

INTERIM REPORT
2018



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)



CONTENTS

| | |
|--|-----------|
| Corporate Information | 2 |
| Management Discussion and Analysis | 4 |
| Other Information | 21 |
| Report on Review of Condensed Consolidated Financial Statements | 26 |
| Condensed Consolidated Statement of Financial Position | 27 |
| Condensed Consolidated Statement of Profit or Loss | 29 |
| Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 30 |
| Condensed Consolidated Statement of Changes in Equity | 31 |
| Condensed Consolidated Statement of Cash Flows | 33 |
| Notes to the Condensed Consolidated Financial Statements | 34 |

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LUO Lin
Mr. WU Di
Mr. PI Zhifeng

Non-executive Director

Mr. John William CHISHOLM

Independent Non-executive Directors

Mr. ZHANG Yongyi
Mr. ZHU Xiaoping
Dato WEE Yiau Hin

AUDIT COMMITTEE

Mr. ZHU Xiaoping (Chairman)
Mr. ZHANG Yongyi
Dato WEE Yiau Hin

REMUNERATION COMMITTEE

Dato WEE Yiau Hin (Chairman)
Mr. ZHU Xiaoping
Mr. LUO Lin

NOMINATION COMMITTEE

Mr. ZHANG Yongyi (Chairman)
Dato WEE Yiau Hin
Mr. LUO Lin

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

Mr. PI Zhifeng (Chairman)
Mr. LUO Lin

AUTHORIZED REPRESENTATIVES

Mr. LUO Lin
Dr. NGAI Wai Fung

COMPANY SECRETARY

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

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Corporate Information

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

as to Hong Kong and U.S. law:

Sidley Austin

as to PRC law:

TIAN TAI LAW FIRM

as to Cayman Islands law:

Maples and Calder

PRINCIPAL BANKS

Shanghai Pudong Development Bank
China Merchants Bank
Bank of Beijing

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

3337

DATE OF LISTING

14 December 2007

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2018, international crude oil price continued to rise, with the oil and gas industry showing stronger signs of recovery. Oil companies further increased their investment in new capacity construction, which provided more market opportunities in oil and gas development. Benefiting from the speeding up of execution of oil and gas development projects across-the-board as well as ample orders backlog, the Group recorded RMB1,165.9 million of revenue for the first half of 2018, a significant increase and record high.

In terms of market, the Group continued to play its core strengths to actively contest high quality orders in overseas and domestic key markets. In the first half of 2018, it achieved a strong growth in winning new orders, and a new breakthrough on the volume of total order backlog. In the first half of the year, RMB3,002.0 million of new orders were recorded, representing a year-on-year growth of 112.6% from RMB1,412.2 million in the same period of 2017, among which, new orders from overseas markets accounted for RMB2,031.4 million, or 67.7% of total orders. Regarding the customer structure, orders from international oil company clients and national oil company clients continued to grow, taking up over 50% of total orders backlog of the Group. As at 30 June 2018, the Group had accumulated orders backlog of RMB5,062.5 million, among which RMB3,849.9 million was overseas market orders, accounted for 76.0% of the total orders backlog, and RMB1,212.6 million was Chinese market orders, accounted for 24.0% of the total orders backlog.

In terms of business model, the Group has achieved a new breakthrough of "large-scale" "asset-light" "integrated" project model in the first half, and won a tender for the "Integrated Field Management Service (IFMS)" project in a large oilfield with rich reserves in south Iraq. In which, the Group has ascended to the "top-place" in the oilfield technical service industry chain, and replaced the role of an international oil company to provide integrated management of the oilfield for the customer as a "contractor". The project is an "asset-light" integrated management project focusing on providing personnel service, with no requirement for equipment investment. The term of service is in a "2+1" model (a two-year fixed service term upon official commencing of project, with one-year optional extension via written notice depending on execution of the project). The contractual service fee is close to USD100.0 million per annum. The official handover of oilfield management rights took place on 1 July 2018 and the project has officially commenced execution.

In terms of corporate governance, the Group has redeemed USD71.0 million of old bonds in advance on 12 January 2018, and no bond will be due in 2018 for the Group after this redemption completed. Regarding the acquisition of Anton Oilfield Services DMCC ("DMCC") for the Group's Iraqi business, the shareholders have approved the transaction at the extraordinary general meeting held on 20 July 2018, and settlement will be in the second half of the year.

Management Discussion and Analysis

In terms of financial management, the Group promoted comprehensive control with “cash flow” as the core in 2018, focused on improving working capital turnover efficiency and strengthened full-process control over accounts receivable, inventory and accounts payable, resulting in a large improvement in operating cash flow level in the first half. Regarding cost control, the Group continued to intensify internal cost control measures along with a fast business growth, all cost and expense ratios was kept under a strict control to safeguard further increase in the Group’s profit margin. Besides, the Group actively strengthened cooperation with domestic banks in the first half and achieved a growth of credit lines. It is further exploring in-depth cooperation with financial institutions under the “combining industry with financing” model in order to obtain further support from financial institutions towards the Group’s business development.

