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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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

Revenue of the Group increased by 36.2% from RMB1,617.7 million in 2016 to RMB2,202.7 million in 2017. Profit attributable to equity holders of the Company increased by 134.0% from a loss of RMB160.5 million in 2016 to a profit of RMB54.5 million in 2017.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2017.

RESULTS

The board of directors (the 'Board') of Anton Oilfield Services Group (the 'Company') announces of the audited consolidated results of the Company and its subsidiaries (collectively referred to as the 'Group') for the year ended 31 December 2017 (hereafter referred to as the 'Year' or 'the reporting period') with comparative figures for 2016, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Notes	**Year ended 31 December 2017**	**2016**
Revenue	5	**2,202,702**	1,617,675
Cost of sales	6	**(1,372,962)**	(1,073,784)
Gross profit		**829,740**	543,891
Other gains, net		**9,674**	68,967
Selling expenses	6	**(152,587)**	(110,838)
Administrative expenses	6	**(175,463)**	(337,816)
Research and development expenses	6	**(26,525)**	(16,455)
Sales tax and surcharges	6	**(11,145)**	(4,553)
Operating profit		**473,694**	143,196
Interest income	7	**3,759**	2,508
Finance expenses	7	**(271,631)**	(175,887)
Finance costs, net	7	**(267,872)**	(173,379)
Share of loss of a joint venture		**(901)**	(408)
Profit/(loss) before income tax		**204,921**	(30,591)
Income tax expense	8	**(33,647)**	(67,081)
Profit/(loss) for the year		**171,274**	(97,672)
Profit/(loss) attributable to:			
Owners of the Company		**54,495**	(160,450)
Non-controlling interests		**116,779**	62,778
		171,274	(97,672)
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company for the year (expressed in RMB per share)			
- Basic	9	**0.0206**	(0.0720)
- Diluted	9	**0.0205**	(0.0720)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Year ended 31 December	
	2017	**2016**
Profit/(loss) for the year	**171,274**	(97,672)
Other comprehensive income/(expense), net of tax:		
Items that may be reclassified subsequently to profit or loss		
Net investment hedge	**97,880**	(87,827)
Currency translation differences	**(78,660)**	48,590
Other comprehensive income/(expense) for the year, net of tax	**19,220**	(39,237)
Total comprehensive income/(expense) for the year	**190,494**	(136,909)
Total comprehensive income/(expense) attributable to:		
- Owners of the Company	**82,891**	(211,530)
- Non-controlling interests	**107,603**	74,621
	190,494	(136,909)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

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

	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment		**2,331,571**	2,272,223
Prepaid lease payments		**77,567**	46,903
Goodwill		**242,004**	242,004
Intangible assets		**224,285**	173,151
Interest in a joint venture		**2,691**	3,592
Prepayments and other receivables		**121,063**	157,060
Other non-current assets		**304,844**	56,745
Deferred income tax assets		**63,743**	52,334
		3,367,768	3,004,012
Current assets			
Inventories		**597,233**	781,165
Prepaid lease payments		**1,932**	1,091
Trade and notes receivables	10	**1,760,358**	1,297,995
Prepayments and other receivables		**467,029**	672,164
Current portion of other non-current assets		**4,923**	5,255
Restricted bank deposits		**415,135**	381,325
Term deposits with initial terms of over three months		**—**	11,011
Cash and cash equivalents		**1,133,097**	507,263
		4,379,707	3,657,269
Total assets		**7,747,475**	6,661,281

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	As at 31 December 2017	2016
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**246,271**	226,578
Reserves		**2,311,768**	1,318,307
		2,558,039	1,544,885
Non-controlling interests		**388,953**	432,012
Total equity		**2,946,992**	1,976,897
LIABILITIES			
Non-current liabilities			
Long-term bonds		**1,885,824**	1,694,940
Long-term borrowings		**36,217**	89,506
Accruals and other payables		**—**	715,453
Deferred income tax liabilities		**10,661**	4,318
		1,932,702	2,504,217
Current liabilities			
Short-term borrowings		**880,320**	739,642
Current portion of long-term bonds		**461,588**	—
Current portion of long-term borrowings		**141,105**	61,723
Trade and notes payables	11	**685,147**	800,022
Accruals and other payables		**658,224**	534,814
Current income tax liabilities		**41,397**	43,966
		2,867,781	2,180,167
Total liabilities		**4,800,483**	4,684,384
Total equity and liabilities		**7,747,475**	6,661,281

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Year ended 31 December 2017	2016
Cash flows from operating activities		
Net cash inflows from operations	**240,242**	148,674
Interest received	**3,759**	2,508
Income tax paid	**(48,391)**	(35,565)
Net cash generated from operating activities	**195,610**	115,617
Cash flows from investing activities		
Purchase of property, plant and equipment	**(313,575)**	(473,354)
Proceeds from disposal of property, plant and equipment	**7,361**	16,549
Purchase of intangible assets	**(66,274)**	(38,267)
Net cash paid for acquisition of a subsidiary	**(38,033)**	—
Proceeds from disposal of a subsidiary	**—**	77,000
Investment in a joint venture	**—**	(4,000)
Decrease/(increase) in term deposits	**11,011**	(11)
Net cash used in investing activities	**(399,510)**	(422,083)
Cash flows from financing activities		
Proceeds from short-term borrowings	**1,108,522**	1,027,292
Repayments of short-term borrowings	**(967,844)**	(962,650)
Proceeds from long-term borrowings	**—**	180,093
Repayments of long-term borrowings	**(65,656)**	(28,864)
Proceeds from long-term bonds	**779,252**	—
Repayments of long-term bonds	**—**	(200,000)
Repurchase of long-term bonds	**(24,775)**	(6,776)
Proceeds from disposal of interests in a subsidiary without loss of control	**343,000**	357,000
Net cash paid to non-controlling interests for additional interest in a subsidiary	**(300,000)**	(21,825)
Proceeds from share options exercised	**501**	—
Dividends distribution	**—**	(17,367)
Repurchase of own shares	**—**	(2,538)
Issue of shares	**197,819**	195,200
Interest paid	**(177,946)**	(181,660)
Placement of restricted bank deposits	**(30,000)**	—
Net cash generated from financing activities	**862,873**	337,905
Net increase in cash and cash equivalents	**658,973**	31,439
Cash and cash equivalents at beginning of the year	**507,263**	458,158
Exchange (loss)/gain on cash and cash equivalents	**(33,139)**	17,666
Cash and cash equivalents at end of the year	**1,133,097**	507,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of RMB, unless otherwise stated)

1. GENERAL INFORMATION

Anton Oilfield Services Group (the "Company") was incorporated in the Cayman Islands on 3 August 2007 as an exempted company with limited liability under the Companies Law of 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 overseas countries. The Company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 14 December 2007.

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standard Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and /or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new standards and amendments to standards ("new and revised IFRSs") that have been issued but are not yet effective:

IFRS 9	*Financial Instrument*[1]
IFRS 15	*Revenue from Contracts with Customers and the related Clarification*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[4]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment* Transactions[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance* Contracts[1]
Amendments to IFRS 9	*Prepayments Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interest in Associates and Joint Ventures*[2]
Amendments to IAS 28	*As Part of the Annual Improvements to IFRS Standards 2014-2016 Cycle*[1]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*[2]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2021

Except for the new IFRSs mentioned below, the Directors anticipate that the application of all other new and revised IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and financial assets have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

All the financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would not be materially increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables and prepayments and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets at 1 January 2018.

