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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 2018

FINANCIAL HIGHLIGHTS

Revenue of the Group increased by 33.3% from RMB2,202.7 million in 2017 to RMB2,935.9 million in 2018. Profit attributable to equity holders of the Company increased by 308.1% from RMB54.5 million in 2017 to RMB222.4 million in 2018.

The proposed final dividend for the year ended 31 December 2018 is RMB0.01 per share.

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 2018 (hereafter referred to as the 'Year' or "the reporting period") with comparative figures for 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	**Year ended 31 December** **2018**	2017
Revenue			
Goods and services	5	**2,875,197**	2,161,994
Rental	5	**60,691**	40,708
Total revenue	5	**2,935,888**	2,202,702
Cost of sales	6	**(1,821,615)**	(1,372,962)
Gross profit		**1,114,273**	829,740
Other gains, net		**11,932**	9,674
Impairment losses, net of reversal	6	**(75,201)**	(22,838)
Selling expenses	6	**(171,152)**	(152,587)
Administrative expenses	6	**(197,241)**	(152,625)
Research and development expenses	6	**(28,002)**	(26,525)
Sales tax and surcharges	6	**(10,346)**	(11,145)
Operating profit		**644,263**	473,694
Interest income	7	**2,565**	3,759
Finance expenses	7	**(300,019)**	(271,631)
Finance costs, net	7	**(297,454)**	(267,872)
Share of profit/ (loss) of a joint venture		**355**	(901)
Profit before income tax		**347,164**	204,921
Income tax expense	8	**(96,443)**	(33,647)
Profit for the year		**250,721**	171,274
Profit attributable to:			
Owners of the Company		**222,423**	54,495
Non-controlling interests		**28,298**	116,779
		250,721	171,274
Earnings per share for profit attributable to the owners of the Company for the year (expressed in RMB per share)			
- Basic	9	**0.0792**	0.0206
- Diluted	9	**0.0783**	0.0205

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Year ended 31 December	
	2018	2017
Profit for the year	**250,721**	171,274
Other comprehensive income/ (expense), net of tax:		
Items that may be reclassified subsequently to profit or loss		
Net investment hedge	**(84,932)**	97,880
Currency translation differences	**87,425**	(78,660)
Other comprehensive income for the year, net of tax	**2,493**	19,220
Total comprehensive income for the year	**253,214**	190,494
Total comprehensive income attributable to:		
- Owners of the Company	**224,889**	82,891
- Non-controlling interests	**28,325**	107,603
	253,214	190,494

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	**As at 31 December** **2018**	2017
ASSETS			
Non-current assets			
Property, plant and equipment		**2,255,805**	2,331,571
Prepaid lease payments		**75,635**	77,567
Goodwill		**242,004**	242,004
Intangible assets		**252,714**	224,285
Interest in a joint venture		**3,046**	2,691
Prepayments and other receivables		**112,810**	121,063
Other non-current assets		**8,375**	304,844
Deferred income tax assets		**52,076**	63,743
		3,002,465	3,367,768
Current assets			
Inventories		**774,359**	597,233
Prepaid lease payments		**1,932**	1,932
Trade and notes receivables	10	**1,948,030**	1,760,358
Contract assets		**58,579**	—
Prepayments and other receivables		**437,958**	467,029
Current portion of other non-current assets		**5,694**	4,923
Restricted bank deposits		**330,948**	415,135
Cash and cash equivalents		**686,636**	1,133,097
		4,244,136	4,379,707
Total assets		**7,246,601**	7,747,475

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Note	**As at 31 December** **2018**	2017
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**275,959**	246,271
Reserves		**2,369,915**	2,311,768
		2,645,874	2,558,039
Non-controlling interests		**48,688**	388,953
Total equity		**2,694,562**	2,946,992
LIABILITIES			
Non-current liabilities			
Long-term bonds		**2,051,403**	1,885,824
Long-term borrowings		**243,341**	36,217
Deferred income tax liabilities		**10,440**	10,661
		2,305,184	1,932,702
Current liabilities			
Short-term borrowings		**879,192**	880,320
Current portion of long-term bonds		**14,498**	461,588
Current portion of long-term borrowings		**82,214**	141,105
Trade and notes payables	11	**714,091**	685,147
Accruals and other payables		**455,278**	658,224
Contract liabilities		**38,814**	—
Current income tax liabilities		**62,768**	41,397
		2,246,855	2,867,781
Total liabilities		**4,552,039**	4,800,483
Total equity and liabilities		**7,246,601**	7,747,475

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

	Year ended 31 December	
	2018	2017
Cash flows from operating activities		
Net cash inflows from operations	**481,069**	240,242
Interest received	**2,565**	3,759
Income tax paid	**(63,626)**	(48,391)
Net cash generated from operating activities	**420,008**	195,610
Cash flows from investing activities		
Purchase of property, plant and equipment	**(36,005)**	(313,575)
Proceeds from disposal of property, plant and equipment	**968**	7,361
Purchase of intangible assets	**(63,159)**	(66,274)
Net cash paid for acquisition of a subsidiary	**—**	(38,033)
Decrease in term deposits	**—**	11,011
Net cash used in investing activities	**(98,196)**	(399,510)
Cash flows from financing activities		
Proceeds from short-term borrowings	**1,505,850**	1,108,522
Repayments of short-term borrowings	**(1,509,571)**	(967,844)
Proceeds from long-term borrowings	**357,280**	—
Repayments of long-term borrowings	**(197,204)**	(65,656)
Proceeds from long-term bonds	**—**	779,252
Repayments of long-term bonds	**(490,893)**	—
Repurchase of long-term bonds	**—**	(24,775)
Proceeds from disposal of interests in a subsidiary without loss of control	**—**	343,000
Net cash paid to non-controlling interests for additional interest in subsidiaries	**(165,191)**	(300,000)
Proceeds from share options exercised	**5,136**	501
Issue of shares	**—**	197,819
Interest paid	**(278,452)**	(177,946)
Dividends distribution	**—**	—
Placement of restricted bank deposits	**—**	(30,000)
Withdrawal of restricted bank deposits	**30,000**	—
Cash paid relating to other financing activities	**(52,500)**	—
Net cash (used in)/ generated from financing activities	**(795,545)**	862,873
Net (decrease)/ increase in cash and cash equivalents	**(473,733)**	658,973
Cash and cash equivalents at beginning of the year	**1,133,097**	507,263
Exchange gain/ (loss) on cash and cash equivalents	**27,272**	(33,139)
Cash and cash equivalents at end of the year	**686,636**	1,133,097

Note (a):

During the year, pursuant to the agreement signed between the Group and China Oil HBP Science & Technology Co., Ltd. ("China Oil HBP"), trade receivables due from China Oil HBP amounting to RMB136,042,000 has been collected through the exemption of the payment of dividend due to China Oil HBP amounting to RMB136,042,000. Such non-cash transaction has been excluded from the operating activities and financing activities of the consolidated statement of cash flows above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(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 RMB, which is also the functional currency of the Company.

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

New and Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*

Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014-2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

In addition, the Group has early applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

Except as described below, the application of the new and 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.

2.1 ***IFRS 15 Revenue from Contracts with Customers***

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

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

Summary of effects arising from initial application of IFRS 15

There is no material impact of transition to IFRS 15 on retained earnings at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2017**	**Reclassification**	**Remeasurement**	**Carrying amounts under IFRS 15 at 1 January 2018***
Current Assets					
Trade and notes receivables	(a)	1,760,358	(27,513)	—	1,732,845
Contract assets	(a)	—	27,513	—	27,513
Current Liabilities					
Contract liabilities	(b)	—	20,146	—	20,146
Accruals and other payables	(b)	658,224	(20,146)	—	638,078

* The amounts in this column are before the adjustments from the application of IFRS 9.