Results and Performance

In the first half of 2018, the Group recorded total revenue of RMB1,165.9 million, an increase of RMB290.5 million, or 33.2%, as compared with the same period in 2017. The Group’s operating profit was RMB307.5 million, an increase of RMB115.3 million, or 60.0% from last year’s RMB192.2 million. Net profit was RMB113.4 million, an increase of RMB68.4 from RMB45.0 million last year, or 152.0%. Profit attributable to owners of the Company was RMB85.0 million, an increase of RMB72.8 million, or 596.7%, from last year’s RMB12.2 million. Margin of net profit attributable to owners of the Company was 7.3%, an increase of 5.9 percentage points from 1.4% as compared with the same period in 2017.

As at 30 June 2018, the Group has recovered RMB1,959.4 million of trade and notes receivables, and the average trade receivable turnover days were 265 days, an increase of 7 days as compared with the same period last year. Average inventory turnover days were 158 days, a decrease of 87 days; average trade payable turnover days were 135 days, a decrease of 4 days. Cash flow from operating activities amounted to RMB45.5 million, with RMB252.1 million more in cash flow from last year’s RMB-206.6 million.

Geographical Market Analysis

In the first half of 2018, revenue from the overseas market was RMB752.1 million, a RMB201.4 million increase from RMB 550.7 million in the same period of 2017, or an increase of 36.6%. The overseas market accounted for a further increase in percentage of the Group’s overall revenue to 64.5%. In the overseas market, the revenue of the Iraqi market was RMB420.6 million, RMB34.7 million more than RMB385.9 million in the same period of 2017, or an increase of 9.0%, and accounted for 36.1% of the Group’s overall revenue; revenue from other overseas markets were RMB331.5 million, an increase of RMB166.7 million from RMB164.8 million in the same period of 2017, or 101.2%, and accounted for 28.4% of the Group’s overall revenue. Revenue from the domestic market was RMB413.8 million, RMB 89.1 million more than RMB324.7 million in the same period of 2017, or an increase of 27.4%, and accounted for 35.5% of the Group’s total revenue.

Management Discussion and Analysis

Breakdown of Revenue by Market

| | Six months ended 30 June | | Change (%) | Share of total revenue of the Group | |
|----------|--------------------------|------------------|---------------|-------------------------------------|--------|
| | 2018 (RMB'mn) | 2017 (RMB'mn) | | Six months ended 30 June 2018 | 2017 |
| Overseas | 752.1 | 550.7 | 36.6% | 64.5% | 62.9% |
| Domestic | 413.8 | 324.7 | 27.4% | 35.5% | 37.1% |
| Total | 1,165.9 | 875.4 | 33.2% | 100% | 100.0% |

Overseas market

| | Six months ended 30 June | | Change (%) | Share of total revenue of the Group | |
|------------------------|--------------------------|------------------|---------------|-------------------------------------|-------|
| | 2018 (RMB'mn) | 2017 (RMB'mn) | | Six months ended 30 June 2018 | 2017 |
| Iraq | 420.6 | 385.9 | 9.0% | 36.1% | 44.1% |
| Other overseas markets | 331.5 | 164.8 | 101.2% | 28.4% | 18.8% |
| Total | 752.1 | 550.7 | 36.6% | 64.5% | 62.9% |

Management Discussion and Analysis

Overseas Market

In the first half of 2018, overseas market of the Group continued to maintain a high-speed growth, further increased its percentage in the Group's overall revenue to 64.5%. With its broad market space and high-quality orders, the overseas market helped the Group to achieve its scale growth, the optimization of customer structure and improvement of overall margin as well as a stronger cash flow.

Key overseas market - Iraq

With the rise of international oil price and the increasing financing capacity of the Iraqi government, the capacity building of this market is active, and the overall growth is energetic. In the first half of 2018, the Iraqi government made a new attempt in the oilfield development model, and strived to establish an independent oilfield operation management and change the model of managing and acquiring access through oil companies to directly cooperate with service companies instead. The new development model is based on the "Integrated Field Management Service" pilot project of a large oilfield in south Iraq, which was previously managed by a large international oil company. 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 passed the pre-qualification of this pilot project, 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. The Iraqi government attaches great importance to this project. If the model can be successfully implemented, it has great potential to be further promoted in other oilfields in Iraq in the future. The project is a milestone for the Group's business development, and is a new breakthrough for the Group's long-term "asset-light" "integration" model. It not only brings the Group nearly USD100.0 million of asset-light service orders per year, but also further enhanced the Group's brand influence in the Iraqi market. It laid a solid foundation for the Group to further expand its business in the Iraqi market and enter the international oil company's large-scale project market. The official handover of this oilfield management with the previous international oil company took place on 1 July 2018, and formal implementation of this project had been commenced. In other projects, the Group continued to expand its cooperation with international oil companies to further enlarge the market share, and continued to deepen cooperation with customers on projects with traditional competitive edges.

