,879)**	(8,668)
Share of loss of joint ventures	**(1,042)**	(19,060)
Loss before income tax	**(163,338)**	(159,550)

(Amounts expressed in thousands of RMB, unless otherwise stated)

5. SEGMENT INFORMATION *(Continued)*

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

	As at 31 December	
	2015	2014
Assets for reportable segments	**4,620,235**	4,544,564
Corporate assets for general management	**1,562,925**	1,946,603
Total Assets	**6,183,160**	6,491,167

The Group choose to allocate revenue on the basis of the location in which the sale originated.

Geographical Information

	Revenue		Non-current Assets	
	2015	2014	**2015**	2014
PRC	**1,072,081**	1,378,599	**2,568,906**	2,616,340
Iraq	**552,086**	492,506	**410,435**	235,675
Other countries	**208,839**	200,100	**84,235**	82,937
Total	**1,833,006**	2,071,205	**3,063,576**	2,934,952

Client Information

For the year end 31 December 2015, revenues of approximately RMB531,561,000 (2014: RMB544,439,000) were derived from two external customers, which contributed 15.87% and 13.13% (2014:16.22% and 10.07%) to the total revenue respectively. These revenues were mainly attributable to drilling technology and oil production services segments.

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture, fixtures and others	Construction-in-progress	Total
As at 1 January 2014						
Cost	196,865	1,291,327	62,577	48,222	311,044	1,910,035
Accumulated depreciation	(39,028)	(214,507)	(31,491)	(23,323)	–	(308,349)
Net book value	157,837	1,076,820	31,086	24,899	311,044	1,601,686
Year ended 31 December 2014						
Opening net book value	157,837	1,076,820	31,086	24,899	311,044	1,601,686
Additions	11,913	169,946	9,759	21,984	570,802	784,404
Acquisition of subsidiaries	–	134	–	–	114,954	115,088
Transfer in/(out)	63,156	409,454	295	49	(472,954)	–
Depreciation charge	(3,962)	(171,616)	(9,086)	(10,550)	–	(195,214)
Disposals	–	(10,562)	(1,242)	(342)	(436)	(12,582)
Closing net book value	228,944	1,474,176	30,812	36,040	523,410	2,293,382
As at 31 December 2014						
Cost	270,445	1,837,610	67,634	69,741	523,410	2,768,840
Accumulated depreciation	(41,501)	(363,434)	(36,822)	(33,701)	–	(475,458)
Net book value	228,944	1,474,176	30,812	36,040	523,410	2,293,382
Year ended 31 December 2015						
Opening net book value	228,944	1,474,176	30,812	36,040	523,410	2,293,382
Additions	2,345	136,024	5,196	17,878	186,481	347,924
Transfer in/(out)	5,850	134,825	–	9,905	(150,580)	–
Depreciation charge	(11,125)	(171,522)	(9,161)	(14,958)	–	(206,766)
Disposals	(14,651)	(10,181)	(909)	(3,884)	(49,377)	(79,002)
Closing net book value	211,363	1,563,322	25,938	44,981	509,934	2,355,538
As at 31 December 2015						
Cost	257,860	2,051,811	63,693	88,584	509,934	2,971,882
Accumulated depreciation	(46,497)	(488,489)	(37,755)	(43,603)	–	(616,344)
Net book value	211,363	1,563,322	25,938	44,981	509,934	2,355,538

During the year ended 31 December 2015, the depreciation charges of the Group were recorded in cost of sales with an amount of RMB165,887,000 (2014: RMB172,969,000), selling, general and administrative expenses with an amount of RMB14,632,000 (2014: RMB12,956,000), cost of inventories which remained unsold as at year end with an amount of RMB26,247,000 (2014: RMB9,289,000) and respectively.

As at 31 December 2015, short-term borrowings were secured with certain buildings and machinery and equipment with aggregate net book value of RMB178,261,000 (31 December 2014: nil)(Note 19).

During the year ended 31 December 2015, no borrowing costs were capitalised in property, plant and equipment (2014: RMB4,517,000 with the weighted average rate of borrowings at 6.64% per annum).

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

7. LAND USE RIGHTS

As at 1 January 2014	
Cost	25,529
Accumulated amortisation	(3,508)
Net book value	22,021
Year ended 31 December 2014	
Opening net book value	22,021
Additions	10,749
Disposal of a subsidiary	30,574
Amortisation charge	(2,295)
Closing net book value	61,049
As at 31 December 2014	
Cost	66,852
Accumulated amortisation	(5,803)
Net book value	61,049
Year ended 31 December 2015	
Opening net book value	61,049
Additions	180
Amortisation charge	(1,336)
Closing net book value	59,893
As at 31 December 2015	
Cost	67,032
Accumulated amortisation	(7,139)
Net book value	59,893

Land use rights represent the Group's prepayments for the leasehold land located in the PRC which are held on leases with remaining terms within 10 to 50 years.

As at 31 December 2015, land use rights with net book value of RMB11,066,000 (31 December 2014: RMB11,718,000) were pledged as counter-guarantee for short-term borrowing (Note 19).

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

8. INTANGIBLE ASSETS

	Patents	Goodwill	Computer software	Total
As at 1 January 2014				
Cost	155,829	265,697	16,183	437,709
Accumulated amortisation and impairment	(58,068)	–	(4,201)	(62,269)
Net book value	97,761	265,697	11,982	375,440
Year ended 31 December 2014				
Opening net book value	97,761	265,697	11,982	375,440
Additions	27,428	–	25,435	52,863
Acquisition of subsidiaries	–	2,632	5	2,637
Amortisation charge	(20,995)	–	(17,556)	(38,551)
Closing net book value	104,194	268,329	19,866	392,389
As at 31 December 2014				
Cost	183,257	268,329	41,623	493,209
Accumulated amortisation and impairment	(79,063)	–	(21,757)	(100,820)
Net book value	104,194	268,329	19,866	392,389
Year ended 31 December 2015				
Opening net book value	104,194	268,329	19,866	392,389
Additions	25,558	–	10,243	35,801
Impairment provision	–	(26,325)	–	(26,325)
Amortisation charge	(14,187)	–	(8,140)	(22,327)
Closing net book value	115,565	242,004	21,969	379,538
As at 31 December 2015				
Cost	208,815	268,329	51,866	529,010
Accumulated amortisation and impairment	(93,250)	(26,325)	(29,897)	(149,472)
Net book value	115,565	242,004	21,969	379,538

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

8. INTANGIBLE ASSETS *(Continued)*

An operating segment-level summary of the goodwill allocation is presented below.