Notes:

(a) At the date of initial application of IFRS 15 on 1 January 2018, retention money receivables of RMB27,513,000 arising from the services contracts are conditional on the Group's achieving specified milestones as stipulated in the service contracts, and hence such balance was reclassified from trade and notes receivables to contract assets.

(b) At the date of initial application of IFRS 15 on 1 January 2018, advance from customers of RMB20,146,000 in respect of the services and sales of goods contracts previously included in accruals and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of IFRS 15
Current Assets			
Trade and notes receivables	1,948,030	58,579	2,006,609
Contract assets	58,579	(58,579)	—
Current Liabilities			
Contract liabilities	38,814	(38,814)	—
Accruals and other payables	465,509	38,814	504,323

Impact on the consolidated statement of cash flows

	As reported	Adjustments	Amounts without application of IFRS 15
Operating Activities			
Trade and notes receivables	(345,468)	(58,579)	(404,047)
Contract assets	(58,579)	58,579	—
Accruals and other payables	4,666	38,814	43,480
Contract liabilities	38,814	(38,814)	—
Net cash inflows from operations	**481,069**	**—**	**481,069**

2.2 ***IFRS 9 Financial Instruments and the related amendments***

In the current year, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

In addition, the Group applied the hedge accounting prospectively.

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	**Trade and notes receivables**	**Long-term bonds**	**Contract assets**	**Retained earnings**
Closing balance at 31 December 2017 - IAS 39		1,760,358	2,347,412	—	666,136
Effect arising from initial application of IFRS 15		(27,513)	—	27,513	—
Effect arising from initial application of IFRS 9:					
Remeasurement					
Impairment under ECL model	(a)	—	—	—	—
Non-substantial modification of financial liabilities	(b)	—	68,763	—	(68,763)
Opening balance at 1 January 2018		1,732,845	2,416,175	27,513	597,373

Notes:

(a) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. Except for those which had been determined as credit impaired under IAS 39, contract assets and trade receivables from large multinational and state-owned oil companies have been assessed individually with significant balances, the remaining balances from private and relatively small customers are grouped based on past due analysis. The contract assets relate to retention money receivables have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including notes receivable, other receivables, restricted bank deposits and cash and cash equivalents, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance and the related deferred income tax asset should have been recognised and the additional loss allowance is charged against the respective asset. However, the Directors consider the above impacts of applying IFRS 9 on the Group's loss allowance and the related deferred income tax asset as at 1 January 2018 are immaterial and hence, no corresponding adjustments to loss allowance and the related deferred income tax asset were recognised against retained earnings at 1 January 2018.

(b) Non-substantial modification of financial liabilities

Under IAS 39, the Group revised the effective interest rates for non-substantial modification of long-term bonds with no gain or loss being recognised in profit or loss. At the date of initial application, the carrying amounts of long-term bonds previously modified were adjusted upward by RMB68,763,000 to reflect the change in accounting policies as stated in Note 3, with corresponding adjustments debited to the retained earnings as at 1 January 2018.

(c) Hedge accounting

The Group applies the hedge accounting requirements of IFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship if all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. As such, the application of the hedge accounting requirements of IFRS 9 had not resulted in adjustments to comparative figures.

Except as described above, the application of other amendments to IFRSs in the current year has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

2.3 ***Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation***

As a result of the changes in the entity's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	**IFRS 15**	**IFRS 9**	**1 January 2018 (Restated)**
Current Assets				
Trade and notes receivables	1,760,358	(27,513)	—	1,732,845
Contract assets	—	27,513	—	27,513
Equity				
Reserves	2,311,768	—	(68,763)	2,243,005
Current Liabilities				
Current portion of long-term bonds	461,588	—	—	461,588
Contract liabilities	—	20,146	—	20,146
Accruals and other payables	658,224	(20,146)	—	638,078
Non-current Liabilities				
Long-term bonds	1,885,824	—	68,763	1,954,587

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[4]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRSs 2015-2017 Cycle*[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[4] Effective for annual periods beginning on or after 1 January 2021
[5] Effective for annual periods beginning on or after a date to be determined

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

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. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

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, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

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.

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitment of RMB39,173,000. 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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.

The principal accounting policies are set out below.

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 profit/(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 2018				
Revenue (Note)	**1,339,850**	**741,820**	**854,218**	**2,935,888**
EBITDA	**624,858**	**329,273**	**360,792**	**1,314,923**
Depreciation and amortisation	**(125,947)**	**(122,784)**	**(24,896)**	**(273,627)**
Asset impairment provision of				
- Inventories	**(6,599)**	**(2,282)**	**(7,472)**	**(16,353)**
- Trade receivables	**(25,962)**	**(29,346)**	**(3,148)**	**(58,456)**
- Other receivables	**(9,518)**	**(7,015)**	**(212)**	**(16,745)**
Interest income	**136**	**211**	**421**	**768**
Finance expenses	**(5,335)**	**(5,452)**	**(3,934)**	**(14,721)**
Share of profit of a joint venture	**355**	**—**	**—**	**355**
Income tax expense	**(17,807)**	**(32,058)**	**(46,578)**	**(96,443)**
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)

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 2018				
Total assets	**2,082,006**	**2,679,875**	**545,808**	**5,307,689**
Total assets include:				
Capital expenditures	**117,318**	**64,179**	**31,228**	**212,725**
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

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

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

	Year ended 31 December	
	2018	2017
EBITDA for reportable segments	**1,314,923**	974,116
Corporate overheads	**(588,980)**	(517,809)
Depreciation	**(243,388)**	(185,306)
Amortisation	**(30,239)**	(18,783)
Asset impairment provision	**(91,554)**	(29,827)
Interest income	**768**	427
Finance expenses	**(14,721)**	(16,996)
Share of profit/(loss) of a joint venture	**355**	(901)
Profit before income tax	**347,164**	204,921

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

	As at 31 December	
	2018	2017
Assets for reportable segments	**5,307,689**	5,429,512
Corporate assets for general management	**1,938,912**	2,317,963
Total assets	**7,246,601**	7,747,475

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

Geographical Information

	Revenue		Non-current assets	
	Year ended 31 December		As at 31 December	
	2018	2017	**2018**	2017
PRC	**1,083,690**	793,903	**2,025,979**	2,290,221
Republic of Iraq ("Iraq")	**1,170,562**	855,328	**706,029**	661,359
Other countries	**681,636**	553,471	**204,881**	338,445
Total	**2,935,888**	2,202,702	**2,936,889**	3,290,025

Client information

For the year ended 31 December 2018, revenues of approximately RMB1,208,999,000 (2017: RMB817,426,000) were derived from two external independent customers, which contributed 25.59% and 15.59% (2017: 21.84% and 15.27%) to the total revenue respectively. These revenues were mainly attributable to drilling technology and well completion segments (2017: drilling technology and oil production services segments).