During the first half of 2018, the Group obtained new orders totaling RMB1,528.7 million in Iraq, an increase of about 194.0% from RMB519.9 million as compared with the same period in 2017. It recorded revenue of RMB420.6 million, up by 9.0% from RMB385.9 million compared with the same period in 2017.

Management Discussion and Analysis

Other overseas markets - Global Emerging Markets

Other overseas markets of the Group are mainly global emerging markets along the “Belt and Road” regions, 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. As the vanguard of China’s private oil service companies, the Group has strong competitive advantages in emerging markets around the world by virtue of its strong technical strength and integrated service capabilities covering the entire life cycle of oil and gas field services, and has become the preferred partner of independent oil company customers. Since 2015, the Group has provided high-quality and efficient services to its customers in this market. It has achieved considerable production-increasing and cost-reducing effects in various projects, created excess returns for customers, and was highly praised by customers. In the first half of 2018, the Group further expanded its existing industrial layout and continued to expand its market share by deepening cooperation with customers. During the reporting period, other overseas markets received a total of approximately RMB502.7 million of new orders, an increase of approximately 68.0% compared with RMB299.2 million during the same period last year. Revenue was approximately RMB331.5 million, a significant increase of approximately 101.2% compared with RMB164.8 million from the same period last year.

With the rapid expansion of business in emerging markets, the Group continues to actively cooperate with national policy financial institutions to reduce the risk of overseas business expansion, to obtain the necessary financial support for overseas business development, and to adopt the “combining industry with financing” model. The Group is actively exploring more diversified forms of cooperation and greater scale of cooperation with financial institutions. It will further promote the development of emerging market business under the premise of stable risk protection and sufficient capital support.

Domestic market

In the first half of 2018, capital expenditures of major customers in the domestic market increased, and accelerated development in natural gas and shale gas projects. The Group focuses on bidding of selected high-quality projects from a great project opportunities released by the domestic market along with its management objective of “cash flow” at the core. In the Southwest region, the Group has become one of the first private service companies who undertake integrated shale gas development projects. Thanks to its leading edge in unconventional resources development technology and high-quality track records, the Group has obtained orders for multiple shale gas projects, in which several projects had been successfully launched

Management Discussion and Analysis

such as the integrated platform drilling service project and ultra-long horizontal well project. In the Northwest region, the Group seized the market opportunity of the expanded natural gas development capacity construction in the Xinjiang market, and achieved rapid recovery in its business. In the Erdos basin, project operations such as drilling and fracturing were continually implemented, which led to a significant increase in the utilization rate of large equipment, such as drilling rigs and pressure pumping trucks. During the reporting period, the Group achieved a strong recovery in the domestic market, with new orders of RMB970.6 million, representing an increase of 63.6% compared with RMB593.1 million during the same period in 2017, and the quality of orders increased significantly. The Group has recorded revenue of RMB413.8 million, a year-on-year increase of 27.4% from RMB324.7 million in the same period of 2017.

Business Cluster Analysis

In the first half of 2018, with the increase in upstream capital expenditure from oil companies and the acceleration of new capacity construction, the Group's drilling business continued to maintain a strong growth. During the reporting period, the Group's drilling technology cluster recorded revenue of RMB615.9 million, representing a significant increase of approximately 98.5% as compared with the same period last year, and accounted for 52.8% of the Group's revenue for the first half of 2018. Completion business achieved recovery and entered a growth track, recording revenue of RMB286.0 million, up about 20.2% from the same period of last year, and accounted for 24.5% of the Group's total revenue. For production business, as major large-scale projects will commence operation in the second half of the year, the revenue in the first half declined year-on-year. During the reporting period, the revenue from the oil production services cluster was RMB 264.0 million, about 19.3% lower than the same period in 2017, and accounted for 22.7% of the Group's total revenue.

Management Discussion and Analysis

| | Six months ended 30 June | | Share of total revenue of the Group Change (%) | Share of total revenue of the Group Six months ended 30 June | |
|---------------------------------|--------------------------|------------------|---|---|--------|
| | 2018 (RMB'mn) | 2017 (RMB'mn) | | 2018 | 2017 |
| Drilling technology cluster | 615.9 | 310.3 | 98.5% | 52.8% | 35.4% |
| Well completion cluster | 286.0 | 237.9 | 20.2% | 24.5% | 27.2% |
| Oil production services cluster | 264.0 | 327.2 | -19.3% | 22.7% | 37.4% |
| Total | 1,165.9 | 875.4 | 33.2% | 100.0% | 100.0% |

Drilling technology cluster

In the first half of 2018, the Group's drilling technology cluster has recorded revenue of RMB615.9 million, a strong growth from the previous year's RMB310.3 million, or 98.5%. The significant increase in revenue of the cluster was mainly due to the significant increase in demand for new well construction led by a substantial increase in upstream capital expenditure from customers, and the fully acceleration in project execution. The market has re-entered a high-speed development cycle.