As at 31 December 2015	**Drilling technology**	**Well completion**	**Oil production services**	**Total**
Shandong Precede Petroleum Technology Co., Ltd. (山東普瑞思德石油技術有限公司, "Shandong Precede")	–	132,486	–	132,486
Screen business	–	106,886	–	106,886
Anton Machinery and Meter Testing Co., Ltd. (安東儀器儀表檢測服務有限公司, 「Anton Testing」, formerly 四川誠量檢測服務有限公司)	2,632	–	–	2,632
	2,632	239,372	–	242,004

As at 31 December 2014	Drilling technology	Well completion	Oil production services	Total
Jilin Dongxin Oil Engineering Technology Co., Ltd. (吉林省東新石油工程技術有限公司, 「Jilin Dongxin」)	–	–	26,325	26,325
Shandong Precede	–	132,486	–	132,486
Screen business	–	106,886	–	106,886
Anton Testing	2,632	–	–	2,632
	2,632	239,372	26,325	268,329

Goodwill is allocated to the cash-generating units of the Group identified according to their operations.

The recoverable amount of an operating segment is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expects cash flow beyond the five-year period will be similar to that if the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using zero growth rates.

(Amounts expressed in thousands of RMB, unless otherwise stated)

8. INTANGIBLE ASSETS *(Continued)*

Based on the assessments, no goodwill was impaired except for the goodwill of Jilin Dongxin as at 31 December 2015. Goodwill of Jilin Dongxin was impaired to zero as management plans to shut down Jilin Dongxin in 2016 due to changes in business plan.

The key assumptions used for value-in-use calculations in 2015 are as follows:

As at 31 December 2015	**Shandong Precede**	**Screen business**	**Anton Testing**
Gross margin	**33.13%**	**21.60%**	**20.00%**
Discount rate	**13.72%**	**13.72%**	**14.49%**

As at 31 December 2014	Jilin Dongxin	Shandong Precede	Screen business	Anton Testing
Gross margin	30.00%	26.00%	16.00%	20.00%
Discount rate	12.00%	12.00%	12.00%	12.00%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business.

(Amounts expressed in thousands of RMB, unless otherwise stated)

9. SUBSIDIARIES

(a) Material non-controlling interests

The total non-controlling interest as at 31 December 2015 was RMB65,586,000 (2014: RMB92,957,000), of which RMB32,936,000(2014: 35,274,000) was attributed to Anton Tong'ao Technological Products Co., Limited ("Anton Tong'ao"). The non-controlling interests in respect of other subsidiaries are not material.

Set out below are the summarised financial information of Anton Tong'ao which has non-controlling interests that are material to the Group.

Summarised balance sheet

	Anton Tong'ao	
	2015	2014
Current		
Assets	**319,496**	312,374
Liabilities	**(356,529)**	(291,405)
Total current net assets	**(37,033)**	20,969
Non-current		
Assets	**366,398**	331,771
Liabilities	**-**	–
Total non-current net assets	**366,398**	331,771
Net assets allocated to non-controlling interests	**32,936**	35,274

Summarised income statement

	Anton Tong'ao	
	2015	2014
Revenue	**225,525**	237,806
Profit before income tax	**18,829**	52,796
Income tax expense	**(3,260)**	(10,134)
Post-tax profit from continuing operations	**15,569**	42,662
Total comprehensive income	**15,569**	42,662
Total comprehensive income allocated to non-controlling interests	**1,557**	4,266
Dividends paid to non-controlling interests	**3,894**	11,753

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(Amounts expressed in thousands of RMB, unless otherwise stated)

9. SUBSIDIARIES *(Continued)*

(a) Material non-controlling interests *(Continued)*

Summarised cash flows

	Anton Tong'ao 2015	2014
Cash flows from operating activities		
Cash generated from operations	**65,418**	150,972
Interest paid	**(3,000)**	(4,287)
Income tax paid	**(1,446)**	(11,054)
Net cash generated from operating activities	**60,972**	135,631
Net cash used in investing activities	**(34,626)**	(112,030)
Net cash used in financing activities	**(38,945)**	(55,779)
Net increase in cash and cash equivalents	**(12,599)**	(32,178)
Cash, cash equivalents and bank overdrafts at beginning of year	**29,945**	62,323
Exchange gains/(losses) on cash and cash equivalents	**34**	(200)
Cash and cash equivalents at end of year	**17,380**	29,945

The information above is the amount before inter-company eliminations.

(b) The following is a list of principal subsidiaries the Company directly or indirectly holds equity interests as at 31 December 2015:

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Directly held:				
Anton Oilfield Services Company Limited	Hong Kong, 17 August 2014	HK$100	100%	Investment holding
Indirectly held:				
Anton Oilfield Services (Group) Co., Ltd. (安東石油技術（集團）有限公司, "Anton Oil")	Beijing, the PRC, 28 January 2002	US$131,000,000	100%	Oilfield services and sales of equipment
Xinjiang Tong'ao Oilfield Services Co., Ltd. (新疆通奧油田技術服务有限公司, "Xinjiang Tong'ao")	Xinjiang Uygur Autonomous Region, the PRC, 21 February 2002	RMB51,000,000	100%	Oilfield services
Beijing Tongsheng Well Engineering and Technology Co., Ltd. (北京通盛威爾工程技術有限公司, "Tongsheng Well")	Beijing, the PRC, 24 December 2004	RMB11,000,000	100%	Oilfield services