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. Accordingly, the Directors anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarification to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

- Provision of oilfield technology services (excluding operation and maintenance services)

- Provision of oilfield-related operation and maintenance services

- Sales of oilfield-related goods

The Directors have specifically assessed that there are different and separate performance obligations in different stages of an oilfield technology service (excluding operation and maintenance services) contract, with transaction price allocated to the different and separate performance obligations on a relative stand-alone price basis, and revenue will be recognised for each of these performance obligations when control over the corresponding services is transferred to the customer. This is similar to the current identification of separate revenue components under IAS 18. Furthermore, since the oilfield technology services (excluding operation and maintenance services) are expected to meet certain specified technological criteria which are not simply based on size and weight characteristics, the Group cannot objectively determines that the services provided to the customer are in accordance with the agreed-upon specifications in the contract and then the Group would not be able to conclude that the customer has obtained control until it receives the customer's acceptance. Therefore, the revenue from oilfield technology services (excluding operation and maintenance services) is recognised at a point when the customer acceptance is concluded which is consistent with current practice.

As regards the provision of oilfield-related operation and maintenance services, since they are routine with no complicated processes involved and customer acceptance is a formality, the Directors have assessed that revenue from these operation and maintenance contracts should be recognised over time as the customer simultaneously receives and consumes the benefits during the course of operation and maintenance services provided by the Group, which will continue to be appropriate both under IAS 18 and IFRS 15.

As regards the sales of oilfield-related goods, since the goods are not self-manufactured and the Group is not entitled to payment until the customer receives and accepts the goods, revenue will be recognised at a point when control over the corresponding goods is transferred to the customer, which is consistent both under IAS 18 and IFRS 15.

The Directors have assessed the impact on application of IFRS 15 by nature of revenue as above and did not anticipate a material impact on the timing and amounts of revenue recognised in respective reporting periods. However, application of IFRS 15 may have impact on the following area:

- Currently, the Group expensed off the costs associated with obtaining the services and sales of goods contracts with customers. Under IFRS 15, incremental costs of obtaining a contract is eligible for capitalization as deferred contract costs if they meet certain criteria. Accordingly, the Directors expect a recognition of deferred contract costs, resulting in an increase in opening retained earnings and a slight increase in recognition of deferred tax liabilities at 1 January 2018.

In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, leases payments in relation to lease liability will be allocated to a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitment of RMB31,393,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories*, or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SEGMENT INFORMATION

The chief executive officer, executive vice presidents and Directors are the Group's chief operating decision makers (the "CODM"). Management has determined the operating segments based on the information reviewed by the CODM 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 CODM 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 CODM.

The CODM assess performance of three reportable segments: drilling technology, well completion and oil production services.

All of the three reportable segments include a number of direct service provision operations in various cities in China and overseas countries, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into three single reportable segments based on their sharing of similar economic characteristics, including similar nature of the services and products, type of customer for their services and products and the method used to provide their services and distribute their products.

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 in Note 3. The CODM evaluate the performance of the operating segments based on profit or loss before income tax expense, certain depreciation and amortisation, interest income, finance expenses, share of loss of a joint venture, asset impairment provisions and corporate overheads ("EBITDA"). The corporate overheads and corporate assets are the general management expenses incurred and assets held by the headquarters of the Group.

	Drilling technology	Well completion	Oil production services	Total
For the year ended 31 December 2017				
Revenue (Note)	**959,201**	**564,450**	**679,051**	**2,202,702**
EBITDA	**400,582**	**262,876**	**310,658**	**974,116**
Depreciation and amortisation	**(72,490)**	**(111,247)**	**(20,352)**	**(204,089)**
Asset impairment provision of				
- Inventories	**—**	**(5,389)**	**(1,600)**	**(6,989)**
- Trade and other receivables	**(3,136)**	**(12,203)**	**(7,499)**	**(22,838)**
Interest income	**47**	**150**	**230**	**427**
Finance expenses	**(5,758)**	**(2,988)**	**(8,250)**	**(16,996)**
Share of loss of a joint venture	**(901)**	**—**	**—**	**(901)**
Income tax expense	**10,054**	**(6,413)**	**(37,288)**	**(33,647)**
For the year ended 31 December 2016				
Revenue (Note)	437,451	751,129	429,095	1,617,675
EBITDA	141,747	303,467	198,044	643,258
Depreciation and amortisation	(55,962)	(116,256)	(15,191)	(187,409)
Asset impairment provision of				
- Inventories	(72,089)	(3,562)	(21,830)	(97,481)
- Trade and other receivables	(8,809)	(4,142)	(113)	(13,064)
Interest income	2	288	—	290
Finance expenses	(1,508)	(10,162)	(2,696)	(14,366)
Share of loss of a joint venture	(408)	—	—	(408)
Income tax expense	(3,696)	(23,111)	(40,274)	(67,081)

Note: Sales between segments are carried out at terms mutually agreed between relevant group entities. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss.

	Drilling technology	Well completion	Oil production services	Total
As at 31 December 2017				
Total assets	2,025,962	2,816,315	587,235	5,429,512
Total assets include:				
Capital expenditures	149,412	81,737	39,772	270,921
As at 31 December 2016				
Total assets	1,904,963	2,713,884	540,618	5,159,465
Total assets include:				
Capital expenditures	110,804	76,147	17,312	204,263

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

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

	Year ended 31 December	
	2017	**2016**
EBITDA for reportable segments	**974,116**	643,258
Corporate overheads	**(517,809)**	(361,411)
Depreciation	**(185,306)**	(177,196)
Amortisation	**(18,783)**	(10,213)
Asset impairment provision	**(29,827)**	(110,545)
Interest income	**427**	290
Finance expenses	**(16,996)**	(14,366)
Share of loss of a joint venture	**(901)**	(408)
Profit/(loss) before income tax	**204,921**	(30,591)

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

	As at 31 December	
	2017	**2016**
Assets for reportable segments	**5,429,512**	5,159,465
Corporate assets for general management	**2,317,963**	1,501,816
Total assets	**7,747,475**	6,661,281

The Group allocates revenue on the basis of the location in which the sales are originated.

Geographical Information

	Revenue		Non-current assets	
	Year ended 31December		As at 31 December	
	2017	**2016**	**2017**	**2016**
PRC	**793,903**	751,532	**2,290,221**	2,287,170
Iraq	**855,328**	628,230	**661,359**	495,129
Other countries	**553,471**	237,913	**338,445**	169,379
Total	**2,202,702**	1,617,675	**3,290,025**	2,951,678

Client information

For the year ended 31 December 2017, revenues of approximately RMB817,426,000 (2016: RMB 413,368,000) were derived from two external independent customers, which contributed 21.84% and 15.27% (2016: 17.01% and 8.54%) to the total revenue respectively. These revenues were mainly attributable to drilling technology and oil production services segments.

5. REVENUE

	Year ended 31 December	
	2017	**2016**
Sales of goods	**113,723**	250,470
Provision of services	**2,088,979**	1,367,205
	2,202,702	1,617,675

6. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Year ended 31 December	
	2017	**2016**
Materials and services purchased	**726,523**	700,999
Staff costs	**377,151**	371,726
In which:		
- Salaries and other staff expenses	**360,661**	356,295
- Share-based compensation	**16,490**	15,431
Depreciation	**217,962**	207,454
Less: Capitalised in inventories	**16,305**	24,052
	201,657	183,402
Amortisation	**25,035**	17,092
Less: Capitalised in inventories	**2,265**	5,357
	22,770	11,735
In which:		
- Cost of sales	**17,866**	8,792
- Administrative expenses	**2,857**	1,715
- Selling expenses	**70**	41
- Research and development expenses	**1,977**	1,187
Sales tax and surcharges	**11,145**	4,553
Auditor's remuneration		
- Audit and related services	**3,900**	6,030
- Other services	**500**	950
Other operating expenses	**395,036**	264,051
In which:		
- impairment of receivables	**22,838**	13,064
- impairment of inventories	**6,989**	97,481
Total operating cost	**1,738,682**	1,543,446

7. FINANCE COSTS, NET

	Year ended 31 December	
	2017	**2016**
Interest expenses		
- on bank borrowings	**(61,010)**	(48,776)
- on bonds	**(148,467)**	(140,697)
- on put option of non-controlling interest	**—**	(15,453)
Exchange (loss)/gain, net	**(42,207)**	34,939
Others	**(19,947)**	(5,900)
Finance expenses	**(271,631)**	(175,887)
Interest income	**3,759**	2,508
	(267,872)	(173,379)

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	**2016**
Current income tax		
- PRC enterprise income tax	**2,512**	2,734
- Iraq corporate income tax	**41,659**	51,869
- Others	**1,651**	210
Deferred income tax	**(12,175)**	12,268
	33,647	67,081

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 estimated taxable profits of PRC established subsidiaries at applicable tax rate of 25% in 2017 (2016: 25%), based on the relevant PRC tax laws and regulations, except for certain subsidiaries which are taxed at preferential tax rates of 15% and 12.5%. 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 entities are qualified 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 the higher of 7% on the total turnover, or 35% on the net taxable profit.