Analysis of product lines in this cluster:

- 1) Integrated drilling services: with the launch of large-scale integrated drilling projects in Iraq and the domestic market, the volume of operations recorded in this product line has increased significantly. During the reporting period, the revenue from integrated drilling services was RMB232.8 million, a dramatic increase of 392.2% from RMB 47.3 million for the same period last year.
- 2) Directional drilling services: the product line continued to expand its market size with solid technical capabilities. During the reporting period, directional drilling services recorded revenue of RMB94.7 million, up 14.2% from RMB 82.9 million for the same period last year.
- 3) Drilling fluid service: this product line recovered with increased upstream demand, especially the development demand for natural gas projects in the Northwest. During the reporting period, the Group's drilling fluid services product line recorded revenue of RMB71.3 million, an increase of 44.3% from RMB49.4 million for the same period last year.
- 4) Land drilling service: in the first half of 2018, the Group's drilling projects maintained efficient operations in all markets. During the reporting period, the land drilling service recorded revenue of RMB123.1 million, a significant increase of 48.7% from RMB82.8 million for the same period last year.

Management Discussion and Analysis

- 5) Oilfield waste management service: this product line recorded revenue of RMB17.9 million in the first half of 2018, up 62.7% from RMB11.0 million for the same period last year.
- 6) Drilling tool rental and service: with the recovery of the drilling market and the increase in customer demand, the Group has effectively organized the corresponding drilling tools to meet the market needs for drilling operations. During the reporting period, this product line recorded revenue of RMB33.7 million, a significant increase of 163.3% from RMB12.8 million for the same period last year.
- 7) Oil production facilities inspection and evaluation service: benefiting from the growth of development activities in the Northwest market, the scale of this product line business has further expanded. During the reporting period, the product line recorded revenue of RMB42.4 million, an increase of 75.9% compared with RMB24.1 million for the same period last year.

The EBITDA of the drilling technology cluster increased significantly from RMB125.8 million for the same period last year to RMB284.3 million in the first half of 2018, an increase of 126.0%. In the first half of 2018, the EBITDA rate was 46.2%, an increase of 5.7 percentage points from 40.5% for the same period of last year, mainly benefiting from the market recovery, significant growth in new capacity building needs upstream, and the Group actively strives for high-quality orders, resulting in the revenue of integrated drilling and drilling fluids businesses with higher margin recording a significant increase.

Well completion cluster

In the first half of 2018, the well completion business returned back to growth with the recovery of the upstream businesses. During the reporting period, it has recorded revenue of RMB286.0 million, up from RMB237.9 million for the same period last year, an increase of 20.2%.

Analysis of product lines in this cluster:

- 1) Well completion integration: during the reporting period, with the recovery of the traditional completion business market, the market demand for this product line increased. In the first half of 2018, the revenue was RMB95.5 million, an increase of 36.0% from RMB70.2 million for the same period last year.
- 2) Pressure pumping service: In 2018, pressure pumping services recorded revenue growth in the Southwest China and Erdos markets. In the first half of the year, revenue was RMB48.2 million, compared with RMB41.1 million for the same period last year, an increase of 17.3%.
- 3) Coiled tubing service: In the first half of 2018, coiled tubing operations maintained a stable workload in the domestic and overseas Iraqi markets. During the reporting period, it recorded revenue of RMB101.7 million an increase of 5.8% compared with RMB96.1 million for the same period last year.

Management Discussion and Analysis

- 4) Fracturing/acidizing technique and chemical materials: in the first half of 2018, the service recorded higher revenue with the growth of fracturing operations. During the reporting period, its revenue was RMB18.5 million, compared with RMB13.3 million for the same period last year, an increase of 39.1%.
- 5) Gravel packing service: it recorded revenue of RMB22.1 million during the reporting period, up 28.5% from RMB17.2 million for the same period last year.

The EBITDA of the well completion cluster increased from RMB106.3 million in the first half of 2017 to RMB130.4 million in the same period of 2018, an increase of 22.7%. In the first half of 2018, the EBITDA margin was 45.6%, an increase of 0.9 percentage points from 44.7% for the same period last year.

Production services cluster

In the first half of 2018, revenue from the production services cluster was RMB 264.0 million, down 19.3% from RMB327.2 million for the same period last year. Based on the Group's high quality oil production and operation management service and strong comprehensive service capability in the Iraqi market, the cluster continued to gain market breakthroughs in the first half of the year, and won the tender of an integrated oilfield management service project for a large oilfield in southern Iraq, which officially commenced operations on 1 July. The project will contribute a large amount of income to the sector in the second half of the year.