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

9. SUBSIDIARIES *(Continued)*

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Indirectly held: *(Continued)*				
Anton Tong'ao	Xinjiang Uygur Autonomous Region, the PRC, 15 December 2005	RMB90,000,000	90%	Manufacturing of rod casing
Shandong Precede	Shandong Province, the PRC, 2 September 2008	RMB12,000,000	75%	Oilfield services and sales of equipment
Anton International FZE ("Anton Dubai")	The United Arab Emirates, 12 April 2009	US$7,300,000	100%	Oilfield services
Sichuan Anton Oil Gas Engineering and Technology Services Co., Ltd. (四川安東油氣工程技術服務有限公司, "Sichuan Anton")	Sichuan Province, the PRC, 14 July 2009	RMB50,000,000	100%	Oilfield services and sales of production equipment
Anton Oilfield Technology, Inc. ("Anton Huston")	Texas USA, 5 May 2010	US$50,000,000	100%	Oilfield technology research and consulting service
Anton Oilfield Services DMCC ("DMCC")	The United Arab Emirates, 28 March 2011	US$54,462,150	100%	Oilfield services
Andes Petroleum Company SAS ("Anton SAS")	Bogota D.C., Columbia, 27 October 2011	COP180,000,000	100%	Oilfield technology services
Sichuan Tongsheng Drilling Technology Co., Ltd. (四川通盛鑽探工程有限公司, "Sichuan Tongsheng")	Sichuan Province, the PRC, 13 February 2012	RMB5,000,000	100%	Construction and services of drilling, sales of drilling product
Xinjiang Anton Oilfield Services Co., Ltd (新疆安東石油技術服務有限責任公司, "Xinjiang Anton")	Xinjiang Uygur Autonomous Region, the PRC, 24 February 2012	RMB30,000,000	100%	Oilfield services
Anton oilfield service sucursal Colombia ("Anton Colombia")	Bogota D.C., Columbia, 4 April 2012	COP200,000,000	100%	Oilfield services
Anton New Material（Suining）Co., Ltd. (安東新材料（遂寧）有限公司, "Suining Material")	Sichuan Province, the PRC, 6 June 2012	RMB10,000,000	100%	Oilfield services and sales of product

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10. INVESTMENTS IN JOINT VENTURES

	2015	2014
As at 1 January	**5,042**	16,776
Addition	**-**	7,326
Share of loss	**(1,042)**	(19,060)
As at 31 December	**4,000**	5,042

Company name	Place and date of incorporation	Registered capital	Equity interest held by the Group	Principal activities
Northern Heavy Machinery Manufacturing Co., Ltd. (北重安東機械製造有限公司, "Northern Heavy")	Inner Mongolia, the PRC, 30 October 2007	RMB100,000,000	50%	Manufacturing and sales of drill collars and heavy-weight drill pipes
Tongzhou Integration Oilfield Technology Co., Ltd. (同舟一體化油田技術有限公司, "TIPM")	Sichuan Province, the PRC, 24 December 2012	US$12,000,000	40%	Oilfield technology consulting service and sales of production equipment

Both the joint ventures are unlisted limited liability companies established in the PRC.

The following amounts represent 100% of the assets and liabilities, and sales and results of the joint ventures.

	As at 31 December 2015	2014
Assets:		
Non-current assets	**96,558**	104,637
Current assets	**118,562**	254,043
	215,120	358,680
Liabilities:		
Non-current liabilities	**-**	–
Current liabilities	**209,564**	326,506
	209,564	326,506
Net assets	**5,556**	32,174
Revenue	**24,298**	152,449
Loss after income tax	**(52,108)**	(12,719)
Joint ventures' commitments	**-**	–

There are no contingent liabilities relating to the Group's interest in the joint ventures.

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11. OTHER NON-CURRENT ASSETS

	As at 31 December 2015	2014
Long-term lease prepayment	**67,255**	88,555

As at 31 December 2015, long-term lease prepayment represents prepayment for lease of logistics base, which will be amortised in 7 years.

12. INVENTORIES

	As at 31 December 2015	2014
Raw materials	**169,999**	195,928
Work-in-progress	**322,926**	194,717
Finished goods	**358,371**	325,003
Spare parts and others	**6,711**	6,236
	858,007	721,884
Less: provision for obsolescence	**(23,784)**	(12,177)
	834,223	709,707

Movements of provision for inventory obsolescence during the year are analysed as follows:

	2015	2014
As at 1 January	**12,177**	12,177
Addition	**11,607**	208
Write-off	**-**	(208)
As at 31 December	**23,784**	12,177

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13. TRADE AND NOTES RECEIVABLES

	As at 31 December **2015**	2014
Trade receivables, net (a)		
– from related parties (Note 33(c))	**8,463**	43,364
– others	**1,190,260**	1,411,602
Notes receivable (d)	**85,631**	133,204
	1,284,354	1,588,170

Note:

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

	As at 31 December 2015		
	Gross amount	**Impairment**	**Net value**
1 – 6 months	**742,882**	**-**	**742,882**
6 months – 1 year	**344,038**	**-**	**344,038**
1 – 2 years	**104,856**	**(5,704)**	**99,152**
2 – 3 years	**15,367**	**(3,241)**	**12,126**
Over 3 years	**23,292**	**(22,767)**	**525**
	1,230,435	**(31,712)**	**1,198,723**

	As at 31 December 2014		
	Gross amount	Impairment	Net value
1 – 6 months	1,046,838	–	1,046,838
6 months – 1 year	175,383	–	175,383
1 – 2 years	219,231	(847)	218,384
2 – 3 years	21,583	(7,222)	14,361
Over 3 years	13,922	(13,922)	–
	1,476,957	(21,991)	1,454,966

(i) As at 31 December 2015, trade receivables with amount of RMB1,086,920,000 (31 December 2014: RMB1,222,221,000) aged within one year, which were neither past due nor impaired according to the Group's credit policy.

(ii) The Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2015, trade receivables amounting to RMB111,803,000 (31 December 2014: RMB232,745,000) were past due but not impaired. For the past-due trade receivables without impairment, management considered such long ageing items were receivable from customers with good cooperation and no default history, therefore the risk of impairment was low.

(b) Most of the trade receivables are with credit terms within one year, except for retention money which would be collected one year after the completion of the sales. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables.

As at 31 December 2014, trade receivables with amount of RMB346,640,000 were pledged as security for short-term borrowings amounted to RMB320,000,000(Note 19).