The taxation of the Group's profit/(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	
	2017	**2016**
Profit/(loss) before income tax	**204,921**	(30,591)
Tax calculated at applicable tax rates	**22,311**	21,577
Income not subject to taxation	**(2,718)**	(2,000)
Expenses not deductible for taxation purposes	**1,143**	1,828
Additional deduction of research and development expense	**(1,583)**	(799)
Tax losses and deductible temporary difference for which no deferred income tax was recognised	**35,387**	34,000
Utilisation of unused deductible tax losses previously not recognised as deferred income tax	**(105)**	—
Reversal of the deferred income tax assets from prior years	**—**	12,325
Recognition of the deferred income tax assets for unused deductible tax losses from prior years	**(21,224)**	—
Share of loss of a joint venture	**135**	61
Others	**301**	89
	33,647	67,081

9. EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	Year ended 31 December	
	2017	**2016**
Profit/(loss) attributable to equity holders of the Company (RMB'000)	**54,495**	(160,450)
Weighted average number of ordinary shares in issue (thousands of shares)	**2,644,785**	2,227,365
Basic earnings/(loss) per share (expressed in RMB per share)	**0.0206**	(0.0720)

(b) **Diluted**

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2017, the only dilutive factor of the Company was the outstanding share options. For the purpose of calculating diluted earnings per share, the Company assumed the outstanding share options had been exercised upon the grant dates of the options. Meanwhile, a calculation is made in order to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options, which are deducted from the total number of outstanding share options to determine the number of diluted shares deemed to be issued at no consideration.

For the year ended 31 December 2016, the Group made loss and therefore the effect of share option 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.

	Year ended 31 December	
	2017	**2016**
Profit/(loss) attributable to equity holders of the Company (RMB'000)	**54,495**	(160,450)
Weighted average number of ordinary shares in issue (thousands of shares)	**2,644,785**	2,227,365
Adjustments for assumed conversion of share options (thousands of shares)	**9,456**	—
Weighted average number of ordinary shares for computation of diluted earnings/(losses) per share (thousands of shares)	**2,654,241**	2,277,365
Diluted earnings/(loss) per share (expressed in RMB per share)	**0.0205**	(0.0720)

10. TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2017	**2016**
Trade receivables, net (a)		
- from related parties	**12,102**	6,252
- others	**1,675,658**	1,234,665
	1,687,760	1,240,917
Notes receivable (e)	**72,598**	57,078
	1,760,358	1,297,995

Notes:

(a) Ageing analysis of gross trade receivables at the reporting date was as follows:

	As at 31 December 2017		
	Gross amount	**Impairment**	**Carrying value**
1 - 6 months	**1,055,640**	**—**	**1,055,640**
6 months - 1 year	**468,012**	**—**	**468,012**
1 - 2 years	**110,927**	**—**	**110,927**
2 - 3 years	**52,656**	**(205)**	**52,451**
Over 3 years	**64,189**	**(63,459)**	**730**
	1,751,424	**(63,664)**	**1,687,760**

	As at 31 December 2016		
	Gross amount	Impairment	Carrying value
1 - 6 months	824,673	—	824,673
6 months - 1 year	223,805	—	223,805
1 - 2 years	162,754	(2,494)	160,260
2 - 3 years	38,500	(10,958)	27,542
Over 3 years	32,011	(27,374)	4,637
	1,281,743	(40,826)	1,240,917

(i) As at 31 December 2017, trade receivables amounting to RMB1,523,652,000 (31 December 2016: RMB1,048,478,000) 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 2017, trade receivables with carrying value of RMB164,108,000 (31 December 2016: RMB192,439,000) 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 of one year or less, except for retention money which would be collected one year after the completion of the services. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables.

(c) As at 31 December 2017, trade receivables of RMB203,369,000 (31 December 2016: RMB221,824,000) were pledged as security for short-term borrowings of RMB181,320,000 (31 December 2016: RMB199,642,000).

Movements of impairment of trade receivables are as follows:

	2017	2016
As at 1 January	**(40,826)**	*(31,712)*
Additions	**(22,838)**	(10,591)
Dispose of a subsidiary	**—**	11
Write-off	**—**	1,466
As at 31 December	**(63,664)**	(40,826)

(d) Included in the impairment of trade receivables are individually impaired trade receivables with an aggregate balance of RMB63,664,000 (31 December 2016: RMB40,826,000) which are generally not recoverable based on the management's historical experience and understanding of the customers' financial status.

(e) As at 31 December 2017 and 2016, notes receivable are all bank acceptance bills with maturity dates within six months.

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

	As at 31 December	
	2017	**2016**
RMB	**740,246**	724,205
United States dollar ("US$")	**836,761**	569,320
Others	**183,351**	4,470
	1,760,358	1,297,995

11. TRADE AND NOTES PAYABLES

	As at 31 December	
	2017	**2016**
Trade payables		
- related parties	**87,796**	95,757
- others	**453,367**	401,806
Notes payable	**143,984**	302,459
	685,147	800,022

Ageing analysis of trade and notes payables at the reporting date was as follows:

	As at 31 December	
	2017	**2016**
Less than 1 year	**559,887**	715,791
1 - 2 years	**83,845**	59,225
2 - 3 years	**27,582**	19,491
Over 3 years	**13,833**	5,515
	685,147	800,022

Trade and notes payables were denominated in the following currencies:

	As at 31 December	
	2017	**2016**
RMB	**496,993**	717,417
US$	**86,026**	82,321
Others	**102,128**	284
	685,147	800,022

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

13. EVENTS AFTER THE REPORTING PERIOD

On 22 December 2017, the Company, Anton International and DMCC entered into an agreement with China Oil HBP and Hong Kong Huihua Global Technology Limited ("Huihua"), a wholly-owned subsidiary of China Oil HBP, pursuant to which the Group will acquire from Huihua 40% of the issued share capital of DMCC for the consideration of RMB735,000,000. DMCC is a non-wholly owned subsidiary of the Group which is owned as to 60% by the Group and as to 40% by Huihua. After completion of the acquisition, DMCC will become a wholly-owned subsidiary of the Group.

The consideration for the acquisition in the amount of RMB735,000,000 will be settled as to RMB450,000,000 by cash and as to RMB285,000,000 by the issuance of an aggregate of 334,224,599 new shares of the Company to Huihua at the issue price of HK$1.014 per share.

Anton International paid the first installation of the acquisition consideration of RMB300,000,000 to Huihua in accordance with the terms of the agreement on 15 December 2017. The acquisition is subject to the approval by the Stock Exchange and the shareholders at the extraordinary shareholders' meeting to be held in 2018. As of the date of issuance of these consolidated financial statements, the transaction has not been completed.

BUSINESS REVIEW

In 2017, the global oil and gas market ended a three-year-long slump, international oil price bounced back, and the industry began to recover. Oil companies increased capital expenditure, and upstream exploration and development entered recovery stage. During the year, service workload in domestic and overseas oilfields increased with project execution fully picked up pace. Thanks to thorough adjustments of market and business structure during the trough, as well as the continuous and strictly executed cost control measures, the Group quickly returned to high-speed growth and achieved significant growth on both revenue and profit. The Group also realized remarkable achievement regarding market exploration and new projects winning, with new orders increasing largely as compared with 2016.