Analysis of product lines in this cluster:

- 1) Production operation service: during the reporting period, this product line recorded revenue of RMB150.4 million, 26.6% lower than the previous year's RMB205.0 million. During the first half, the Group made notably breakthrough in coming by-scale projects in Iraqi market, including the large-scale integrated oilfield management services and plant management business, etc. Total order amount exceeds RMB1,200.0 million, which will bring substantial revenue growth to the product line in the second half of the year.
- 2) Workover service: during the reporting period, the workover service product line operated smoothly in the markets of Iraq, Ethiopia and northwest China, recording revenue of RMB100.5 million with a small decrease of 7.0% compared with RMB108.1 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 RMB13.1 million, a decrease of 7.1% compared with RMB14.1 million for the same period last year;

The EBITDA of the production services cluster dropped from RMB155.2 million for the same period last year to RMB126.5 million in 2018, a decrease of 18.5%. The EBITDA margin for 2018 was 47.9%, 0.5 percentage point higher than 47.4% for the same period last year, mainly due to strict cost control measures of the Group.

Management Discussion and Analysis

Strategic Resources Alignment

In 2018, the Group continued to keep a strict control on incremental capital expenditure following its “asset-light” business model requirement, substituting non-essential investment with rental or by allocating resources from partners. Capital expenditure in the first half was RMB46.5 million, a decrease of 50.3% from RMB93.5 million for the same period of 2017.

Alignment of Investment

In the first half of 2018, investment of the Group mainly includes supplementary investment in equipment for orders under execution in Iraq, including drilling tools, coiled tubing and inspection tools without any large incremental investment.

Alignment of Capital Operations

On 12 January 2018, the Group fully redeemed USD71.0 million of previous notes due on 5 November 2018 in order to save on financial expenses. The Group has no bond due in 2018 after this redemption.

Alignment of R&D

In the first half of 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 the first half, R&D expense of the Group amounted to RMB7.9 million, a decrease of 12.2% from RMB9.0 million for the same period of last year. Key research and development pipelines include:

- Research and development of high-end completion tools
- High-temp high-density high-performance environment-friendly water-based drilling fluid system
- In-door research and on-site application of biosynthesis-based environment-friendly drilling fluid system
- Automatic fluid control technique and technologies
- Horizontal cement-injecting multistage fracturing technology

Management Discussion and Analysis

Alignment of Human Resources

In the first half of 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 the first half of 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 and replenish overseas employees along with the rapid development of the Group's overseas business. In the first half of 2018, the total headcount of the Group increased by 787, mainly for the added personnel required in preparation for the operation of the large integrated oilfield management service project in south Iraq. As of 30 June 2018, total headcount of the Group was 3,378, of which 551 were additional overseas employees. The overseas headcount reached 1,591, accounted for 47.1% of the Group's total headcount. With the increase of large-scale overseas projects, the Group established a "project-based" employee system to ensure the efficient operation of the project and full use of talents. The current number of project-based employees is 491. 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 strengthen the performance appraisal-linked incentives system to enhance employee motivation. Despite the rapid business growth and a large increase in headcount, the Group maintained a stable labor cost to revenue ratio. In the first half of 2018, the Group's labor cost to revenue ratio was 20.1%, the same as that for the same period last year. The Group implemented the "amoeba" operating 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 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.

Management Discussion and Analysis

Outlook

In the second half of 2018, upstream exploration and development of global oil and gas market is expected to remain active. Market-wise, the Group will continue to advance its globalization strategy. Overseas, in the Iraqi market, the Group will seize the established large-scale integrated oilfield management project opportunities, further strive for its additional capital expenditure projects, and further deepen cooperation with international oil companies operating in the Iraqi market to win more large international oil company projects. In global emerging markets, with the support of the national "Belt and Road" initiative, the Group will actively promote further cooperation with national policy financial institutions, and strive to further promote large-scale integrated general contracting projects with the "combining industry with financing" model in "Belt and Road" countries, such as Pakistan, Kazakhstan, and Ethiopia. In the domestic market, the Group will actively seize market opportunities presented by the vigorously promoting development of natural gas and unconventional resources in the PRC, focusing on the development of more quality projects in the southwest shale gas market and the Xinjiang natural gas market.

In terms of project execution, in the Iraqi market, the large-scale integrated oilfield management project in south Iraq that the Group won in the first half of the year has completed handover from the previous international oil company responsible for managing

the oilfield on 1 July 2018, and the project was officially launched. The project will contribute revenue growth for the Group in the second half of the year. In global emerging markets, the Group's various general contracting projects in Ethiopia and Kazakhstan will maintain smooth operations in the second half, and the Pakistani market will witness new workload growth. In the domestic market, multiple shale gas projects won in the first half of the year will enter its peak operations in the second half of the year. The Group will continue to rely on the internationalized "QHSE" management system to strictly control operation quality, and ensure high quality and efficient operation of projects in various markets.