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13. TRADE AND NOTES RECEIVABLES *(Continued)*

Note: *(Continued)*

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

	2015	2014
As at 1 January	**21,991**	35,864
Additions	**11,432**	–
Reversal	**(1,711)**	(2,540)
Write-off	**-**	(11,333)
As at 31 December	**31,712**	21,991

(d) Notes receivables were all bank acceptance with maturity dates within six months. As at 31 December 2015, notes receivables with amount of RMB10,000,000 (31 December 2014: RMB nil) were pledged as security for short-term borrowings amounted to RMB10,000,000 (31 December 2014: RMB nil) (Note 19).

(e) Trade and notes receivables were denominated in the following currencies:

	As at 31 December	
	2015	2014
RMB	**925,071**	1,192,448
US$	**359,283**	395,722
	1,284,354	1,588,170

14. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
Current		
Advances to suppliers	**104,154**	64,865
Other receivables	**171,204**	168,910
Amounts due from related parties (Note 33(c))	**-**	409
Value-added tax recoverable	**98,245**	184,083
	373,603	418,267
Non-current		
Value-added tax recoverable	**132,693**	37,194

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14. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December	
	2015	2014
1 – 6 months	**156,657**	187,436
6 months – 1year	**144,377**	181,253
1 – 2 years	**30,504**	24,734
2 – 3 years	**20,020**	11,989
Over 3 years	**23,904**	14,714
	375,462	420,126
Less: allowance for impairment (a)	**(1,859)**	(1,859)
Prepayments and other receivables, net	**373,603**	418,267

(a) Movements of allowance for impairment are as follows:

	2015	2014
As at 1 January	**1,859**	2,105
Write-off	**-**	(246)
As at 31 December	**1,859**	1,859

15. CASH AND BANK

	As at 31 December	
	2015	2014
Restricted bank deposits (a)	**158,246**	72,310
Term deposits with initial terms of over three months (b)	**11,000**	8,010
Cash and cash equivalents		
– Cash on hand	**2,393**	1,141
– Deposits in bank	**455,765**	758,610
	627,404	840,071

(a) As at 31 December 2015, bank deposits amounting to RMB158,246,000 (31 December 2014: RMB72,310,000) were held as securities for letter of guarantee and for issuance of notes payable.

(b) As at 31 December 2015, term deposits with initial terms of over three months were bank deposits bearing average interest rate at 2.01% per annum (31 December 2014: 3.08% per annum), with original maturity of 180 days.

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15. CASH AND BANK *(Continued)*

(c) Cash and bank were denominated in the following currencies:

	As at 31 December 2015	2014
RMB	**323,818**	548,200
US$	**259,647**	248,408
HK$	**14,329**	15,638
Others	**29,610**	27,825
	627,404	840,071

16. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

Ordinary shares issued and fully paid:	Number of shares issued and fully paid of HK$0.1 each (thousands)	Share capital HK$'000	RMB'000
As at 1 January 2014	2,162,387	216,239	202,983
Addition (b)	53,432	5,343	4,227
Repurchase and cancellation (Note)	(4,184)	(418)	(331)
As at 31 December 2014	2,211,635	221,164	206,879
Addition (b)	9,487	948	750
As at 31 December 2015	2,221,122	222,112	207,629

Note:

During the year ended 31 December 2014, the Company repurchased 4,184,000 of its own shares on the Hong Kong Stock Exchange, which were then all cancelled. The total amount paid to acquire these shares was RMB5,428,000 and were deducted from share capital and share premium.

(Amounts expressed in thousands of RMB, unless otherwise stated)

16. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(b) Share options

During the year end 31 December 2015, options to subscribe for 49,500,000 shares at the exercise price of HK$1.82 (2014: 24,212,000 shares at the exercise price ranging from HK$3.12 to HK$5.20) have been conditionally granted to certain key employees and three independent non-executive directors. 1,440,000 shares granted to independent non-executive directors have a 2-year vesting period, 50% exercisable per year and other 48,060,000 shares have a 3-year vesting period, 33.33% exercisable per year, on the premises of achieving the performance conditions of the Group see out in the share option scheme. The options are exercisable from the first anniversary of the service commencement date and have an option period of 6 years.

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

	Average exercise price in HK$ per share	Number of share options (thousands)
As at 1 January 2014		115,626
Granted (on 12 May 2014)	5.200	1,680
Granted (on 12 May 2014)	5.200	20,020
Granted (on 18 September 2014)	3.120	2,512
Exercised		(53,432)
Forfeited		(3,493)
As at 31 December 2014		82,913
Granted (on 24 April 2015)	1.820	49,500
Exercised		(9,487)
Forfeited		(8,843)
Cancelled		(17,968)
Lapsed		(43,700)
As at 31 December 2015		52,415

16. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(b) Share options *(Continued)*

Share options outstanding (in thousands) at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$ per share	Number of share options (thousands) As at 31 December 2015
9 January 2016	3.878	22,735
18 January 2016	1.072	12,121
15 April 2016	1.240	2,520
17 June 2016	1.160	1,368
21 November 2016	2.610	4,000
27 December 2016	3.820	83
21 June 2019	5.742	1,296
27 June 2019	5.600	298
15 August 2019	5.570	54
19 November 2019	4.960	190
11 May 2020	5.200	1,950
23 April 2021	1.820	5,800
		52,415

The exercise price of the granted options is equal to the highest of (i) the closing price of the shares of the Company in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the par value of the shares. Options are conditional on the employee completing one to three years' service (the vesting period) and have a contractual option term of six years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As of 31 December 2015, out of the 52,415,000 options (31 December 2014: 82,913,000 options), 44,665,000 options (31 December 2014: 31,370,000 options) were exercisable. Options exercised in 2015 resulted in 9,487,000 shares (2014: 53,432,000 shares) being issued at a weighted average price of HK$1.25 each (2014: HK$1.66 each). The related weighted average share price at the time of exercise was HK$1.71 (2014: HK$5.93) per share.