In terms of corporate governance, the Group captured the opportunity of the recovering industry and its own business and successfully completed the issue of USD300.0 million of new bond on 5 December 2017. The new bonds comprise new issue and issue for exchanging the USD bond previously issued by the Company due in 2018, thus eliminated one year ahead of time the repayment risk of its previous 2018 USD bond, improved its liquidity, realized credit rating improvement, and removed the greatest hurdle at this stage to the Group's business development. Besides, on 22 December of the year, the Group signed an equity repurchase agreement with China Oil HBP to repurchase 40% of the Group's Iraqi business for a consideration of RMB735.0 million, regaining full control over the business in its key market of Iraq. This transaction is still pending for the approval from the Group's extraordinary general's meeting.

In terms of financial management, the Group continued to execute strict cash flow control measures, comprehensively strengthened its accounts receivable recovery, strictly restricted the prepayment ratio in procurement, and focused on reducing working capital occupation of overseas projects, and realized a relatively good operating cash flow level for the year. Besides, during the year, the Group actively broadened its financing channels. Supporting by the Belt and Road initiative, it focused on seeking cooperation with national policy financial institutions to reduce overseas risk exposure during its rapid overseas business expansion, and simultaneously improve its offshore financing capability. In the fourth quarter of 2017, material progress was made regarding the Group's cooperation with national policy financial institutions, obtained the Group a specific insurance and corresponding financing of about USD15.0 million value for projects in Kazakhstan.

Results and Performance

In 2017, total revenue of the Group was RMB2,202.7 million, an increase of RMB585.0 million from RMB1,617.7 million or 36.2% from last year. Operating profit was RMB473.7 million, an increase of RMB330.5 million or 230.8% from last year's RMB143.2 million. Net profit was RMB171.3 million, an increase of 269.0 million or 275.3% from net loss of RMB97.7 million last year. Profit attributable to equity holders was RMB54.5 million, an increase of RMB215.0 million or 134.0% from net loss of RMB160.5 million last year. Net margin attributable to equity holders was 2.5%, an increase of 12.4 percentage points from -9.9% last year.

As at 31 December 2017, average accounts receivable turnover days were 227 days, a decrease of 36 days as compared with last year. The average inventory turnover days were 181 days, a decrease of 90 days as compared with last year. Average accounts payable turnover days was 136 days, a decrease of 6 days as compared with last year. Cash flow from operating activities was RMB195.6 million, an increase of RMB80.0 million from RMB115.6 million last year.

Geographical Market Analysis

In 2017, overseas market has recorded revenue of RMB1,408.8 million, an increase of RMB542.6 million from last year's RMB866.2 million, or 62.6%. Overseas revenue takes up an increased proportion of 64.0% of the total revenue of the Group. In the overseas markets, Iraq has recorded revenue of RMB855.3 million, an increase of RMB227.1 million from last year's RMB628.2 million, or 36.2%, and takes up 38.8% of the total revenue of the Group. Other overseas markets recorded revenue of RMB553.5 million, an increase of RMB315.5 million from last year's RMB238.0 million, or 132.6%, and take up 25.2% of the total revenue of the Group. The domestic market has recorded revenue of RMB793.9 million, an increase of RMB42.4 million from last year's RMB751.5 million, or 5.6%, and takes up 36.0% of the total revenue of the Group

Breakdown of Revenue by Market

	Year ended 31 December			Share of total revenue of the Group Change Year ended 31 December	
	2017	2016	**Growth**	**2017**	2016
	(RMB'mn)	*(RMB'mn)*	***(%)***		
Overseas	**1,408.8**	866.2	**62.6%**	**64.0%**	53.5%
Domestic	**793.9**	751.5	**5.6%**	**36.0%**	46.5%
Total	**2,202.7**	1,617.7	**36.2%**	**100.0%**	100.0%

Overseas Market

	Year ended 31 December			Share of total revenue of the Group Change Year ended 31 December	
	2017	2016	**Growth**	**2017**	2016
	(RMB'mn)	*(RMB'mn)*	***(%)***		
Iraq	**855.3**	628.2	**36.2%**	**38.8%**	38.8%
Other overseas markets	**553.5**	238.0	**132.6%**	**25.2%**	14.7%
Total	**1,408.8**	866.2	**62.6%**	**64.0%**	53.5%

Overseas Market

In 2017, overseas market of the Group maintained high-speed growth, taking up an even higher 64.0% of total revenue. With its broad market space and high-quality orders, it helps the Group to achieve scaled-growth, optimized customer base structure, increased overall margin as well as improved cash flow situation.

Key overseas market - Iraq

With the increased oil price and improved financing capability of the Iraqi government, in 2017, the market maintained liveliness of growth and capacity building. Upstream E&P projects commenced operations across the board, with overall oilfield services workload experiencing significant growth as compared with 2016. The Group, with its premium services for international oil company projects in this market, has experienced further expanding brand influence and continued growth in market scale. Currently, the Group provides drilling operations, directional drilling

,coiled tubing, completion tools, integrated workover and completion services and general oil production and maintenance services in multiple oilfields in mid- and southern Iraq for both Chinese and international oil company clients. The cementing operations and waste management product lines have also entered Iraq for the first time in 2017, further expanding overall service capacity of the Group in Iraq.

On the aspect of operation, the Group's orders on hand have fully commenced operations. The integrated drilling project commenced drilling and operations officially in the first quarter of 2017 after a two-year standby, and completed 8 wells in 2017. Other key large-scale projects including the integrated workover and completion project and the production operations project have maintained ample workload, with some projects picked up pace of execution as per request of clients. In 2017, the Group has recorded revenue of about RMB855.3 million in Iraq, an increase of about 36.2% as compared with last year's RMB628.2 million.

In the fourth quarter of 2017, the Group signed an equity repurchase agreement with China Oil HBP to repurchase 40% of the Group's Iraqi business for a consideration of RMB735.0 million, among which RMB450.0 million will be paid in installments (with the first installment of RMB300.0 million paid in 2017, the second installment of RMB75.0 million will be paid after the transaction has been approved by the shareholders at an extraordinary general meeting to be convened in 2018 for approving the transaction, with the remaining RMB75.0 million to be paid in 2019). For the remaining RMB285.0 million, the Group will issue 334,224,599 new shares to HBP at the issue price of HKD1.014/share, subject to approval by shareholders at an the extraordinary general meeting and the Stock Exchange granting listing approval for such shares. The two parties will further deepen the overall cooperation in global markets through the issuing of new shares.

Other overseas markets - emerging markets

Other overseas markets are mainly emerging markets in Belt and Road countries where the Group provides services, which include Ethiopia, Kazakhstan, Pakistan, Canada and South America. Core clients of the Group are independent Chinese oil companies investing and developing oil and gas resources in these emerging markets. Since beginning cooperation with independent oil companies in 2015, the Group has expanded cooperation with them, and established long-term strategic partnerships with key clients. As a leader in independent Chinese oil services companies, the

Group becomes a go-to partner of independent Chinese oil companies thanks to its excellent technical strength and integrated service capabilities covering the entire life cycle of oil and gas field services. In 2017, benefitting from the recovery in international crude price, oil companies significantly increased capital expenditure in upstream E&P. The Group further strengthens its cooperation with clients and expanded its market share. During the year, the Group has recorded in other overseas markets in total about RMB459.9 million of new orders, an increase of about 304.8% from last year's RMB113.6 million. In Kazakhstan, the Group further strengthened its cooperation with strategic partner Geo-Jade, obtaining about RMB250.0 million of new orders during the year for services including turn-key drilling operation services and pressure pumping projects. Other than cooperation with business partners, the Group has obtained remarkable growth regarding directional drilling and completion tool services in Kazakhstan. In Ethiopia, the Group has established strong and friendly partnerships with clients, and its business continued to maintain steady growth, with three major product lines of workover, cementing and drilling fluids winning annual service orders. In Albania, the Group initiated substantive cooperation with strategic partners, beginning to sell multiple batches of completion tools. At present, the market development process is smooth, and large room for growth is expected in this market. In Pakistan, the Group cooperates with clients mainly with experimental projects. Pressure pumping service project has achieved impressive results of increasing production more than ten times for a single well, created high value for the client. It established branding of the Group while laying a solid foundation for scaled promotion of the business. The Americas market has began to recover slowly, with orders increased as compared with last year.