5. REVENUE

	Year ended 31 December	
	2018	2017
Sales of goods	**238,636**	113,723
Provision of services	**2,636,561**	2,048,271
Rental	**60,691**	40,708
	2,935,888	2,202,702

(i) **Disaggregation of revenue**

Segments	Drilling technology	Well completion	Oil production services
	For the year ended 31 December 2018		
Types of goods or service			
Sales of goods	90,374	115,515	32,747
Provision of services	1,190,277	624,813	821,471
Total	1,280,651	740,328	854,218
Geographical markets			
PRC	529,454	378,773	114,772
Iraq	309,772	202,626	658,164
Other countries	441,425	158,929	81,282
Total	1,280,651	740,328	854,218
Timing of revenue recognition			
A point in time	1,280,651	740,328	307,529
Over time	—	—	546,689
Total	1,280,651	740,328	854,218

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Drilling technology	Well completion	Oil production services
	For the year ended 31 December 2018		
Revenue disclosed in segment information			
External customers	1,339,850	741,820	854,218
Inter-segment	1,421,758	901,348	241,938
Total	2,761,608	1,643,168	1,096,156
Inter-segment eliminations	(1,421,758)	(901,348)	(241,938)
Rental income	(59,199)	(1,492)	—
Revenue from contracts with customers	1,280,651	740,328	854,218

6. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Year ended 31 December	
	2018	2017
Materials and services purchased	**835,697**	726,523
Staff costs	**576,029**	377,151
In which:		
- Salaries and other staff expenses	**551,935**	360,661
- Share-based compensation	**24,094**	16,490
Depreciation	**278,817**	217,962
Less: Capitalised in inventories	**17,240**	16,305
	261,577	201,657
Amortisation	**39,434**	25,035
Less: Capitalised in inventories	**2,992**	2,265
	36,442	22,770
In which:		
- Cost of sales	**29,030**	17,866
- Administrative expenses	**2,006**	2,857
- Selling expenses	**—**	70
- Research and development expenses	**5,406**	1,977
Sales tax and surcharges	**10,346**	11,145
Auditor's remuneration		
- Audit and related services	**4,200**	3,900
- Other services	**200**	500
Other operating expenses	**579,066**	395,036
In which:		
- Impairment of trade receivables	**58,456**	22,838
- Impairment of other receivables	**16,745**	—
- Impairment of inventories	**16,353**	6,989

7. FINANCE COSTS, NET

	Year ended 31 December	
	2018	2017
Interest expenses		
- on bank borrowings	**(83,977)**	(61,010)
- on bonds	**(200,755)**	(148,467)
Exchange gains/ (loss), net	**1,401**	(42,207)
Others	**(16,688)**	(19,947)
Finance expenses	**(300,019)**	(271,631)
Interest income	**2,565**	3,759
	(297,454)	(267,872)

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
Current income tax		
- PRC enterprise income tax	**2,297**	2,512
- Iraq corporate income tax	**80,562**	41,659
- Others	**2,138**	1,651
Deferred income tax	**11,446**	(12,175)
	96,443	33,647

The Company was 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 2018 (2017: 25%), based on the relevant PRC tax laws and regulations. Certain 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 were qualified for a tax holiday of 2-year exemption and 3-year 50% reduction in 2017, pursuant to Caishui 2008 No.1.

The corporate income tax of the 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 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	
	2018	2017
Profit before income tax	**347,164**	204,921
Tax calculated at applicable tax rates	**77,857**	22,311
Income not subject to taxation	**(62)**	(2,718)
Expenses not deductible for taxation purposes	**6,048**	1,143
Additional deduction of research and development expense	**(1,568)**	(1,583)
Tax losses and deductible temporary difference for which no deferred income tax was recognised	**21,018**	35,387
Utilisation of unused deductible tax losses previously not recognised as deferred income tax	**(6,390)**	(105)
Recognition of the deferred income tax assets for unused deductible tax losses from prior years	**—**	(21,224)
Effect of share of (profit)/ loss of a joint venture	**(53)**	135
Others	**(407)**	301
	96,443	33,647

9. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company	**222,423**	54,495
Weighted average number of ordinary shares in issue (thousands of shares)	**2,807,453**	2,644,785
Basic earnings per share (expressed in RMB per share)	**0.0792**	0.0206

(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 2018 and 2017, the only dilutive factor of the Company was the outstanding share options.

	Year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company	**222,423**	54,495
Weighted average number of ordinary shares in issue (thousands of shares)	**2,807,453**	2,644,785
Adjustments for assumed conversion of share options (thousands of shares)	**34,154**	9,456
Weighted average number of ordinary shares for computation of diluted earnings per share (thousands of shares)	**2,841,607**	2,654,241
Diluted earnings per share (expressed in RMB per share)	**0.0783**	0.0205

10. TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2018	2017
Trade receivables, net (a)		
- from related parties	**44,893**	36,047
- others	**1,851,173**	1,651,713
	1,896,066	1,687,760
Trade receivables, net (a)		
- goods and services	**1,896,066**	1,687,760
Notes receivable (g)	**51,964**	72,598
	1,948,030	1,760,358

Notes:

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

	As at 31 December	
	2018	2017
1 - 6 months	**1,242,571**	1,055,640
6 months - 1 year	**427,329**	468,012
1 - 2 years	**198,697**	110,927
2 - 3 years	**27,469**	52,451
Over 3 years	**—**	730
	1,896,066	1,687,760

(b) As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB1,896,066,000 and RMB1,660,247,000 respectively.

(c) Most of the Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB226,166,000 which are past due but not considered as in default as at the reporting date because the management considered such long ageing items were receivables from customers with good cooperation and would be collected subsequently.

As at 31 December 2017, trade receivables amounting to RMB1,523,652,000 aged within one year, which were neither past due nor impaired according to the Group's credit policy.

As at 31 December 2017, trade receivables with carrying value of RMB164,108,000 were past due but not impaired.

(d) 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. As at 31 December 2017, included in the trade receivables are retention money amounting to RMB27,513,000, of which RMB6,275,000 are due after one year. Upon application of IFRS 15, the retention money receivables were reclassified to contract assets. The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables.

As at 31 December 2018, trade receivables of RMB357,123,000 (31 December 2017: RMB203,369,000) were pledged as security for short-term borrowings of RMB266,450,000 (31 December 2017: RMB181,320,000).

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

	2018	**2017**
As at 1 January	**(63,664)**	(40,826)
Addition	**(65,645)**	(22,838)
Reversal	**7,189**	—
As at 31 December	**(122,120)**	(63,664)

(f) As at 31 December 2017, included in the impairment of trade receivables are individually impaired trade receivables with an aggregate balance of RMB63,664,000 which are generally not recoverable based on the management's historical experience and understanding of the customers' financial status.

(g) As at 31 December 2018, total notes received amounting to RMB51,964,000 (31 December 2017: RMB72,598,000) are held by the Group for future settlement of corresponding trade receivables. As at 31 December 2018 and 2017, notes receivable are all bank acceptance bills with maturity dates within six months.

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

	As at 31 December	
	2018	2017
RMB	**758,489**	740,246
United States dollar ("US$")	**962,663**	836,761
Others	**226,878**	183,351
	1,948,030	1,760,358

11. TRADE AND NOTES PAYABLES

	As at 31 December	
	2018	2017
Trade payables		
- related parties	**13,094**	87,796
- others	**468,297**	453,367
Notes payable	**232,700**	143,984
	714,091	685,147

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

	As at 31 December	
	2018	2017
Less than 1 year	**596,564**	559,887
1 - 2 years	**43,527**	83,845
2 - 3 years	**34,465**	27,582
Over 3 years	**39,535**	13,833
	714,091	685,147

Trade and notes payables were denominated in the following currencies:

	As at 31 December	
	2018	2017
RMB	**607,052**	496,993
US$	**80,536**	86,026
Others	**26,503**	102,128
	714,091	685,147

12. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of RMB1 cent (2017: Nil) per ordinary share, in an aggregate amount of RMB30,000,000 (2017: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

Management Discussion and Analysis

BUSINESS REVIEW

In 2018, the international oil and gas market demonstrated a strong recovery momentum. Due to the widening gap between global production capacity and demand, both national and international oil companies had increased their investment in new capacity, and the demand for oil and gas development services was strong. In the fourth quarter, despite a temporary decline in international crude oil prices, the determination of long-term capacity building and project progress of major oil companies were not affected. During the reporting period, the Group recorded a significant increase in its new orders and accelerate its project execution pace. During the year, the Group recorded a significant overall increase in its orders, revenue as well as profit. More importantly, the Group recorded positive free cash flow, which was the fruit of the Group's business strategy adjustment, operational efficiency improvement as well as cost control over the past few years.