(Amounts expressed in thousands of RMB, unless otherwise stated)

16. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(b) Share options *(Continued)*

The fair value of the options granted during the year ended 31 December 2015 is determined using the Binomial Option Pricing Model. The major assumptions used in the pricing model for options granted in 2015 were the exercise price shown above, and the other parameters are shown below:

Parameters	Option granted in 2015	Option granted in 2014
Share price as of the valuation date (HK$)	**1.82**	3.12-5.20
Expected dividend yield	**0%**	1.30%-1.60%
Forfeiture rate	**0.68%**	0.91%-1.00%
Maturity years	**6.0**	6.0
Risk free rate	**1.10%**	1.46%-1.65%
Annualised volatility	**52.64%**	52.03%-52.90%

The weighted average fair value of options granted during the year determined using the Binomial valuation model was HK$1.82 per option (2014: HK$2.25 per option). The volatility measured at the standard deviation of continuously compounded share returns is derived from historical volatility of the share price over the last 6 years.

The total expense recognised in the consolidated income statement for the year ended 31 December 2015 for share options amounted to RMB14,571,000 (31 December 2014: RMB32,291,000), with a corresponding amount credited in capital reserve (Note 17).

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17. RESERVES

	Share premium	Capital reserve	Statutory reserve (b)	Retained earnings	Other reserves	Total
As at 1 January 2014	494,539	368,210	77,756	1,165,035	(25,848)	2,079,692
Loss for the year	–	–	–	(198,213)	–	(198,213)
Exchange differences	–	–	–	–	202	202
Share option scheme (Note 16(b))	–	32,291	–	–	–	32,291
Share option exercised (Note 16(b))	81,947	(21,342)	–	–	–	60,605
Repurchase and cancellation of shares (Note 16(a))	(5,097)	–	–	–	–	(5,097)
Dividends (Note 30)	(122,468)	–	–	–	–	(122,468)
As at 31 December 2014	448,921	379,159	77,756	966,822	(25,646)	1,847,012
Loss for the year	–	–	–	(194,731)	–	(194,731)
Net investment hedge (a)	–	–	–	–	(54,110)	(54,110)
Exchange differences	–	–	–	–	65,035	65,035
Share option scheme (Note 16(b))	–	14,571	–	–	–	14,571
Share option exercised (Note 16(b))	11,982	(3,362)	–	–	–	8,620
As at 31 December 2015	460,903	390,368	77,756	772,091	(14,721)	1,686,397

Note:

(a) Net investment hedge

A proportion of the Group's US$ denominated long-term bonds amounting to US$142,885,000 has been designated as hedging instrument for the US$ denominated net investment in the Group's overseas subsidiaries. Foreign exchange translation loss of RMB54,110,000 on the hedging instrument since inception of this net investment hedge was recognised in other comprehensive income as deduction in other reserves.

(b) Statutory reserves

Subsidiaries incorporated in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When the balance of such reserve fund reaches 50% of each entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or increase capital after approval. However, except for offsetting prior years' losses, the statutory reserve fund must be maintained at a minimum of 25% of share capital after such usage.

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18. LONG-TERM BONDS

Issue date	Par value	Coupon rate	As at 31 December 2015	As at 31 December 2014	Effective interest rate
25 May 2012 (a)	RMB300 million	6.59%	–	299,583	6.74%
7 August 2013 (b)	RMB200 million	7.30%	199,514	198,733	7.74%
31 October 2013 (c)	US$248 million	7.50%	1,584,635	1,497,786	8.31%
Subtotal			1,784,149	1,996,102	
Less: Current portion			(199,514)	(299,583)	
			1,584,635	1,696,519	

Note

(a) Anton Oil, a subsidiary of the Company, issued RMB300 million 6.59% medium-term notes at par value on 25 May 2012. The bonds mature in 3 years from the issue date at their nominal value, which have been fully repaid in May 2015.

(b) Anton Oil, a subsidiary of the Company, issued RMB200 million 7.30% medium-term notes at par value on 7 August 2013. The bonds mature in 3 years from the issue date at their nominal value. Interest is payable on an annually basis. As at 31 December 2015, interest payable amounted to approximately RMB5.8 million (31 December 2014: 5.8 million).

(c) The Company issued US$250 million 7.50% senior notes at par value on 31 October 2013, in which US$2 million were repurchased on 17 April 2015. The bonds mature in 5 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 31 December 2015, interest payable amounted to approximately RMB19.0 million (31 December 2014: 17.3 million).

19. SHORT-TERM BORROWINGS

	As at 31 December 2015		As at 31 December 2014	
	Amount	Interest rate	Amount	Interest rate
Bank borrowings				
– Unsecured				
– RMB denominated	**425,000**	**4.35%-7.5%**	364,620	5.83%-7.2%
– US$ denominated	**-**	**-**	9,292	Libor+1.4%-Libor+3.5%
– Secured				
– RMB denominated (a)	**190,000**	**4.35%-5.865%**	320,000	6%
Other borrowings-secured				
– RMB denominated (b)	**60,000**	**6.305%**	–	–
	675,000		693,912	

(Amounts expressed in thousands of RMB, unless otherwise stated)

19. SHORT-TERM BORROWINGS *(Continued)*

(a) As at 31 December 2015, secured bank borrowings of RMB80,000,000 were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd.(北京中關村科技擔保有限公司), a third party, with the Group's buildings with a net book value of RMB32,078,000(Note 6) and land use rights with a net book value of RMB11,066,000 (Note 7) pledged as counter-guarantee. Secured bank borrowings of RMB100,000,000 were secured by the building of Antonoil with a net book value of RMB15,998,000. Secured bank borrowings of RMB10,000,000 were secured by notes receivable with the value of RMB10,000,000 (Note 13).

As at 31 December 2014, trade receivables with amount of RMB346,640,000 were pledged as security for short-term borrowings amounted to RMB320,000,000 (Note 13).

(b) As at 31 December 2015, other borrowings represented a loan borrowed by Anton Oil from Beijing City Cultural Technology Leasing Share Limited (北京市文化科技融資租賃股份有限公司), with the Group's machinery and equipment with a net book value of RMB130,185,000 pledged as security (Note 6).

(c) As at 31 December 2015, the undrawn bank borrowing facilities of the Group approximated RMB670 million (31 December 2014: RMB526 million) with expiring dates from 21 May 2016 to 29 December 2016.