In terms of products and technology, the Group will continue to focus on the technology development route centered around integrated services with production increasing and cost reducing technology. Regarding research, development and promotion of new technologies, the Group will closely focus on the practical application demands of customers to implement "production-increasing and cost-reducing" technologies for different geological conditions in the oilfield development process, and strengthen the proprietary research and development, introduction, promotion and application of new technologies. In terms of business model, the Group will adhere to the "asset-light" strategy, and focus on promoting the business model upgrade from "single-technology service" to "integrated engineering service", and further to "integrated oilfield management service".

Management Discussion and Analysis

In terms of human resources, centered around the global business development of the Group, the Group will continue to actively promote the internationalization of management talents and the localization of employees in international business, increase the proportion of local employees in conventional service and operation positions, and strengthen the introduction of industry leading talents with international business capabilities as well as the leapfrog development and training management of outstanding talents. At the same time, the Group actively promotes the "Amoeba" management model to achieve more refined target-oriented management at all levels, strengthen the efficiency of corporate project execution, and further optimize the management hierarchy. In terms of remuneration, the Group will continue to strengthen compensation incentives, control fixed labor costs, and promote business development at the same time. In terms of corporate culture, the Group will promote the "hard struggle" culture and cultivate the fighting spirit in all employees to not fear the difficulties or hard struggle, and promote the Group's new breakthrough in the global emerging market business as a Chinese independent company.

In terms of management, the Group will further improve the overall operation and management efficiency, establish clear standards for each operational link, and strengthen the whole process control. From the project marketing stage, the Group will strengthen the strict screening of the project to guarantee the quality of project pipeline from the source, and it will strengthen the supply chain management during the project execution phase to improve the efficiency of the turnover at each link. The Group will further strengthen cooperation with financial institutions, especially with

the national policy financial institutions and promote the "combining industry with financing" model to realize the cooperation between the project and the capital in order to reduce allocation of the Group's own funds, reduce the project operation risks, and promote the development of the Group's international business. The Group has entered into a business cooperation agreement with CRCC Financial Leasing Co., Ltd. on 24 August, pursuant to the agreement, both parties will jointly consolidate the advantages in their respective industries to actively implement the "One Belt, One Road" national strategy through mutual cooperation in various areas. CRCC Financial Leasing Co., Ltd. will provide financing to the Group according to its needs in forms of financial leasing including direct lease, operating lease and sale and leaseback etc., pursuant to conditions permitted by laws and regulations. The Group had finished its first sale and leaseback cooperation with CRCC Financial Leasing in July 2018, with the amount of RMB 270.0 million, and is in discussion of further cooperation on operating leasing and overseas financial leasing. The Group has also signed an agreement with Bank of Beijing on the overseas performance bond cooperation, and obtained a special credit of RMB 350.0 million. The Group can use this credit to issue performance bonds for its overseas projects with certain amount of deposits. This cooperation will strongly support the development of the Group's overseas business. Besides, the Group's newly won large-scale project in Iraq in the first half has got insurance coverage from Sinasure which can cover corresponding political and commercial risks of this project. Basing on this insurance coverage, the Group can cooperate with financial institutions such as banks to carry out factoring business to accelerate the recovery of funds.

Management Discussion and Analysis

Financial Review

Revenue

The Group's revenue for the first half of 2018 was RMB1,165.9 million, an increase of RMB290.5 million, or 33.2%, from RMB875.4 million for the same period in 2017. The increase 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

Cost of sales increased from RMB546.7 million for the same period in 2017 to RMB705.7 million in the first half of 2018, an increase of 29.1%, mainly due to the revenue growth.

Other Gains

Other gains increased from RMB3.0 million for the same period in 2017 to RMB7.4 million in the first half of 2018, an increase of 146.7%.

Impairment Loss of Trade Receivables

The impairment loss of trade receivables increased from RMB3.1 million for the same period in 2017 to RMB22.0 million in the first half of 2018, an increase of 609.7%, which was mainly due to changes in accounting standards which increased the corresponding range of impairment provisions.

Selling Expenses

The sales expenses for the first half of 2018 were RMB60.4 million, representing an increase of RMB2.8 million, or 4.9%, compared with RMB57.6 million for the same period in 2017, which was mainly due to market recovery and project growth.

Administrative Expenses

Administrative expenses for the first half of 2018 was RMB64.9 million, representing a decrease of RMB1.4 million, or 2.1%, from RMB66.3 million for the same period in 2017, which was mainly due to the optimization of human resources structure of the Group and comprehensive cost control measures.

Research and Development Expenses

Research and development expenses for the first half of 2018 were RMB7.9 million, representing a decrease of RMB1.1 million, or 12.2%, from RMB9.0 million for the same period in 2017.

Sales Tax and Surcharges

For the first half of 2018, the Group's sales tax and surcharges were RMB4.9 million, representing an increase of RMB1.4 million, or 40.0%, compared with RMB3.5 million for the same period in 2017.