Operation-wise, the Group provided premium high-efficient operations in emerging markets during the year, and achieved significant production-increasing cost-reducing effects in multiple projects, thanks to its integrated service capability and its relative technical advantages in such markets. It helped the clients to realize value-adding and was highly accoladed, laid a solid foundation for establishing overseas branding influence of the Group. During the year, the Group has recorded in other overseas markets in total about RMB553.5 million of revenue, a dramatic increase of about 132.6% from last year's RMB238.0 million

With the rapid development of global business, especially in the emerging Belt and Road markets supported by national policy, the Group began actively seeking cooperation with national policy financial institutions, in order to manage possible political/commercial risks when developing overseas business as well as obtaining necessary capital support for overseas business development. In the fourth quarter of 2017, material progress was made regarding the Group's cooperation with national policy financial institutions, obtained the Group a specific insurance of about USD15.0 million for a project in Kazakhstan. Such insurance could provide

protection against political and commercial risks. On such basis, the Group could work with overseas commercial banks to retrieve capital earlier. The Group is actively promoting cooperation with this institution on a larger scale with more diversified modes in order to relieve the Group from overseas risk exposure and capital occupation problem of performance bond required in overseas business.

Domestic market

In domestic market, the industry began to recover from a three-year-long trough, and upstream E&P development was becoming more active. Domestic oil&gas consumption reached a new height, with an increasingly larger demand gap. Investment in natural gas E&P, including shale gas, CBM and other unconventional resources, significantly increased along with demand for new techniques to reduce cost and increase efficiency. At the same time, domestic cooperation projects with international oil companies were going on smoothly, market players diversifying.

Market-wise, domestically, the Group is selective regarding projects, avoiding conventional projects with fierce competition and focusing on unconventional and new technology service projects on which the Group has an advantage over other players. The Group had gave up certain projects with lower-than-ideal profitability and long working capital occupation period. Accelerated development of shale gas in Southwest China provides new opportunities for domestic business growth of the Group. It won integrated service project for Sichuan shale gas platform drilling and turn-key project for ultra-long shale gas horizontal well in the fourth quarter of 2017, with a combined value of about RMB150.0 million. The first project is the first attempt of the customer to allow independent oil service companies to independently take on integrated shale gas development projects. The Company became one of the first independent oil service companies to enter mainstream shale gas development market in China, thanks to its leading advantages in unconventional resources development technology which is well received by customers. The latter project is a new technique project, with which the Company becomes the premium partner of the customer thanks to its outstanding technological capabilities and operating track record. This project's equipment is provided by customer, the Group is providing technical service, which made the project more profitable. In Erdos, large equipment of the Company including drilling rigs, pressure pumping equipment and coiled tubing equipment all won long-term service orders. In Xinjiang, conventional product lines with an advantage began to recover, with workover services, drilling and completion fluid services and inspection services all obtaining large order increases than last year. During 2017, the Company won new orders of about RMB1,150.9 million in the domestic market, an increase of about 22.4% from last year's RMB940.2 million, with a significant increase in order quality.

Operation-wise, in 2017, orders on hand in the domestic market started its commenced of operations. Utilization rate of large equipment, including drilling rigs and pressure pumping trucks, improved dramatically. By emphasizing operation quality and increasing efficiency, multiple drilling rig service teams of the Group became leading teams approved by regional market clients, and the Company's branding is further solidified.

Regarding promotion of new technologies, the Group has been working on research, introduction and promotion of new technologies and know-hows aimed at developing different geological reservoirs for the clients, especially the practical demand of "increasing production and lowering cost" in developing unconventional oil and gas resources. During the year, biosynthesis-based drilling fluid introduced from abroad achieved success in the Sichuan shale gas market. This new product can replace ordinary oil-based drilling fluid with higher drilling efficiency and better environmental protection. The high performance and lower price of the product is beneficial for large-scale development of shale gas, and the Group expects large room for business development of such product in the fast-growing shale gas market. The nano-chemical material developed through cooperation between the Group and FLOTEK in North America has achieved remarkable production-increasing results in trial wells, winning recognition from more clients, and is being promoting for a larger scale.

Business Cluster Analysis

In 2017, the market began to recover from a three-year-long trough, and oil companies began to increase Capex, especially expenditure aimed at new-well development of oilfield, directly benefitting drilling services of the Group, and allowed its drilling services to benefit directly, recording a significantly higher revenue than last year. Drilling technology cluster recorded revenue of RMB959.2 million, a dramatic increase of about 119.2% than last year, amounting to 43.6% of the total revenue of the Group. Completion business suffered from large decreases in investment in new wells especially the demand for high-technical-requirement production-increasing operations lead by the past three years depressed market, it still needs time to recover. In 2017, well completion cluster recorded revenue of RMB564.4 million, a decrease of 24.9% as compared with last year, and 25.6% of total revenue. For oil production services, the Group's overseas production projects have fully commenced operations, with some projects picking up pace as per clients' demand, and workload has experienced large increases as compared with 2016. The oil production services cluster has recorded revenue of RMB679.1 million, an increase of 58.3% as compared with 2016, and 30.8% of total revenue.

Revenue Breakdown by Cluster

	Year ended 31 December		Change	% of total revenue Year ended 31 December	
	2017	2016	**Growth**	**2017**	2016
	(RMB'mn)	*(RMB'mn)*	***(%)***		
Drilling technology cluster	**959.2**	437.5	**119.2%**	**43.6%**	27.1%
Well completion cluster	**564.4**	751.1	**-24.9%**	**25.6%**	46.4%
Oil production services cluster	**679.1**	429.1	**58.3%**	**30.8%**	26.5%
Total	**2,202.7**	1,617.7	**36.2%**	**100.0%**	100.0%

Drilling technology cluster

In 2017, drilling technology cluster has recorded revenue of RMB959.2 million, a huge increase from last year's RMB437.5 million, or 119.2%. It was mainly attributable to the significant increase of Capex by customers on new well development, and the market for new well construction has recovered in terms of workload. Several drilling projects previously delayed in multiple domestic and overseas markets have fully commenced operation and have recorded full workload for the year.

Analysis of product lines in this cluster:

1) Integrated drilling services: during the year, the Group has expanded its cooperation with strategic partner Geo-Jade. This product line has recorded a growth on both workload and revenue in Kazakhstan during the year. The cementing services in Ethiopia have both recorded growth as compared with last year. During the reporting period, this product line recorded revenue of RMB318.9 million, a dramatic increase from last year's RMB26.5 million.

2) Directional drilling: with its solid technical capabilities, this product line has deeply tapped the existing market and recorded large revenue increase in Kazakhstan. In Iraq, this product line maintained stable revenue scale. In the domestic market, the Company maintained stable cooperation with an international oilfield services company in the Southwest market with joint operations on shale gas projects, high-quality service got high recognition from customers. Proprietary rotary geological direction services applied in Northeast China has gradually obtained recognition from customers and exhibited large potential for promotion. During the reporting period, this product line recorded revenue of RMB191.5 million, an increase of 51.0% from last year's RMB126.8 million.

3) Drilling fluid service: stable development was maintained in Ethiopia, while slight decrease year-on-year was experienced in Xinjiang, China. In 2017, this product line recorded revenue of RMB103.6 million, a decrease of 2.6% from last year's RMB106.4 million.