20. TRADE AND NOTES PAYABLES

	As at 31 December	
	2015	2014
Trade payables		
– related parties (Note 33(c))	**52,283**	38,445
– others	**390,779**	592,294
Notes payables	**137,286**	64,014
	580,348	694,753

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

	As at 31 December	
	2015	2014
Less than 1 year	**458,070**	574,972
1 – 2 years	**102,960**	107,630
2 – 3 years	**13,386**	4,500
Over 3 years	**5,932**	7,651
	580,348	694,753

Trade and notes payable were denominated in the following currencies:

	As at 31 December	
	2015	2014
RMB	**544,399**	631,277
US$	**35,949**	63,476
	580,348	694,753

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21. ACCRUALS AND OTHER PAYABLES

	As at 31 December 2015	2014
Advance from customers	**14,953**	6,715
Payroll and welfare payable	**59,888**	42,948
Taxes other than income taxes payable	**73,908**	77,259
Payables to equipment venders	**831,243**	651,983
Dividend payable	**29,120**	11,753
Interest payable	**25,300**	35,151
Rental payable	**11,217**	12,986
Others	**109,329**	68,992
	1,154,958	907,787

22. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	As at 31 December 2015	2014
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**64,499**	51,967
– Deferred tax asset to be recovered within 12 months	**160**	5,374
	64,659	57,341
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**4,318**	3,957
– Deferred tax liabilities to be settled within 12 months	**57**	11
	4,375	3,968

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22. DEFERRED INCOME TAX *(Continued)*

Deferred tax assets:

	Taxable losses	Impairment provision of receivables and inventories	Total
As at 1 January 2014	17,499	7,530	25,029
Credited/(charged) to the consolidated income statement	34,073	(1,761)	32,312
As at 31 December 2014	51,572	5,769	57,341
Credited to the consolidated income statement	3,794	3,524	7,318
As at 31 December 2015	55,366	9,293	64,659

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2015, the Group did not recognise deferred income tax assets of RMB42,861,000 (31 December 2014: RMB21,578,000) in respect of accumulated losses amounting to RMB193,402,000 (31 December 2014: RMB97,901,000) that can be carried forward against taxable income as the Group is going to close the subsidiaries or the losses are considered cannot be covered in 5 years.

Deferred tax liabilities:

	Acquisition of subsidiaries	Withholding tax on investment income	Capitalised borrowing costs	Total
As at 31 December 2013	48	1,661	–	1,709
(Credited)/debited to the consolidated income statement	(10)	1,592	677	2,259
As at 31 December 2014	38	3,253	677	3,968
(Credited)/debited to the consolidated income statement	(11)	464	(46)	407
As at 31 December 2015	27	3,717	631	4,375

As at 31 December 2015, deferred income tax liabilities of RMB39,987,000 (31 December 2014: RMB1,592,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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23. REVENUE

Revenue by category is analysed as following:

	Year ended 31 December	
	2015	2014
Sales of goods	**254,970**	251,313
Provision of services	**1,578,036**	1,819,892
	1,833,006	2,071,205

24. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Year ended 31 December	
	2015	2014
Materials and services purchased	**848,575**	1,019,866
Staff costs	**470,483**	438,187
In which:		
– Salaries and other staff expenses	**455,912**	405,896
– Share-based compensation	**14,571**	32,291
Depreciation	**180,519**	185,925
Amortisation	**20,212**	35,846
Sales tax and surcharges	**15,576**	15,964
Auditor's remuneration	**5,330**	3,800
Other operating expenses	**220,526**	331,804
In which:		
– addition/(reduction) in impairment of receivables	**9,721**	(4,918)
– addition in impairment of inventories	**11,607**	208
– addition in impairment of goodwill	**26,325**	–
Total operating cost	**1,761,221**	2,031,392

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25. OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2015	2014
Government grants and subsidies	**18,470**	5,702
Donation	**(85)**	(689)
Gain/(Loss) on disposal of property, plant and equipment	**496**	(8,340)
Others	**1,808**	1,488
	20,689	(1,839)

26. FINANCE COSTS, NET

	Year ended 31 December	
	2015	2014
Interest expenses		
– on bank borrowings	**(44,308)**	(27,333)
– on bonds	**(145,858)**	(157,416)
Exchange loss, net	**(56,201)**	(7,515)
Others	**(12,812)**	(4,951)
Finance costs	**(259,179)**	(197,215)
Less: amounts capitalised on qualifying assets	**-**	(4,517)
Total finance costs	**(259,179)**	(192,698)
Interest income	**4,409**	14,234
	(254,770)	(178,464)

27. STAFF COSTS

	Year ended 31 December	
	2015	2014
Wages, salaries and allowances	**370,183**	324,713
Housing subsidies (a)	**20,036**	18,758
Contributions to pension plans (b)	**49,501**	29,101
Share option costs		
– equity settled share-based payment (Note 16(b))	**14,571**	32,291
Welfare and other expenses	**16,192**	33,324
	470,483	438,187

(Amounts expressed in thousands of RMB, unless otherwise stated)

27. STAFF COSTS *(Continued)*

(a) Housing subsidies mainly include the Group's contributions to government-sponsored housing funds, at rates ranging from 5% to 12% of the employees' salaries for the Group's Chinese employees in the PRC.

(b) This represents the Group's contributions to defined contribution plans or schemes organised by relevant government authorities or authorised entities in accordance with the requirements in the locations where the Group operates.

The Group has no other material obligations for the payment of pensions and other post-retirement benefits of employees or retirees other than those disclosed above.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2014: three) directors whose emoluments are reflected in the analysis in Note 35. The emolument payable to the other three (2014: two) individuals during the year are as follows:

	Year ended 31 December	
	2015	2014
Basic salaries, housing allowances, other allowances and benefits-in-kind	**5,283**	4,228
Contributions to pension schemes	**136**	81
	5,419	4,309

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emoluments bands		
RMB nil – RMB1,000,000	**-**	–
RMB1,000,000 – RMB1,500,000	**-**	–
RMB1,500,000 – RMB2,000,000	**3**	–
RMB2,000,000 – RMB2,500,000	**-**	2
	3	2

(d) During the years ended 31 December 2015 and 2014, no directors or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

(Amounts expressed in thousands of RMB, unless otherwise stated)

28. INCOME TAX EXPENSE

	Year ended 31 December 2015	2014
Current income tax		
– PRC enterprise income tax	**9,588**	24,721
– Iraq corporate income tax	**28,897**	33,235
– Others	**336**	3,352
Deferred income tax (Note 22)	**(6,911)**	(30,053)
	31,910	31,255

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

PRC enterprise income tax ("EIT") is provided on the basis of the profits of the PRC established subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for the subsidiaries of the Group registered in the PRC was 25% in 2015 (2014: 25%), based on the relevant PRC tax laws and regulations, except for certain subsidiaries which are taxed at preferential tax rates of 12.5% and 15%. These subsidiaries have been granted a preferential rate of 15% as high technology enterprises or as enterprises set up in western area of the PRC. Certain subsidiary qualifies for a tax holiday of 2-year exemption and 3-year 50% reduction, pursuant to Caishui [2008] No. 1.