Management Discussion and Analysis

Operating Profit

As a result of the foregoing, the operating profit for the first half of the year was RMB307.5 million, representing an increase of RMB115.3 million, or 60.0%, from RMB192.2 million for the same period in 2017. The operating profit margin for the first half of 2018 was 26.4%, an increase of 4.4 percentage points over 22.0% for the same period in 2017, which was mainly attributable to the substantial increase in revenue of the Group and ongoing cost control measures.

Finance Costs, Net

In the first half of 2018, net financial costs were RMB155.4 million, an increase of approximately RMB37.5 million from RMB117.9 million during the same period of 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 the first half of 2018, income tax expense was RMB38.7 million, an increase of RMB10.1 million from RMB28.6 million for the same period in 2017, mainly due to the increase in operating profit of the Group.

Profit for the Period

As a result of the foregoing, the Group's profit for the first half of 2018 was RMB113.4 million, an increase of RMB68.4 million, or 152.0%, from the profit of RMB45.0 million for the same period in 2017.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company as at 30 June 2018 amounted to RMB85.0 million, an increase of RMB72.8 million as compared with the same period in 2017.

Trade and Notes Receivables

As at 30 June 2018, the Group's net trade and notes receivables amounted to RMB1,959.4 million, representing an increase of RMB199.0 million from 31 December 2017. The average trade receivable turnover days (excluding quality guarantee deposits and other deposits) for the first half of 2018 was 265 days, an increase of 7 days compared with the same period in 2017, mainly due to the growth of the Group's business.

Inventories

As at 30 June 2018, the Group's inventories were RMB645.3 million, an increase of RMB48.1 million as compared with 31 December 2017.

Liquidity and Capital Resources

As at 30 June 2018, the Group's cash and bank deposits amounted to approximately RMB861.9 million (including: restricted bank deposits, cash and cash equivalents), representing a decrease of RMB686.3 million as compared to 31 December 2017.

As at 30 June 2018, outstanding bank borrowings of the Group were approximately RMB1,037.2 million. Credit facilities granted by the domestic banks to the Group was RMB2,125.0 million, of which approximately RMB 737.0 million was unused.

Management Discussion and Analysis

As at 30 June 2018, the gearing ratio of the Group was 55.0%, representing a decrease of 3.1 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 condensed consolidated statement of financial position. Total capital is calculated as equity, as shown in the condensed consolidated statement of financial position, plus total borrowings.

The equity attributable to owners of the Company increased from RMB2,558.0 million as at 31 December 2017 to RMB2,590.0 million at the end of first half in 2018.

Acquisition and Sale of Major Subsidiaries, Associates and Joint Ventures

In the first half of 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 six months ended 30 June 2018, net cash inflow from operating activities of the Group amounted to RMB45.5 million, representing an increase of RMB252.1 million compared to the same period in 2017. This was mainly due to the recovery of the oil and gas industry and the Group's business growth has increased the amount of trade receivables, while the Group strictly scheduled and controlled payments to suppliers to control its cash outflow.

Capital Expenditure and Investment

The Group's capital expenditure for the first half of 2018 was RMB46.5 million, of which, investments in fixed assets were RMB31.9 million, and investments in tangible assets (including land use rights) were RMB14.6 million.

Contractual Liabilities

The Group's contractual liabilities mainly include the payment obligations and capital commitments of the Group's operating lease arrangements. The Group leases office buildings and certain equipment and machinery in the form of operating leases. The operating lease commitment of the Group as at 30 June 2018 was approximately RMB28.2 million. At the date of condensed consolidated statement of financial position (i.e. 30 June 2018), the Group's capital commitment (but not yet provided on the condensed consolidated statement of financial position) was approximately RMB22.4 million.

Contingent Liabilities

As at 30 June 2018, the Group did not have any material contingent liabilities or guarantees.

Management Discussion and Analysis

Pledge of Assets

As at 30 June 2018, the Group's assets pledged for bank financing included building, plant, machinery and equipment with a net book value of RMB293.6 million, land use rights with a net book value of RMB5.9 million as well as trade receivable with a net book value of RMB381.9 million.

Off-Balance Sheet Arrangements

As at 30 June 2018, the Group did not have any off-balance sheet arrangement.

OTHER INFORMATION

INTERIM DIVIDEND

The board of directors (the "Board") of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

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

For the six months ended 30 June 2018, neither the Company nor its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2018, the interests and short positions of the directors (the "Directors") and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

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

| Name of Director | Note | Capacity | Number of ordinary shares | Approximate percentage of shareholdings |
|------------------|------|---|---------------------------|---|
| LUO Lin | 1 | Founder of a discretionary trust and Beneficial owner | 620,307,408 | 23.28% |
| ZHANG Yongyi | | Beneficial owner | 440,000 | 0.02% |
| PI Zhifeng | | Beneficial owner | 448,000 | 0.02% |

Note:

- Mr. Luo Lin is the founder of the Loles Trust, which is indirectly interested in the entire issued share capital of Pro Development Holdings Corp., which in turn is interested in 605,580,740 shares of the Company. Mr. Luo Lin and his family members are the beneficiaries of the Loles Trust. Mr. Luo Lin also holds 14,726,668 shares of the Company in the capacity of a beneficial owner, in which interest of 5,672,000 shares are the total number of share options granted by the company to Mr. Luo Lin.