In 2018, new orders of the Group amounted to RMB4,055.2 million, an increase of 53.1% as compared to that in 2017. As at the end of 2018, order backlog of the Group amounted to RMB4,350.3 million, an increase of 24.0% as compared to that at the end of 2017. In 2018, the Group recorded a revenue of RMB2,935.9 million, an increase of 33.3% as compared to that in 2017. The number of full-year new orders, year-end order backlog and full-year revenue of the Group all recorded a new high. In respect of order backlog as of 31 December 2018, orders from the Iraqi market amounted to RMB3,109.8 million, representing 71.5% of the total amount of order backlog, orders from PRC market amounted to RMB1,013.4 million, representing 23.3% of the total amount of order backlog, and orders from other overseas markets amounted to RMB227.1 million, representing 5.2% of the total amount of order backlog. Orders from the Iraqi market were mainly orders for oil well development projects and oilfield management. Among orders from the PRC market, the majority of them were orders for natural gas development projects, including deep well natural gas, shale gas and tight gas. Orders from the other overseas markets were mainly orders for natural gas development projects. As the Iraqi market was aimed to rebuild the country and the PRC market to ensure energy security, both requiring national oil companies to fully promote oil and gas development. The sensitivity of the Group's business to oil price fluctuations was relatively low, thus reducing the risk of business being affected by short-term fluctuations in oil prices and ensuring the continued steady growth of the Group's business.

Along with the significant increase in business volume of the Group in 2018, the Group continued to exercise strict control over costs and expenses to maintain a continuous increase in its profitability. In 2018, the sales expenses and management expenses of the Group as a percentage of revenue continued to decline on the basis of 2017, and the net profit margin increased by 0.7 percentage points as compared to that in 2017. In addition, the Group recorded a three-time increase in profit attributable to equity holders. Pursuant to the Anton Oilfield Services DMCC Share Repurchase Agreement entered into between the Group and China Oil HBP Science & Technology Co., Ltd. (華油惠博普科技股份有限公司) ("HBP") on 22 December 2017, the minority shareholders' interests of RMB29.1 million which were credited into the consolidated statement of profit or loss of the Group had also been transferred to the reserves attributable to owners of the Company. Therefore, the total amount of RMB251.5 million, including the aforesaid amount of RMB29.1 million and RMB222.4 million of the profit attributable to owners of the Company, had been included into the reserves attributable to owners of the Company.

Since 2018, the Group has fully adjusted its philosophy of operation and management from primary focus on business scale increase to comprehensive operation taking business quality improvement as the core. The Group made adjustment from the source of the business, the acquisition of orders, from the previous pursue for comprehensive bid to strive for quality orders. After winning the bid, the Group would negotiate with the customer in respect of the terms of the contract based on the principle of cash flow priority. If the terms of the contract do not meet the Group's cash return and risk management and control requirements, even if it could bring in the scaled income and profits, the Group would choose to give up such contract, thus ensuring the Group's capital will be invested in quality growth opportunities. In the fourth quarter of 2018, the Group won various kinds of domestic and overseas projects. Basing on the principle of "prioritize on cash return", the Group only chose to accept part of those orders and recorded in its order book, for other orders, the Group returned to customers through friendly negotiation. In addition to the source control, the Group also strengthened the management of project operations, and strictly monitored and assessed payment, inventory and collection of accounts receivable to promote efficiency improvement. Moreover, the Group actively sought the release of the performance bond of overseas customers to reduce the utilization of the Group's own funds by overseas project operations, and during the year, the amount of release of the performance bond was approximately RMB52.7 million. In terms of the results of the management, the Group achieved significant results in its management and control during the year. The net inflow of operating cash flow in

2018 significantly increased by 100.3% to RMB481.1 million as compared to RMB240.2 million in 2017. Meanwhile, the Group continued to strictly implement the "light-asset" business strategy and strictly control capital expenditures. For the needs of conventional heavy equipment, the Group fully allocate industry resources through leasing or cooperation with industry partners. In 2018, the Group's own main equipment — drilling rigs, workover rigs and fracturing equipment are under full operation. In order to meet the needs of new projects, the Group allocated another 11 drilling and workover rigs from the third parties to serve our customers in the Iraqi market, the Pakistani market and the Tarim market in the northwest of China and shale gas market in the southwest region of China. Although the demand for equipment resource increase, capital expenditures have decreased by RMB318.7 million compared to 2017, resulting in positive free cash flow throughout the year. Taking into account the demand for capital expenditure in the medium and long term, the Group adopts a strategy of integration of industry and finance and actively cooperates with financial institutions with "Belt and Road" resources. On 24 August 2018, the Group entered into a strategic cooperation agreement with CRCC Financial Leasing Co., Ltd., pursuant to which the parties were committed to jointly integrating the advantages of the industry, actively implementing the national "Belt and Road" strategy and cooperating in various fields. In addition, the Group actively promoted cooperation with financial institutions in respect of the performance bond of the Group's overseas business. During the year, under the support of guarantee credit facilities of US$50.0 million from the China Export & Credit Insurance Corporation (Sinosure), the Group entered into an agreement with the Bank of Beijing in respect of the overseas performance bond to obtain a special credit facilities of RMB350.0 million. In addition to lower security deposit, the overseas business of the Group can use this special credit facilities and Sinosure will issue the performance bond to the Group's customers. The cooperation would further provide strong support for the overseas business expansion of the Group.

Results and Performance

In 2018, total revenue of the Group was approximately RMB2,935.9 million, an increase of approximately RMB733.2 million, or 33.3%, as compared to 2017. The Group's operating profit was approximately RMB644.3 million, an increase of approximately RMB170.6 million, or 36.0% from approximately RMB473.7 million in the same period of 2017. Net profit was approximately RMB250.7 million, an increase of approximately RMB79.4 million or 46.4% from approximately RMB171.3 million in the same period of 2017. Profit attributable to owners of the Company was approximately RMB222.4 million, an increase of approximately

RMB167.9 million or 308.1% from approximately RMB54.5 million in the same period of 2017. Net margin attributable to owners of the Company was 7.6%, an increase of 5.1 percentage points from 2.5% in the same period of 2017.

As at 31 December 2018, the Group's average accounts receivable turnover days were 220 days, a decrease of 7 days as compared with the same period last year. The average inventory turnover days were 136 days, a decrease of 45 days as compared with the same period last year. Average accounts payable turnover days was 101 days, a decrease of 35 days as compared with the same period last year. Cash flow from operating activities was approximately RMB420.0 million, a significant increase of approximately RMB224.4 million from approximately RMB195.6 million in the same period last year.

Geographical Market Analysis

In 2018, revenue from the overseas market was approximately RMB1,852.2 million, an increase of approximately RMB443.4 million or 31.5% from approximately RMB1,408.8 million in 2017, accounted for 63.1% of the total revenue of the Group. In the overseas markets, revenue from the Iraqi market was approximately RMB1,170.6 million, an increase of approximately RMB315.3 million or 36.9% from approximately RMB855.3 million in 2017, accounted for 39.9% of the total revenue of the Group. Revenue from other overseas markets was approximately RMB681.6 million, an increase of approximately RMB128.1 million or 23.1% from approximately RMB553.5 million in 2017, accounted for 23.2% of the total revenue of the Group. Revenue from the domestic market was approximately RMB1,083.7 million, an increase of approximately RMB289.8 million or 36.5% from approximately RMB793.9 million in 2017, accounted for 36.9% of the total revenue of the Group.