The corporate income tax of Iraq entities is levied at 7% over their service revenue. Entities registered in United Arab Emirates, are exempted from income tax.

The taxation of the Group's loss before income tax differs from the theoretical amount that would arise using applicable tax rates of the Group companies as follows:

	Year ended 31 December 2015	2014
Loss before income tax	**(163,338)**	(159,550)
Tax calculated at applicable tax rates	**(2,462)**	4,054
Income not subject to taxation	**(9,446)**	(4,313)
Expenses not deductible for taxation purposes	**8,012**	4,434
Additional deduction of research and development expense	**(834)**	(2,227)
Taxable losses for which no deferred income tax asset was recognised	**35,894**	27,474
Withholding tax from overseas income	**464**	1,592
Others	**282**	241
	31,910	31,255

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(Amounts expressed in thousands of RMB, unless otherwise stated)

29. LOSS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2015	2014
Loss attributable to equity holders of the Company (RMB'000)	**(194,731)**	(198,213)
Weighted average number of ordinary shares in issue (thousands of shares)	**2,219,077**	2,198,369
Basic loss per share (expressed in RMB per share)	**(0.0878)**	(0.0902)

(b) Diluted

For the year ended 31 December 2015 and 2014, the Group made a loss therefore the effect of share options was anti-dilutive and is ignored from the calculation of diluted loss per share. The diluted loss per share is calculated in the same way with basic loss per share.

30. DIVIDENDS

On 29 May 2014, upon the approval from the annual general meeting of the shareholders, the Company declared 2013 final dividend of RMB0.0547 per ordinary share, totalling RMB122,468,000, which was paid in cash in June 2014.

The Board of directors did not recommend a dividend for the year ended 31 December 2014 and 2015.

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(Amounts expressed in thousands of RMB, unless otherwise stated)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss for the year to net cash inflows/(outflows) generated from operations:

	Year ended 31 December	
	2015	2014
Loss for the year	**(195,248)**	(190,805)
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 24)	**180,519**	185,925
– (gain)/loss on disposals (Note 25)	**(496)**	8,340
Amortisation of land use rights and intangible assets (Note 24)	**20,212**	35,846
Amortisation of prepaid operating lease payment	**21,300**	–
Addition/(reduction) of impairment of receivables (Note 24)	**9,721**	(4,918)
Addition of impairment of inventories (Note 24)	**11,607**	208
Goodwill impairment charge (Note 24)	**26,325**	–
Charge of share option scheme (Note 16(b))	**14,571**	32,291
Share of loss of joint ventures	**1,042**	19,060
Net foreign exchange loss (Note 26)	**56,201**	7,515
Interest income	**(4,409)**	(14,234)
Interest expenses on bank borrowings and bonds (Note 26)	**190,166**	180,232
Income tax expense	**31,910**	31,255
Changes in other non-current assets	**-**	(14,553)
Changes in working capital:		
Inventories	**(107,655)**	(121,467)
Trade and notes receivables	**294,095**	(250,958)
Prepayments and other receivables and value-added tax recoverable	**(50,836)**	(252,603)
Trade and notes payables	**(114,404)**	(10,886)
Accruals and other payables	**109,112**	9,081
Restricted bank deposits	**(85,936)**	(39,896)
Net cash inflows/(outflows) from operations	**407,797**	(390,567)

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

32. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2015	2014
Contracted but not provided for – Property, plant and equipment	**49,778**	187,251

(b) Operating lease commitments – where the Group is the lessee

The Group leases various offices and warehouses under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2015	2014
No later than 1 year	**7,534**	9,001
1 to 5 years	**28,885**	26,839
Over 5 years	**13,284**	20,974
	49,703	56,814

33. RELATED PARTY TRANSACTIONS

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

(a) The following companies are related parties of the Group during the year ended 31 December 2015:

Names of related parties	Nature of relationship
Northern Heavy	Joint venture invested by Anton Oil
TIPM	Joint venture invested by Anton Oil
China Nanhai Magcobar Mud Corp. Ltd. ("Nanhai Magcobar")	Controlled by the same ultimate parent company of SLB NV
Schlumberger Oilfield China ("SLB China")	Controlled by the same ultimate parent company of SLB NV
Smith Drilling Equipment (Changzhou) Ltd. ("Smith Drilling")	Controlled by the same ultimate parent company of SLB NV
Dowell Schlumberger (Western) S.A. ("Dowell SLB")	Controlled by the same ultimate parent company of SLB NV
Schlumberger Technologies (Beijing) Ltd. ("SLB Beijing")	Controlled by the same ultimate parent company of SLB NV
Schlumberger Reservoir Products FZE ("SLB FZE")	Controlled by the same ultimate parent company of SLB NV
SCP Oilfield Company ("SCP")	Controlled by the same ultimate parent company of SLB NV

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(Amounts expressed in thousands of RMB, unless otherwise stated)

33. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

	Year ended 31 December	
	2015	2014
Purchases of goods or services		
Northern Heavy	**4,938**	13,277
TIPM	**-**	91
Nanhai Magcobar	**21,730**	44,205
SLB China	**25,228**	83,264
SLB Beijing	**316**	216
Smith Drilling	**12,057**	9,975
Dowell SLB	**-**	212
SLB FZE	**-**	47,820
	64,269	199,060
Sales of goods		
SLB China	**4,253**	6,396
Northern Heavy	**503**	402
SLB Beijing	**11**	187
TIPM	**-**	37,200
SCP	**-**	3,226
	4,767	47,411

Goods are sold and purchased based on the price lists in force and terms that would be available to third parties.