4) Land drilling service: with higher Capex on new wells by oil companies, integrated drilling service projects previously won in Iraq by the Company has fully commenced operations after a two-year standby period, and initiated drilling in the first quarter of 2017 while keeping full workload throughout the year. In Erdos, China, drilling rigs of the Group has maintained ample workload on multiple projects, and became leading teams locally thanks to their outstanding operation quality, got highly accoladed by customers. It further solidified the Group's branding position, and has won good reputation for the Group to stand firm in the core domestic market and further expansion in overseas markets. During the reporting period, this product line recorded revenue of RMB214.2 million, a surge of 505.1% from last year's RMB35.4 million.

5) Oilfield waste management service: this product line successfully achieved breakthrough in Ethiopia and Iraq in 2017, recording a higher year-on-year revenue of RMB30.5 million, or a 36.2% increase compared to last year's RMB22.4 million.

6) Drilling tool rental and technology service: with the recovery in drilling services market and higher demand from customers, this product line has achieved growth in workload in Xinjiang, China. During the reporting period, this product line recorded revenue of RMB39.9 million, an increase of 75.8% from last year's RMB22.7 million.

7) Oil production facilities inspection and evaluation service: benefitting from the gradual recovery of the Xinjiang market, this product line experienced significant growth in workload in the second half of 2017, and achieved breakthrough of order in Kazakhstan, further expanding its business. During the reporting period, this product line recorded revenue of RMB60.6 million, an increase of 5.9% from last year's RMB57.2 million.

EBITDA of the drilling technology cluster dramatically increased from last year's RMB141.7 million to RMB400.5 million, an increase of 182.6%. EBITDA margin for 2017 was 41.8%, an increase of approximately 9.4% percentage points from last year's 32.4%, mainly due to the large growth in the high-gross-margin drilling business in Iraq.

Well completion cluster

In 2017, well completion cluster recorded revenue of RMB564.4 million, a decrease of 24.9% from last year's RMB751.1 million. Due to the large decrease in Capex, and severely shank on market demand especially those targeting higher technical needed unconventional projects' stimulation demand from oil companies in the past few years. Even though E&P expenditure upstream has begun recovery during the year, completion business lags behind the drilling sector, and coupled with a highly competitive market revenue of well completion cluster has dropped as compared with last year. The Group has been selective in choosing projects, avoiding certain low-margin projects which take up working capital for a relatively long time, while actively promoting the research, introduction and market promotion of new know-hows and techniques. Proprietary completion tools of the Company has been applied in the domestic market, South America and Iraq, while the nano-chemical stimulation technology developed in cooperation with the North America strategic partner has achieved preliminary results in trial projects of regional markets, and could become a new growth point for the cluster.

Analysis of product lines in this cluster:

1) Well completion integration: due to low demand and high level of competition in the domestic market, the scale of this product line experienced large decreased. During the reporting period, this product line recorded revenue of RMB136.8 million, a decrease of 40.9% from last year's RMB231.5 million. Proprietary sand control tools still achieved healthy sales results in South America, Ethiopia and Iraq.

2) Pressure pumping service: considering the relatively low demand in China, the Company has transferred part of its pressure pumping equipment to the overseas market, including Iraq, Pakistan and Ethiopia. It has increased utilization and revenue for the product line. Relatively higher gross margin overseas also improved the overall profitability of the product line. In Pakistan, pressure pumping project has achieved the impressive result of increasing production more than ten times for a single well, created higher value for the client, soliditied branding position of the Group as well as its large-scale promotion. During the reporting period, this product line recorded revenue of RMB143.7 million, an increase of 16.7% from last year's RMB123.1 million.

3) Coiled tubing service: in 2017, lower domestic demand and high level of competition led to a decreased on work load. Performance in the overseas markets including Iraq remained stable. In 2017, this product line recorded revenue of RMB196.7 million, a decrease of 40.6% from last year's RMB331.0 million.

4) Fracturing/acidizing technique and chemical materials: despite the fact that domestic demand is yet to recover, the Group has promoted this product line to multiple new overseas markets, thanks to its outstanding process design capability and chemical

stimulation technical capability. In Kazakhstan, Ethiopia and Pakistan, it has achieved growth in both orders and revenue. During the reporting period, this product line recorded revenue of RMB36.7 million, an increase of 92.1% from last year's RMB19.1 million.

5) Gravel packing service: through effective market development and cost-reducing efficiency-increasing measures, this product line has maintained healthy order growth in the fiercely competitive domestic market. During the reporting period, this product line recorded revenue of RMB45.0 million, an increase of 17.5% from last year's RMB38.3 million.

EBITDA of the well completion cluster decreased from last year's RMB303.5 million to RMB262.9 million, a decrease of 13.4%. EBITDA margin for 2017 was 46.6%, an increase of 6.2 percentage points from last year's 40.4%. Reason for the growth on EBITDA margin is that under the backdrop of a highly competitive market and a yet to recover market situation in China, the Group turned its focus to overseas market, the growth of overseas completion business with higher margin has improved the margin of the sector.

Production services cluster

In 2017, the oil production cluster has recorded revenue of RMB679.1 million, a significant increase of 58.3% from last year's RMB429.1 million. This cluster has maintained its growth momentum. In Iraq, the workover and completion turn-key project from an international oil company has successfully commenced operations, while the production operation and maintenance service has maintained sustainable workload since commencing operation in the second half of 2016, while obtaining substantial new workload on the basis of existing contracts, dramatically increase overall revenue. Workover service in Xinjiang maintained stable workload. Production services in Ethiopia has also recorded good results during the year.

Analysis of product lines in this cluster:

1) Production operation services: Iraq is the major market for this product line. The production operation services in Halfaya oilfield has maintained stable workload, and the project from an international oil company has maintained continuous and stable workload since commencing operation, and has once again won additional high-value orders from the client thanks to the high service quality of the Group. The production operation and maintenance capability of the Group has been recognized in Iraq by more customers, and there is still room for further growth in the future. During the reporting period, this product line recorded revenue of RMB414.0 million, a significant increase of 123.7% from last year's RMB185.1 million.

2) Workover service：the workover and completion turn-key project has officially kicked-of in March this year, with two teams currently on-site operating, providing sizable revenue for the Group. One workover team in Ethiopia has maintained steady workload. Domestically, our self-used workover rigs in Tarim area recorded higher

workload than last year. In the Turpan-Hami region, 12 workover teams managed by the Group continued operation. During the reporting period, this product line recorded revenue of RMB231.6 million, a dramatic increase of 90.3% from last year's RMB121.7 million.

3) Oil tubing and casing and anti-corrosion technology: the Company actively seek opportunities and obtained growing orders. During the reporting period, this product line recorded revenue of RMB33.5 million, an increase of 8.1% from last year's RMB31.0 million.

EBITDA of the production services cluster increased from last year's RMB198.0 million to RMB310.7 million, an increase of 56.9%. EBITDA margin for 2017 was 45.8%, a decrease of 0.3 percentage points from last year's 46.1%, mainly due to higher percentage of revenue from workover service, which exhibits a slightly lower gross margin as compared with production operation services which is more engineeer service oriented.

Strategic Resources Alignment

In 2017, the Group continued to strictly control new capital expenditure, with full-year Capex of RMB417.9 million, or an decrease of 19.0% from last year's RMB515.7 million. It was mainly attributable to payment of investment projects from previous years and new investments for overseas projects.

Alignment of Investment

In 2017, investment of the Group mainly includes supplementary investment in equipment for orders under execution in Iraq, including turn-key workover and completion project, coiled tubing and inspection tool projects.

Significant Investments and Material Acquisition

In the fourth quarter of 2017, the Group signed an equity repurchase agreement with China Oil HBP to repurchase 40% of the Group's Iraqi business for a consideration of RMB735.0 million, among which RMB450.0 million will be paid in cash in installments (with the first installment of RMB300.0 million paid in 2017, the second installment of RMB75.0 million will be paid after the transaction has been approved by shareholders at the shareholders at the extraordinary general meeting to be held in 2018 granting listing approval for such shares, with the remaining RMB75.0 million to be paid in 2019). For the remaining RMB285.0 million, the Group will issue 334,224,599 new shares to HBP at a price of HKD1.014/share, pending approval by the extraordinary general meeting and the Stock Exchange. The Group will also deepen the overall cooperation with HBP in global markets through issuing of new shares.