Breakdown of Revenue by Market

	Twelve months ended 31 December			Share of total revenue of the Group Twelve months ended 31 December	
	2018	**2017**	**Change**		
	(RMB'mn)		**%**	**2018**	**2017**
Overseas	**1,852.2**	1,408.8	31.5%	**63.1%**	64.0%
Domestic	**1,083.7**	793.9	36.5%	**36.9%**	36.0%
Total	**2,935.9**	2,202.7	33.3%	**100.0%**	100.0%

Overseas Market

	Twelve months ended 31 December			Share of total revenue of the Group Twelve months ended 31 December	
	2018	2017	Change		
	(RMB'mn)		%	2018	2017
Iraq	**1,170.6**	855.3	36.9%	**39.9%**	38.8%
Other overseas markets	**681.6**	553.5	23.1%	**23.2%**	25.2%
Total	**1,852.2**	1,408.8	31.5%	**63.1%**	64.0%

Overseas Market

In 2018, overseas market of the Group maintained rapid growth, and a new breakthrough in the business model has been achieved. Revenue from overseas markets increased by 31.5% over the same period last year. With its broad market space and high-quality orders, the overseas market continues to help the Group achieve scaled-growth, optimized customer base structure, increased overall margin as well as improved cash flow situation.

Key overseas market — Iraqi market

In 2018, the capacity building in the Iraqi market have fully commenced, and the overall oilfield service workload continued to grow. The Group has further expanded its market scale by leveraging its competitive advantages in this market and achieved an upgrade and new breakthrough in business models.

During the year, the Iraqi government made a new attempt in the oilfield development model to change the old model of acquiring the production through development under the support of foreign oil companies, and strive to build independent oilfield development capabilities with the support of excellent service companies. The new model is based on the pilot project of Majnoon oilfield, a large oilfield in south Iraq which was previously managed by a large international oil company, and invited bidding for the integrated management partner of the oilfield around the world. Based on its high standards, international management system and strong comprehensive management strength established in the Iraqi market for many years, the Group has become the only Chinese company who is accepted for the bidding, and competed with several other large international oilfield service companies. With a high technical score from good oilfield operation and maintenance management track record in Iraq, the Group finally won the bid in the fierce competition with its

comprehensive strength and won the integrated management project of the oilfield. This project is different from the traditional general contracting project in which the Group sub-contracts the general contracting project to the relevant service provider; instead, it is invested by the owner, the Group manages the resources and the investment on behalf of the owner and selects the third party to provide various products and services according the management requirement of the Group to ensure the investment and development goals of the owner are met. The project is a milestone for the Group's business development, and is a new breakthrough for the Group's long-term "asset-light" "integrated" model. It not only brings the Group orders with annual service and management fees of approximately USD100.0 million, but also further enhanced the Group's brand influence in the Iraqi market. It laid a solid foundation for the Group to continuously expand its business in the Iraqi market and enter the international oil company's large-scale project market. The project is regarded as a major breakthrough for Chinese companies along the "Belt and Road" countries and has obtained the full insurance coverage against the political and commercial risk of the project and the special credit support from Sinosure.

Upon signing the contract with the owner, the Group successfully completed the formation of an engineer team with international background with a total of 545 employees, including 50 Chinese employees, 316 local employees and 179 international employees. In accordance with the plan, the Company completed the handover with the former large international oil company and formally took over the oilfield on 1 July 2018 as scheduled. In the following six months, Majnoon has been under smooth management and in efficient operation, which enable the customer to achieve the development of the capacity building targets and plans for the next three years, thereby the capabilities and efficiency of Chinese companies were highly praised by the owners.

While obtaining an integrated management project, the Group also continued to deepen its cooperation between individual services and various customers, with a focus on expanding cooperation with international oil companies. In 2018, the Group obtained new orders totaling approximately RMB1,740.5 million in the Iraqi market, an increase of approximately 67.8% from RMB1,037.4 in 2017. The Group recorded revenue in the Iraqi market of approximately RMB1,170.6 million, an increase of approximately 36.9% from RMB855.3 million in 2017.

Meanwhile, the Group continued to develop its market in Iraq, unswervingly pursued its core customer strategy and integration strategy, and prepared several large-scale projects to lay a solid foundation for its long-term development in Iraq.

Other overseas markets — Global Emerging Markets

Other overseas markets of the Group are mainly global emerging markets along the "Belt and Road" regions where the Group offers services, mainly including Ethiopia, Kazakhstan, and Pakistan etc. Core customers are Chinese independent oil companies investing in and developing oil and gas resources in these emerging markets. The Group adopts the principle of prudence in the regional market, and cooperation with customers is conditional upon collecting payments. Moreover, leveraging the "Belt and Road" policy, we conducted cooperation with China's policy financial institutions to further reduce the Group's operating risks in the region. By virtue of its strong technical strength and integrated service capabilities covering the entire life cycle of oil and gas field services, the Group has become the preferred partner of Chinese independent oil company customers. In recent years, the Group has gradually expanded the scale of cooperation with Chinese independent oil companies and established long-term strategic partnerships with key customers. In 2018, on top of maintaining the existing market, the Group won the bid for the order of the light-asset business model in the Chad market and the Albanian market. In respect of operations during this year, the Group continued to focus on the providing of "production-increasing, costs-reducing, and integrating" technical serivces in emerging markets around the world and efficiently carried out operations, which have created excess returns for customers in various projects, and were highly praised by customer for several times, built a good brand image for the Group, and laid a solid foundation for scaled expansion in the future. During the year, the Group received a total of approximately RMB866.5 million of new orders in the other overseas markets, representing an increase of approximately 88.4% compared with RMB459.9 million during the same period last year. Revenue from the other overseas markets was approximately RMB681.6 million, representing an increase of approximately 23.1% compared with RMB553.5 million from the same period last year.

Domestic market

In the domestic market, the government actively promoted the development of domestic oil and gas resources in 2018 in order to safeguard the national energy security, resulting in full acceleration in the construction of upstream production capacity in the domestic market and significant increase of investment in the exploration and development of unconventional resources such as shale gas, thereby driving strong demand for oil and gas development services.

Market-wise, the Group fully accelerated its expansion into the shale gas market in Southwest China in 2018. Leveraging on its leading technology advantages on unconventional resource development projects in the domestic market, the Group became one of individual private service providers that can directly undertake

integrated shale gas service projects for oil companies. In 2018, the Group undertook the first batch of integrated shale gas platform well service projects opened in 2018 and ultra-long horizontal well projects requiring high technologies. The Group focused on providing "production-increasing, cost-reducing, and integrated" services for customers and adhered to the "light-asset" business model to carry out its business operations in order to fully utilize industry resources for efficient construction of projects. During the year, the Group made a record for shortest single well drilling cycle of 51.2 days in a Changning shale gas drilling block in Southwest China, which shortened 23.8 days as compared with the average single well drilling cycle of the nearby drilling block, enabling customer to control cost and achieve improvement of development efficiency. Facing strong market demand, the Group maintained its comprehensive control through focus on "cash flow" and pursued selectively great market opportunities released in the market in order to maintain high-quality growth. In the Northwest market, the Group seized market opportunities arising from significant increase in new production capacity of natural gas in Xinjiang market to continue to keep the market development of its technologies with competitive edges such as oil-based drilling fluid, performance drilling and coiled tubing. In December 2018, Xinjiang Tarim Oilfield announced great breakthroughs were made for Zhongqiu #1 Well, a key risky drilling project in Kuqa region with discovering a 100 billion m^3 condensate gas reservoir, opening a new oil and gas enrichment region. In the Zhongqiu #1 Well project, the Group provided two important technologies, being oil-based drilling fluid and performance drilling for the customer, helping the customer to enhance the exploration of natural gas and accomplish the historical mission to increase the production capacity of oil and gas in Xinjiang. In the Erdos region, the Group continued its operations of tight gas projects such as drilling and fracturing with full workload of equipment such as drilling rigs and pressure pumping. In 2018, the Group obtained new orders totaling approximately RMB1,448.2 million in the domestic market, an increase of approximately 25.8% from RMB1,150.9 million in 2017, the new orders from the customers who make payment within short period accounted for a good proportion of the total new orders. The quality of orders significantly increased as compared to 2017. In 2018, the Group recorded revenue of approximately RMB1,083.7 million in the domestic market, a significant increase of approximately 36.5% as compared to RMB793.9 million in 2017.