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

33. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

	As at 31 December 2015	2014
Trade and notes receivables (Note 13)		
SLB China	**3,463**	5,057
SLB Beijing	**-**	187
TIPM	**5,000**	37,200
SCP	**-**	920
	8,463	43,364
Trade and notes payable (Note 20)		
Northern Heavy	**4,072**	2,492
TIPM	**-**	96
Nanhai Magcobar	**22,101**	16,556
SLB China	**12,886**	15,140
SLB Beijing	**262**	216
Smith Drilling	**12,962**	3,733
Dowell SLB	**-**	212
	52,283	38,445
Accruals and other payables		
SLB FZE	**16,473**	15,523
Northern Heavy	**519**	3,748
	16,992	19,271

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

(d) Key management compensation

	Year ended 31 December 2015	2014
Salaries and other short-term employee benefits	**15,757**	17,120
Pension scheme	**520**	450
Share-based payments	**7,350**	8,014
	23,627	25,584

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(Amounts expressed in thousands of RMB, unless otherwise stated)

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2015	2014
Assets		
Non-current assets		
Intangible assets	**661**	–
Investments in subsidiaries	**5,062,028**	4,800,323
Prepayments and other receivables	**-**	500,000
	5,062,689	5,300,323
Current assets		
Trade and notes receivables	**47,582**	4,667
Prepayments and other receivables	**604**	9,787
Restricted bank deposits	**166**	14
Cash and cash equivalents	**5,827**	137,455
	54,179	151,923
Total assets	**5,116,868**	5,452,246
Equity and liabilities		
Equity		
Share capital	**207,629**	206,879
Other reserves (a)	**2,903,791**	3,084,245
Total equity	**3,111,420**	3,291,124
Liabilities		
Non-current liabilities		
Long-term bonds	**1,584,635**	1,497,786
Current liabilities		
Trade and notes payables	**-**	3,540
Accruals and other payables	**420,813**	659,796
	420,813	663,336
Total liabilities	**2,005,448**	2,161,122
Total equity and liabilities	**5,116,868**	5,452,246

The balance sheet of the Company was approved by the Board of Directors on 28 March 2016 and was signed on its behalf.

Executive Director

Executive Director

For the year ended 31 December 2015
(Amounts expressed in thousands of RMB, unless otherwise stated)

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Reserve movement of the Company

	Share premium	Capital reserve	Accumulated losses	Total
At 1 January 2014	494,539	2,968,120	(182,412)	3,280,247
Loss for the year	–	–	(161,333)	(161,333)
Share option scheme	–	32,291	–	32,291
Share option exercised	81,947	(21,342)	–	60,605
Repurchase and cancellation of shares	(5,097)	–	–	(5,097)
Dividends	(122,468)	–	–	(122,468)
At 31 December 2014	448,921	2,979,069	(343,745)	3,084,245
At 1 January 2015				
Loss for the year	–	–	(203,645)	(203,645)
Share option scheme	–	14,571	–	14,571
Share option exercised	11,982	(3,362)	–	8,620
At 31 December 2015	460,903	2,990,278	(547,390)	2,903,791

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(Amounts expressed in thousands of RMB, unless otherwise stated)

35. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2015:

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (i)	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Executive Directors									
Mr. Luo Lin (iii)	-	1,518	10	-	74	-	-	-	1,602
Mr. Pi Zhifeng (ii) (iii)	-	1,598	10	-	85	-	-	-	1,693
Mr. Wu Di	-	912	-	-	102	-	-	-	1,014
Mr. Liu Enlong (ii)	-	385	-	-	17	-	-	-	402
Independent Non-executive Directors									
Mr. Zhang Yongyi (iv)	433	-	-	-	-	-	-	-	433
Mr. Zhu Xiaoping (iv)	433	-	-	-	-	-	-	-	433
Mr. Wang Mingcai (iv)	433	-	-	-	-	-	-	-	433

(Amounts expressed in thousands of RMB, unless otherwise stated)

35. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2014 (Restated):

Certain of the comparative information of directors' emoluments for the year ended 31 December 2014 previously disclosed in accordance with the predecessor Companies Ordinance have been restated in order to comply with the new scope and requirements by the Hong Kong Companies Ordinance (Cap.622).

Name	Fees	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (i)	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Executive Directors									
Mr. Luo Lin (the chief executive)	-	1,842	-	-	89	-	-	-	1,931
Mr. Wu Di	-	1,421	324	-	101	-	-	-	1,846
Mr. Liu Enlong	-	2,146	480	-	101	-	-	-	2,727
Independent Non-executive Directors									
Mr. Zhang Yongyi (iv)	432	-	-	-	-	-	-	-	432
Mr. Zhu Xiaoping (iv)	432	-	-	-	-	-	-	-	432
Mr. Wang Mingcai (iv)	432	-	-	-	-	-	-	-	432
Jean-Francois Poupeau (v)	70	-	-	-	-	-	-	-	70

Note:

(i) Other benefits include pension plans, housing subsidies and other insurance premium.

(ii) Mr. Liu Enlong was the executive director up to 25 March 2015 and became a member of senior management onwards. Mr. Pi Zhifeng was a member of senior management until his appointment as executive director on 25 March 2015.

(iii) From 4 February 2016, Mr. Pi Zhifeng has been appointed as the Chief Executive Officer and Mr. Luo Lin only serve as the Chairman of the Company.

(iv) 1,440,000 share options on aggregate were granted to three independent non-executive directors during the year ended 31 December 2015 (2014: 732,000 share options), and the total expense recognised in the consolidated income statement for the year ended 31 December 2015 amounted to RMB1,712,000 (31 December 2014: RMB1,117,000) which are not included in this summary.

(v) Jean-Francois Poupeau resigned from the Group on 16 January 2015.

35. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

During the year ended 31 December 2015, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2014: nil).

(c) Directors' termination benefits

During the year ended 31 December 2015, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2014: nil).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2015, no consideration was provided to or receivable by third parties for making available director's services (2014: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities (2014: nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2014: nil).