Alignment of R&D

In 2017, the Group focused on improvement and innovation of techniques or tools related to the practical needs from customers around production-increasing and cost-reducing, as well as promoting optimization and upgrade of products through technological cooperation. In 2017, R&D expense of the Group amounted to RMB26.5 million, an increase of 60.6% from last year's RMB16.5 million.

Key research and development pipelines include:

— High-temp high-density high-performance environment-friendly water-based drilling fluid system

— In-door research and on-site application of biosynthesis-based environment-friendly drilling fluid system

— Automatic fluid control technique and technologies

— Horizontal cement-injecting multistage fracturing technology

Alignment of Capital Operations

On 5 December 2017, the Company has completed issuance of USD300.0 million new bond at 9.75% coupon rate due on 5 December 2020. Among the newly issued USD300.0 million bond, about USD176.0 million was issued in exchange for the existing bond due on 6 November 2018, with the rest of about USD124.0 million subscribed by new investors. The successful issuance of the bond eliminates short-term debt risks for the Group, improves its liquidity, achieves improved credit rating, eliminates the biggest hurdle in business development, and provides strong support for the Group on the occasion of business recovery. On 12 January 2018, the Company has redeemed an aggregate principal amount of USD71.0 million of all the outstanding old notes that due on 5 December 2018.

Alignment of Human Resources

In 2017, in response to its strategic development goal and to support rapid development of its overseas business, the Group focused on improving internationalization of its workforce, adjusted talent distribution, raised proportion of internationalized talents, and introduced high-end internationalized talents. Major adjustments in 2017 include:

— In order to support overseas development, the Group added new overseas employees, resulting in a small increase in total headcount. As at the date of the announcement, total headcount of the Group is 2591, an increase of 28.2% from 2016, while the number of overseas employees increased 72.8% to 1040, accounted to 40.1% of the total workforce. Meanwhile, the Company strengthened its training programme to improve overall internationalization and provide talents for the rapid growth overseas.

— Remuneration structure was refined further during the year. The Group adjusted its incentive mechanism to increase floating incentives linked to performance assessment and enhanced employee motivation. Labour cost amounted to a smaller percentage of revenue despite an increase in headcount. In 2017, Labour cost amounted to 17.1% of total revenue, down 5.9 percentage points from 23.0% in 2016.

— The Company has continued to adopt long-term incentive mechanism with share options to encourage employees to work with the Group in the long run. During the year, the Group has issued 100,000,000 ordinary share options of the Company to about 150 key employees and directors at an exercise price of HKD0.81/share. One third of the options is vested each year, commencing from the first anniversary after issuance

Outlook

In 2018, it is expected that major oil producing countries in the Middle East will maintain their restrictions on oil production, global oil and gas market will achieve a supply-demand balance, and the industry will face full recovery. Upstream E&P Capex from oil companies in major domestic and overseas markets of the Group will continue to grow significantly, with large amount of market opportunities appearing. Meanwhile, benefitting from the full commencment of operation and the abundant orders on hand, the Group is fully confident with the growth in 2018. Regarding management, the Group will focus on cash flow management, recover strong net operating cash flow generating capability, improve operating quality, increase its level of internationalization, and promote healthy growth of revenue and profit under the premise of cash flow growth.

Market-wise, with the strong market recovery, the Group expects to see a very active overall market with large growth opportunities in 2018. The Group will focus on a further customer highgrade, and aim for long-term orders with strong cash flow generating ability, high margin and larger scale per operation, in order to lay a solid foundation of orders for the rapid growth in 2019 and onwards. New breakthroughs and explosive growth are likely to appear in overseas markets. In Iraq, the Group is actively pursuing market share from first-tier international oil companies and enter a higher level platform with limitless room for growth. In the first quarter of 2018, the Group obtained a general drilling project with a value of 16.0 million USD from an International Oil Company. As at this moment, total value of projects under bidding procedures by the Company in Iraq is about several hundreds of million of US dollars. Besides, the long-term partner of the Group Geo-Jade has obtained operation qualification for Iraqi oil and gas fields in January 2018. The Group will continue to utilize the alliance with HBP and Geo-Jade to push forward scaled development in Iraq. In other overseas markets, the Group further strengthens its cooperation with existing strategic partners. In the first quarter of 2018, new orders from Geo-Jade increased RMB130.0 million. Besides it is currently contending for multiple large-scale turn-key projects in Kazakhstan and Albania. Apart from that, supported by the Belt and Road policy and financing from national policy financial institutions, the Group "combines industry with financing", and is in discussion with some other independent Chinese oil companies along the Belt and Road countries, including Ethiopia, Pakistan and other Southeast Asia and African markets, regarding multiple turn-key projects. The market has great potential for growth. In Ethopian market, the Group has renewed it's contract with a value of RMB140.0 million from it's existing business line. Regarding the domestic market, in 2018, major domestic customers of the Group will push the pedal to the metal in the natural gas market, and especially development of Southwest shale gas, providing incremental opportunities for the Group's domestic growth. The Group will leverage its technical advantages in domestic unconventional resource development as well as outstanding track record, and further contend for more unconventional development services projects. In the first quarter of 2018, the Group obtained projects from shale gas market with a value of RMB180.0 million.

Regarding project execution, as at 31 December 2017, order on hand of the Group amounted to about RMB3,508.7 million, with about 80% of projects already commencing operations. In Iraq, multiple large projects of the Group, including the general production operation

maintenance project, integrated drilling project and general workover and completion project, continue to maintain full work. In the case of the Group winning bids as expected in multiple large projects, higher growth in workload will be further witnessed. Domestically, projects won near the end of 2017 in Sichuan shale gas market are beginning to commence implementation. The Group will continue to strictly control operating quality to guarantee high-quality high-efficiency execution of all domestic and overseas projects.

In terms of product and technology, the Group will focus on practical application demands during the development of oil and gas fields, strengthen researching, introducing, promoting and application of new technology. It will enhance cooperation with industry-leading technological companies, and in particular, new technologies emphasizing on production promoting and reducing cost. It will further improve its integrated production-increasing and cost-saving service capability. In 2018, the Company will focus on promoting biosynthesis-based mud technology in shale gas market in southwest China, and the nano-chemical material stimulation technology.

In terms of strategic resources alignment, the Group will continue to strictly control incremental Capex, reallocate existing equipment, strengthen inventory management and cooperation with suppliers, increase resource utilization efficiency, increase integration of resources from partners, and reduce capital occupation from alignment of resources.

Regarding human resources, the Group will focus on internationalization of its talent structure, promote internationalization of management team and localization of international businesses, increase the percentage of local employees in overseas market, and achieve a majority of local employees on conventional services and operations posts. It will take the view of introducing leading talents in the industry, leaping development of outstanding talents and training management. In terms of remuneration, the Group will continue to strengthen its incentive measures, and establish and continue to refine a salary system that fits the industry characteristics and global development.

In terms of financial management, in 2018, the Group will take cash flow management as its core task, and put cash flow growth requirement above revenue and profit growth. It will increase the effort of combining industry and financing, speed up deepened cooperation with national policy financial institutions, collaborate with clients and national policy financial institutions to reduce risks, lower working capital pressure, and use it as the leverage for grabbing market share from international oil services companies in the overseas market.

Overall, through the sufficient adjustment and preparations during the industry trough, the Group now possesses a much more optimized market, client and cost structure. Its operation is more versatile to swiftly seize opportunities as the industry recovers to achieve growth. In 2017, the Group has successfully returned to a fast track of growth. It will continue to welcome 2018 with profound confidence basing on a great start and continue to expand new markets while enhancing internal management. It will be more focused on managing cash flow, optimizing debt structure, and make the Group back to healthy and high speed growth, and steadily step forward to its long-term strategic goal of becoming a "world-leading oilfield technical services company with a strong foot-hold in China".