Business Cluster Analysis

In 2018, with the increase in upstream capital expenditure and the continued expansion of new capacity, the Group's drilling business continued to maintain a strong growth. During the reporting period, the Group's drilling technology cluster

recorded revenue of RMB1,339.9 million, representing a significant increase of approximately 39.7% as compared to 2017, and accounted for 45.6% of the Group's revenue in 2018. Well completion business of the Group achieved comprehensive recovery and re-entered the growth track. In 2018, revenue from the well completion business amounted to RMB741.8 million, up about 31.4% from 2017, and accounted for 25.3% of the Group's total revenue. For production business, the Group's large-scale oilfield integrated management project in the Iraqi market officially took over from July 1, 2018. During the year, the revenue from the oil production services cluster was RMB854.2 million, representing an increase of approximately 25.8% as compared to 2017, and accounted for 29.1% of the Group's total revenue.

Revenue Breakdown by Cluster

	Twelve months ended 31 December			**% of total revenue Change Twelve months ended 31 December**	
	2018	**2017**	**Change**		
	(RMB'mn)		**%**	**2018**	**2017**
Drilling technology cluster	**1,339.9**	959.2	39.7%	**45.6%**	43.6%
Well completion cluster	**741.8**	564.4	31.4%	**25.3%**	25.6%
Oil production services cluster	**854.2**	679.1	25.8%	**29.1%**	30.8%
Total	**2,935.9**	2,202.7	33.3%	**100.0%**	100.0%

Drilling technology cluster

In 2018, the Group's revenue from drilling technology cluster amounted to RMB1,339.9 million, a significant increase of 39.7% as compared to RMB959.2 million in 2017. Increase in revenue from the cluster was mainly due to increase in capital expenditure of customers for new production capacity and significant increase in investment in the development of new wells.

Analysis of product lines in this cluster:

1) Integrated drilling services: during the year, the Group continued to cooperate with customers on integrated drilling in the Iraq and Kazakhstan markets with smooth operation of integrated drilling projects. The Group continuously made breakthroughs in the shale gas projects in Southwest China and recorded the

shortest drilling cycle of a drilling block in Changning, enabling customer to control cost and achieve improvement of development efficiency. Such product line has been highly recognized for excellent completion quality and high quality safe operations. During the reporting period, revenue from integrated drilling services amounted to RMB428.0 million, a significant increase of 34.2% as compared to RMB318.9 million in 2017.

2) Directional drilling services: during the year, the Group maintained continuous cooperation with customers in the Iraqi market in addition to actively participating in bidding for new projects. In the Kazakhstan market, the Group continued to cooperate with independent Chinese oil companies and leveraged on its solid technical capacity to complete project construction with high quality. In the domestic market, the Company cooperated with international oilfield service companies to carry out business in many regional markets such as shale gas market in Southwest China. During the reporting period, revenue from directional drilling services amounted to RMB205.4 million, an increase of 7.3% as compared to RMB191.5 million in 2017.

3) Drilling fluid services: oil-based mud and high-performance water-based mud services are the Group's services with traditional competitive edges in the Northwest China market, accounting for approximately 45% of market share in the Northwest China market. In the overseas markets, the Group provided drilling fluid services for customers in Ethiopia and the Iraqi markets, and newly expanded into the Chad market in Africa in the second half of 2018 and started to provide drilling fluid services for customers. In 2018, the Group' revenue from drilling fluid services amounted to RMB136.5 million, an increase of 31.8% as compared to RMB103.6 million in 2017.

4) Land drilling services: with acceleration in new production capacity, land drilling services embraced strong demand in this year. the Group's drilling operations in the Iraq and Pakistan markets were under smooth construction. In the domestic market, the Group cooperated with state-owned oil companies in carrying out operations with high standards in Ordos and Xinjiang Mahu regions and providing high quality services for customers. During the reporting period, revenue from land drilling services amounted to RMB303.8 million, an increase of 41.8% as compared to RMB214.2 million in 2017.

5) Oilfield waste management services: in 2018, revenue from oilfield waste management services amounted to RMB36.4 million, an increase of 19.3% as compared to RMB30.5 million in 2017.

6) Drilling tool rental and services: with the comprehensive development of oil and gas fields in Xinjiang, China, the work of deep drilling has increase sharply, and customers' demand for leasing of drilling tools also increased. The Group efficiently made relevant arrangements for allocation of drilling tools. During the reporting period, revenue from this product line amounted to RMB118.4 million, a significant increase of 196.7% as compared to RMB39.9 million in 2017.

7) Oil production facilities inspection and evaluation services: in 2018, the demand for the product line also continued to increase in line with market recovery. During the reporting period, revenue from oil production facilities inspection and evaluation services amounted to RMB108.6 million, a significant increase of 79.2% as compared to RMB60.6 million in 2017.

The EBITDA of the drilling technology cluster increased significantly from RMB400.5 million in 2017 to RMB624.9 million in 2018, an increase of 56.0%. In 2018, the EBITDA rate was 46.6%，an increase of 4.8 percentage points as compared to 41.8% in 2017, primarily due to the Group's active pursuing of high quality business orders and continuous control over costs and expenses.

Well completion cluster

In 2018, the well completion business of the Group returned to rapid growth tract with overall advancement of upstream development activities. During the reporting period, revenue from the well completion business amounted to RMB741.8 million, up from RMB564.4 million from last year, an increase of 31.4%.

Analysis of product lines in this cluster:

1) Well completion integration: during the reporting period, with the advancement of upstream development activities and the recovery of the traditional completion business market, the demand for this product line continuously rise. In 2018, the revenue from well completion integration was RMB216.5 million, representing a significant increase of 58.3% from RMB136.8 million for the same period last year.

2) Pressure pumping service: during the year, the Group mainly provided pressure pumping services in respect of fracturing and production stimulation in the southwestern shale gas and Ordos regional markets. During the reporting period, revenue from pressure pumping service was RMB172.6 million, an increase of 20.1% compared with RMB143.7 million for the same period last year.

3) Coiled tubing service: in the Iraqi market, the Group provided coiled tubing service to Chinese and international oil companies customers, and maintains stable construction during the year. In the domestic market, leveraging on its domestic leading coiled tubing technology, the Group conducts business in various markets such as Xinjiang, Erdos and Southwest region, and cooperated with international oilfield service companies to provide quality services to customers. In 2018, revenue from this service was RMB234.7 million, representing an increase of 19.3% compared with RMB196.7 million for the same period last year.

4) Fracturing/acidizing technique and chemical materials: With good process design capability and chemical production stimulation technology, the Group continued to achieve revenue growth during the year and expanded its business to several new overseas markets such as Pakistan and Ethiopia, which have further growth potentials in the future. During the reporting period, revenue from this service was RMB44.2 million, compared with RMB36.7 million for the same period last year, an increase of 20.4%.

5) Gravel packing service: in 2018, revenue from this product line amounted to RMB73.8 million, up 64.0% from RMB45.0 million for the same period last year.

The EBITDA of the well completion cluster increased from RMB262.9 million for the same period last year to RMB329.3 million in 2018, an increase of 25.3%. In 2018, the EBITDA margin was 44.4%, a decrease of 2.2 percentage points from 46.6% for the same period last year. The decrease was principally due to the increase in proportion of revenue from well completion integration service in 2018 and the main cost of this product line is raw material cost, the EBITDA margin is relatively lower than other product lines.

Production services cluster

In 2018, revenue from the production services cluster was RMB854.2 million, up 25.8% from RMB679.1 million for the same period last year. During the year, the Group won the bid for the integrated oilfield management service of the Majnoon oilfield, a large oilfield in south Iraq and achieved a breakthrough in the new business model. In addition, the Group's production service business has achieved breakthroughs in Chad, a new market in Africa, and has received orders of high-quality light-asset management service during the year, and it is expected to further develop in the future.

Analysis of product lines in this cluster:

1) Production operation service: In 2018, the Group won the bid for the integrated oilfield management service project of the Majnoon oilfield, a large oilfield in south Iraq, and provided customers with reservoir support services for the oilfield, overall operation and maintenance of the oilfield, third-party engineering service management, and HSE management to help customers maximize the value of oil and gas resources. Since July 1, 2018, the Group officially took over the oilfield from an international oil company, and commenced the operation. The operation of the oilfield has been carried out in an efficient and smooth manner and the production capacity has been gradually been improved, thus the Group has been highly praised by its customers; in addition, the Group has successfully made breakthrough in new African markets and Albanian market and received light-asset oilfield management projects. During the reporting period, the revenue from the production operation service was RMB605.1 million, representing a significant increase of 46.2% from RMB414.0 million for the same period last year;

2) Workover service: During the reporting period, affected by the adjustment of the construction scheme of some customers, revenue of the workover service was RMB214.8 million, representing a decrease of 7.3% from RMB231.6 million for the same period last year;

3) Oil tubing and casing and anti-corrosion technology: during the reporting period, the business recorded revenue of RMB34.3 million, an increase of 2.4% as compared with RMB33.5 million for the same period last year.

The EBITDA of the production services cluster increased from RMB310.7 million for the same period last year to RMB360.8 million in 2018, an increase of 16.1%. The EBITDA margin of the production services cluster for 2018 was 42.2%, 3.6 percentage point lower than the 45.8% for last year. The decrease in EBITDA of the production services cluster was mainly due to the fact that the margin of the large-scale oilfield management project that the Group newly received during the year was slightly lower than that of the previous service projects, but such project was “light-asset” management project, and the Group was not required to incur capital expenditure, it uses less working capital and have good free cash flow and the return on capital is far better than other traditional projects that have higher margin, but require substantial investment.

Strategic Resources Alignment

In 2018, although the Group's overall business volume has increased significantly, the Group continued to maintain strict control on incremental capital expenditure following its "asset-light" business model requirement and the overall control requirements of taking "cash flow" as the core, substituting non-essential investment with rental or by allocating resources from partners. Although the equipment used throughout the year increased by 11 units, capital expenditure throughout the year decreased by 76.3% from RMB417.9 million in 2017 to RMB99.2 million.

Alignment of Investment

In 2018, investment of the Group mainly includes supplementary investment in equipment for orders under execution and investment in research and development of new technology, and there was not any investment in large equipment.

Alignment of Research and Development ("R&D")

In 2018, the Group focused on improvement and innovation of techniques or tools according to customers' practical needs of production-increasing and cost-reducing, as well as promoting optimization and upgrade of products through technological cooperation. In 2018, R&D expense of the Group amounted to RMB28.0 million, representing an increase of 5.7% from RMB26.5 million last year. Key research and development pipelines include:

— Laboratory research and on-site application of "Ant-Druid" biosynthetic environmental friendly drilling fluid

— R&D and application of accessory tools for high-end well completion

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

— Research of automatic fluid control technique and technologies

— R&D and application of "AB-III" continuous packer water control and well stimulation technology

The "AB-III " continuous packer water control technology is a result of the Group's 10-year R&D, which had been successfully applicated on-site for some on-shore and off-shore wells and provided customers good stimulation results.

Alignment of Human Resources

In 2018, the Group continued to focus on strategic development goals and promote the internationalization of personnel to support the rapid development of international business. At the same time, through incentive mechanism, the Group continued to promote the Group's talents to exert their initiative and create value for the Group's business growth. Major developments in 2018 include:

— Comprehensively promote talent upgrading, and strengthen the introduction of core overseas operation and management talents according to the requirements for globalization, specialization and informationization constructions along with the rapid development of the Group's overseas business. In 2018, the total headcount of the Group increased by 1,449, among which, 80% were "project-based" employees. For those incremental headcounts, 1,216 were for overseas markets and 233 were for domestic market. As of 31 December 2018, total headcount of the Group was 4,040, of which 2,256 were overseas market employees, which accounted for 55.8% of the Group's total headcount. With the increase of large-scale overseas projects, the Group will continue to implement its "project-based" employee policy to ensure the efficient operation of the project and full use of talents. At the same time, the Group comprehensively strengthened its international training to improve the internationalization level of the company's employees, and provide talent guarantee for the Group's international development.

— The Group continued to decrease the proportion of fixed salary, and increase the performance-linked floating bonus through the incentive system. While controlling the overall staff costs of the Group, the Group increased the total amount of the performance-linked bonus of employees to enhance the enthusiasm of employees. Starting in 2018, the Group fully implemented the "amoeba" operation model, and proposed "amoeba" incentive system for all employees to give play to the subjective initiative of employees and promote management upgrades.

— The Group promoted the corporate culture of "hard struggle spirit" and encouraged all employees to not to be afraid of difficulties and hardships, and to go deep into the front line to give full play to the talent competitiveness as a Chinese company in emerging markets around the world.

— The Company continued to adopt long-term incentives with share options to encourage employees to develop with the Group in the long run. A total of 70,000,000 ordinary share options of the Company were granted to approximately 110 core employees and directors in April 2018 with exercise

price of HK$1.02 per share. The grantees other than the independent non-executive directors may commence to exercise the share options after the first anniversary from the date of grant and thereafter one third of the options granted may be vested each year.

Outlook

The Group's long term objective is "being a global leading oilfield technical service company", and its 2019 objective is "becoming the leading production-increasing and cost-reducing integrated technical service company in the global emerging markets". The focus of the Group in 2019 is to target global emerging markets of oil and gas development, provide production-increasing and cost-reducing integrated technical services, consistantly increase market share, continuously improve business quality, increase the return on assets and generate good free cash flow to achieve healthy leapfrog development.

In market strategy, the Group will continue to provide its integrated management in Majnoon oilfield in the Iraqi market, and help the customer expand the oilfield's capacity rapidly, as well as bid for more projects led by this project operation. In addition, the Group will further strive to explore other international oil company customer markets and further pursue the "integrated general contracting" services to achieve new breakthroughs in scale. In other overseas markets, the Group will maintain the market of independent Chinese oil company customers and strengthen the exploration of international oil company customers markets and pursue large-scale project opportunities on the basis of controlling risks and ensuring the safety of funds. In the Chinese market, the Chinese government intends to increase efforts in the development of oil and gas resources in 2019 to ensure national energy security. The major oil company customers in China are expected to further increase capital expenditures in oil and gas development. The Group will seize this market opportunity to provide high-end technical services in new technology markets, natural gas markets, unconventional markets, and high-quality international oil company customer markets to help customers build capacity efficiently.

In products, technology and service capacity strategy, the Group will focus on the establishment of products, technology and capacity service platform. Integrate resources according to the market needs, and allocate resources such as human resources, raw materials and equipment assets for the customer, and provide all-round services to the customer which covers whole-process products, full-set resources and integrated services.

In strategic resources alignment, the Group will take production-increasing and cost-reducing integrated technology as the core to continuously build service capabilities. On the aspect of technology, it will mainly through technology cooperation and independent R&D. For equipment assets, it will focus on external cooperation or through rental. The Group will keep strict control on the scale of capital expenditure and keep a continuous generation of free cash flow to achieve higher return on net asset under "light-asset" business model. Regarding human resources, the Group will maintain a flexible employment structure, decrease its fixed labor ratio and lift the project-based labor ratio. At the same time, the Group will introduce leading talents in the industry with international vision to support the global development strategy of the Group.