FINANCIAL REVIEW

Revenue

The Group's revenue in 2017 amounted to RMB2,202.7 million, representing an increase of RMB585.0 million or 36.2% as compared to RMB1,617.7 million in 2016. The increase in the Group's revenue was mainly attributable to the recovering of both domestic and overseas markets, and the full commencing of operation of ample orders on hand.

Costs of Sales

The costs of sales in 2017 increased to RMB1,373.0 million, representing an increase of 27.9%, from RMB1,073.8 million in 2016. The increase was mainly attributable to increased revenue.

Other Gains

Other gains in 2017 decreased to RMB9.7 million from RMB69.0 million in 2016, which was mainly due to lack of substantial disposal of subsidiaries.

Selling Expenses

Selling expenses in 2017 amounted to RMB152.6 million, representing an increase of RMB41.8 million or 37.7% as compared to RMB110.8 million in 2016. This was mainly attributable to increase of revenue.

Administrative Expenses

Administrative expenses in 2017 amounted to RMB175.5 million, representing a decrease of RMB162.3 million or 48.0% as compared to RMB337.8 million in 2016. This was mainly attributable to the downsizing and adjustment of human resources of the Group and comprehensive cost control.

Research and Development Expenses

Research and Development expenses in 2017 amounted to RMB26.5 million, representing an increase of RMB10.0 million or 60.6% as compared to RMB16.5 million in 2016. This was mainly attributable to that the Group strengthening technological innovation and increasing R&D expenses.

Sales Tax and Surcharges

Sales tax and surcharge in 2017 amounted to RMB11.1 million, representing an increase of RMB6.5 million or 141.3% as compared to RMB4.6 million in 2016. This was mainly attributable to the increase of taxable income of the Group.

Operating Profit

As a result of the foregoing, the operating profit of the Group in 2017 amounted to RMB473.7 million, representing an increase of RMB330.5 million or 230.8% as compared to RMB143.2 million in 2016. The operating profit margin for 2017 was 21.5%, representing an increase of 12.6 percentage points from 8.9% in 2016.

Finance Costs (Net)

Net finance costs in 2017 was RMB271.6 million, an increase of approximately RMB95.7 million as compared to RMB175.9 million in 2016. The decrease was mainly due to the devaluation of RMB in the current year leading to currency translation loss.

Share of Loss of Joint Ventures

The share of loss of joint ventures in 2017 amounted to RMB0.9 million.

Income Tax Expense

Income tax expense in 2017 amounted to RMB33.6 million, representing a decrease of RMB33.5 million from RMB67.1 million in 2016. This was mainly due to better tax planning of profiting entities of the Group resulting in less additional income tax occurred, as well as utilization of deferred tax asset by entities at a loss due to recovery of the market.

Profit for the Year

As a result of the foregoing, the Group's profit of 2017 was RMB171.3 million, representing an increase of RMB269.0 million, or 275.3%, compared to 2016.

Profit Attributable to Equity Holders of the Company

The Group's profit attributable to equity holders of the Company in 2017 amounted to RMB54.5 million, an increase of RMB215.0 million, or 134.0% as compared to 2016.

Trade and Notes Receivables

As at 31 December 2017, the Group's net trade and notes receivables were RMB1,760.4 million, representing an increase of RMB462.4 million as compared to 31 December 2016. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in 2017 were 227 days, representing a decrease of 36 days as compared to 2016. This was mainly attributable to strengthened trade receivables recovery management by the Group.

Inventories

As at 31 December 2017, the Group's inventories were RMB597.2 million, representing a decrease of RMB184.0 million as compared to 31 December 2016, mainly due to optimized product line structure of the Group using up inventories.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2017, the Group's cash and bank deposits amounted to approximately RMB1,548.2 million (including: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing an increase of RMB648.6 million as compared to 31 December 2016.

As at 31 December 2017, the Group's outstanding short-term loans amounted to RMB880.3 million. Credit facilities granted to the Group by banks amounted to RMB1,380.0 million, of which approximately RMB261.0 million were not used.

As at 31 December 2017, the liability-to-asset ratio (total liabilities divided by total assets) of the Group was 62.0%, representing a decrease of 8.3 percentage points from the liability-to-asset ratio of 70.3% as at 31 December 2016. As at 31 December 2017, the gearing ratio of the Group was 58.1%, representing a decrease of 5.0 percentage points from the gearing ratio of 63.1% of last year. 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 increase from RMB1,544.9 million as at 31 December 2016 to RMB2,558.0 million as at 31 December 2017.

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

On December 22, 2017, the Company, Anton International and DMCC reached agreement with Huihua and HBP regarding purchasing 40% of issued share capital of DMCC from Huihua with a consideration of RMB735,000,000. DMCC is a non-wholly-owned subsidiary of the Group. The Group owns 60% of DMCC while the rest 40% owned by Huihua. DMCC mainly provides oilfield services in Iraq. After the acquisition, DMCC will become a wholly-owned subsidiary of the Group.

EXCHANGE RISK

The Group mainly uses RMB as its operating currency with certain imported goods settled in foreign currency. The Group believes the exchange risk from foreign-currency-denominated settlements is limited. The exchange risk of the Group mainly arises from its foreign currency deposits and trade receivables denominated in foreign currencies. Any fluctuations in RMB exchange rate against 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 2017, net cash inflow from operating activities of the Group amounted to RMB195.6 million, representing an increase of RMB80.0 million compared to 2016. This was mainly because of the strengthen of the Group's account receivables management.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for 2017 was RMB417.9 million, of which, investments in fixed assets were RMB313.6 million, investments in intangible assets (including land use rights) were RMB66.3 million. The Group's net cash used in investing activities was RMB399.5 million, which included an RMB7.4 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 2017, the Group's operating lease commitments amounted to approximately RMB31.4 million. As at the balance sheet date (31 December 2017), the Group had capital commitments of approximately RMB23.5 million, which was not provided for in the balance sheet.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2017, the Group's pledge of assets including building, property, plant and equipment with a net book value of RMB465.7 million, and land use rights with a net book value of RMB18.7 million.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2017, the Group did not have any off-balance sheet arrangement.

FINAL DIVIDENDS

At the Board meeting held on 26 March 2018, the Board did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: No dividend).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the 'AGM') will be held on, 28 May 2018 (Monday), while the notice convening the AGM will be published and dispatched to the Company's shareholders in the form required in the Rules Governing the Listing of Securities (the 'Listing Rules') on the Stock Exchange of Hong Kong Limited (the 'Stock Exchange') in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2018 (Thursday) to 28 May 2018 (Monday), both days inclusive, during which period no share transfers will be registered. In order to be eligible for attending and voting at the 2018 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 May 2018 (Wednesday).

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code (the 'Code') under Appendix 14 to the Listing Rules during the year ended 31 December 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The directors (the 'Directors') of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the 'Model Code') under Appendix 10 to the Listing Rules as the code of practice for carrying out securities transactions by the Company's directors. After specific enquiry with all members of the Board, the Company confirms that all Directors have fully complied with the relevant requirements stipulated in the above-mentioned rules during the reporting period.

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

On 5 December 2018, the Company issued 9.75% senior notes due 2020 (the "**2020 Notes**") in the aggregate principal amount of US$300 million, of which US$123.58 million was new issue and US$176.42 million was issued pursuant to an exchange offer for the 7.5% senior notes of the Company due 2018. The 2020 Notes are listed on the Stock Exchange under the stock code: 5052.

Save as disclosed, 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 2017.

AUDIT COMMITTEE

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 Dato WEE Yiaw Hin. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2017.

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

Hong Kong, 26 March 2018

As at the date of this announcement, Mr. LUO Lin, Mr. WU Di and Mr. PI Zhifeng are the executive Directors; Mr. John William CHISHOLM is the non-executive Director, and Mr. ZHANG Yongyi, Mr. ZHU Xiaoping and Dato WEE Yiaw Hin are the independent non-executive Directors.