In finance strategy, the Group aims to achieve continuous improvement in business quality. Managements and operations will be centered around sound return on assets and strong free cash flow generation which would further drive the growth of orders, revenue and profits. Meanwhile, the Group will strengthen the cooperation with financial institutions such as commercial banks to ensure profound liquidity, as well as deepening cooperation with policy financial institutions, strengthen the "combination of projects with financing" to acquire more financial supports and risk coverage under the "Belt and Road" initiative, and to capture more market share in the global markets and achieve good financial goals.

Financial Review

Revenue

The Group's revenue in 2018 amounted to approximately RMB2,935.9 million, representing an increase of approximately RMB733.2 million, or 33.3%, from approximately RMB2,202.7 million in 2017. The increase in the Group's revenue was mainly attributable to the recovery of the oil and gas industry, the rebound in oil prices and the warming-up of the market. The Group's project execution fully accelerated on the basis of ample reserve of orders on-hand.

Cost of Sales

The costs of sales in 2018 increased to approximately RMB1,821.6 million, representing an increase of 32.7%, from approximately RMB1,373.0 million in 2017. The increase was mainly attributable to increased revenue.

Other Gains

Other gains increased from approximately RMB9.7 million in 2017 to approximately RMB11.9 million in 2018, representing an increase of approximately RMB2.2 million or 22.7%.

Impairment Loss of Financial Assets

The impairment loss of financial assets increased from approximately RMB22.8 million in 2017 to approximately RMB75.2 million in 2018, representing an increase of 229.8%, which was mainly due to changes in accounting standards which increased the corresponding range of impairment provisions.

Selling Expenses

The sales expenses in 2018 amounted to approximately RMB171.2 million, representing an increase of approximately RMB18.6 million, or 12.2%, compared with approximately RMB152.6 million in 2017, which was mainly due to market recovery and business growth of the Group.

Administrative Expenses

Administrative expenses in 2018 amounted to approximately RMB197.2 million, representing an increase of approximately RMB44.5 million, or 29.1%, from approximately RMB152.7 million in 2017, which was mainly due to the increase of headcount of the Group.

Research and Development Expenses

Research and development expenses in 2018 amounted to approximately RMB28.0 million, representing an increase of approximately RMB1.5 million, or 5.7%, from approximately RMB26.5 million in 2017.

Sales Tax and Surcharges

Sales tax and surcharges in 2018 amounted to approximately RMB10.3 million, representing a decrease of approximately RMB0.8 million or 7.2% as compared to approximately RMB11.1 million in 2017.

Operating Profit

As a result of the foregoing, the operating profit in 2018 amounted to approximately RMB644.3 million, representing an increase of approximately RMB170.6 million, or 36.0%, from approximately RMB473.7 million in 2017. The operating profit margin in 2018 was 21.9%, representing an increase of 0.4 percentage points from 21.5% in 2017, which was mainly attributable to the substantial increase in revenue of the Group and ongoing cost control measures.

Finance Costs, Net

In 2018, net financial costs amounted to approximately RMB297.5 million, representing an increase of approximately RMB29.6 million from approximately RMB267.9 million in 2017, mainly due to the increased financial interest costs under the long-term bond item led by the Group's newly-issued USD senior notes in December 2017.

Income Tax Expense

In 2018, income tax expense amounted to approximately RMB96.4 million, representing an increase of approximately RMB62.8 million from approximately RMB33.6 million in 2017, mainly due to the increase in operating profit of the Group.

Profit for the Year

As a result of the foregoing, the Group's profit in 2018 was approximately RMB250.7 million, representing an increase of approximately RMB79.4 million, or 46.4%, from the profit of approximately RMB171.3 million in 2017.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company in 2018 amounted to RMB222.4 million, representing an increase of RMB167.9 million as compared to 2017.

Trade and Notes Receivables

As at 31 December 2018, the Group's net trade and notes receivables were RMB1,948.0 million, representing an increase of RMB187.6 million as compared to 31 December 2017. The average trade receivables turnover days (excluding quality

guarantee deposits and other deposits) in 2018 were 220 days, representing a decrease of 7 days as compared to 2017. This was mainly attributable to strengthened trade receivables recovery management by the Group.

Inventories

As at 31 December 2018, the Group's inventories amounted to RMB774.4 million, representing an increase of RMB177.2 million as compared with 31 December 2017.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2018, the Group's cash and bank deposits amounted to approximately RMB1,017.6 million (including: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing a decrease of approximately RMB530.6 million as compared to 31 December 2017. The decrease was mainly attributable to the repayment of the old outstanding USD bonds that were not involved in the bond exchange transaction in December 2017 at the beginning of the year.

As at 31 December 2018, the Group's outstanding short-term loans amounted to approximately RMB879.2 million. Credit facilities granted to the Group by domestic banks amounted to approximately RMB1,657.8 million, of which approximately RMB583.0 million were not used.

As at 31 December 2018, the gearing ratio of the Group was 59.7%, representing an increase of 1.6 percentage points from the gearing ratio of 58.1% as at 31 December 2017. 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 owners of the Company increased from RMB2,558.0 million as at 31 December 2017 to RMB2,645.9 million as at 31 December 2018.

ACQUISITON AND SALE OF MAJOR SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the twelve months ended 31 December 2018, the Group did not have any significant acquisitions or disposals of subsidiaries, associates and joint ventures.

EXCHANGE RISK

The Group mainly uses RMB and USD 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 USD may have a negative impact on the Group's operating results and financial position.

CASH FLOW FROM OPERATING ACTIVITIES

For the twelve months ended 31 December 2018, net cash inflow from operating activities of the Group amounted to RMB420.0 million, representing an increase of RMB224.4 million compared to the same period in 2017. This was mainly due to the increase in the collection of trade receivables benefiting from the recovery of the oil and gas industry and the accelerated execution of the Group's projects, as well as strictly controlled payments to suppliers as per the payment schedule.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure in 2018 was RMB99.2 million, of which, investments in fixed assets were RMB36.0 million, and investments in tangible assets (including land use rights) were RMB63.2 million.

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 2018, the Group's operating lease commitments amounted to approximately RMB39.2 million. As at the balance sheet date (31 December 2018), the Group had capital commitments of approximately RMB20.9 million, which was not provided for in the balance sheet.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2018, the Group's assets pledged for bank financing included building, plant, machinery and equipment with a net book value of RMB439.7 million, land use rights with a net book value of RMB5.9 million as well as trade receivable with a net book value of RMB357.1 million.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2018, the Group did not have any off-balance sheet arrangement.

FINAL DIVIDENDS

At the Board meeting held on 22 March 2019, the Board recommended the payment of a final dividend of RMB0.01 per Share with the total amount of RMB30.0 million for the year ended 31 December 2018 (2017: Nil). Such dividend, subject to approval at the 2019 annual general meeting, will be paid by the Company on or about 12 June 2019 to shareholders whose names appear on the register of members of the Company on 4 June 2019.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on 27 May 2019 (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 22 May 2019 (Wednesday) to 27 May 2019 (Monday), both days inclusive, during which period no share transfers will be registered. In order to be eligible for attending and voting at the 2019 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 21 May 2019 (Tuesday).

For the purpose of ascertaining entitlement to the final dividend for the year ended 31 December 2018, the register of members of the Company will be closed from 31 May 2019 (Friday) to 4 June 2019 (Tuesday), both days inclusive. In order to be entitled to the final dividend for the year ended 31 December 2018, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 30 May 2019 (Thursday).

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 2018.

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 LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

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 2018.

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

Hong Kong, 22 March 2019

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.