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

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

Save as disclosed above, at no time during the six months ended 30 June 2018, the Directors and chief executive (including their spouses and children under the age of 18 years) had any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations required to be disclosed pursuant to the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

SHARE OPTION SCHEME

As at 30 June 2018, the Directors individually and other employees in aggregate of the Company had the following interests in options to subscribe for shares of the Company under the existing share option scheme adopted by the Company at the annual general meeting of the Company held on 26 May 2017 ("Share Option Scheme"). Each option gives the holder the right to subscribe for one ordinary share of the Company of HK\$0.10 each. Details of the movements in the number of share options during the six months ended 30 June 2018 under the Share Option Scheme are as follows:

| Grantees | Date of grant of share options | Exercise period of share options | Exercise price per share HK\$ | Notes | Number of share options as at 1 January 2018 | Number of share options granted during the period | Number of share options exercised during the period | Number of share options cancelled during the period | Number of share options lapsed during the period | Number of share options as at 30 June 2018 |
|--------------|--------------------------------|------------------------------------|-------------------------------|-------|--|---|---|---|--|--|
| Directors | | | | | | | | | | |
| Zhang Yongyi | 01 April 2016 | 01 April 2017 to 31 March 2022 | 0.800 | 2,7 | 900,000 | — | — | — | — | 900,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,9 | 700,000 | — | — | — | — | 700,000 |
| | 03 April 2018 | 03 April 2019 to 02 April 2024 | 1.020 | 2,10 | — | 700,000 | — | — | — | 700,000 |
| Subtotal: | | | | | 1,600,000 | 700,000 | — | — | — | 2,300,000 |
| Zhu Xiaoping | 01 April 2016 | 01 April 2017 to 31 March 2022 | 0.800 | 2,7 | 900,000 | — | — | — | — | 900,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,9 | 700,000 | — | — | — | — | 700,000 |
| | 03 April 2018 | 03 April 2019 to 02 April 2024 | 1.020 | 2,10 | — | 700,000 | — | — | — | 700,000 |
| Subtotal: | | | | | 1,600,000 | 700,000 | — | — | — | 2,300,000 |
| Luo Lin | 21 June 2013 | 21 June 2014 to 20 June 2019 | 5.742 | 1,3 | 796,000 | — | — | — | — | 796,000 |
| | 2 December 2016 | 2 December 2017 to 1 December 2022 | 1.100 | 1,8 | 2,216,000 | — | — | — | — | 2,216,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 1,9 | 442,000 | — | — | — | — | 442,000 |
| | 03 April 2018 | 03 April 2019 to 02 April 2024 | 1.020 | 1,10 | — | 2,218,000 | — | — | — | 2,218,000 |
| Subtotal: | | | | | 3,454,000 | 2,218,000 | — | — | — | 5,672,000 |
| Wu Di | 01 April 2016 | 01 April 2017 to 31 March 2022 | 0.800 | 1,7 | 1,500,000 | — | — | — | — | 1,500,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 1,9 | 1,000,000 | — | — | — | — | 1,000,000 |
| Subtotal: | | | | | 2,500,000 | — | — | — | — | 2,500,000 |
| Pi Zhifeng | 01 April 2016 | 01 April 2017 to 31 March 2022 | 0.800 | 1,7 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 1,9 | 3,000,000 | — | — | — | — | 3,000,000 |
| | 03 April 2018 | 03 April 2019 to 02 April 2024 | 1.020 | 1,10 | — | 2,600,000 | — | — | — | 2,600,000 |
| Subtotal: | | | | | 6,000,000 | 2,600,000 | — | — | — | 8,600,000 |

Other Information

| Grantees | Date of grant of share options | Exercise period of share options | Exercise price per share HK\$ | Notes | Number of share options as at 1 January 2018 | Number of share options granted during the period | Number of share options exercised during the period | Number of share options cancelled during the period | Number of share options lapsed during the period | Number of share options as at 30 June 2018 |
|------------------------|--------------------------------|--------------------------------------|-------------------------------|-----------|--|---|---|---|--|--|
| John William | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 1,9 | 700,000 | — | — | — | — | 700,000 |
| Chisholm | 03 April 2018 | 03 April 2019 to 02 April 2024 | 1.020 | 1,10 | — | 700,000 | — | — | — | 700,000 |
| | | | | Subtotal: | 700,000 | 700,000 | — | — | — | 1,400,000 |
| Dato Wee Yaw Hin | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 2,9 | 700,000 | — | — | — | — | 700,000 |
| | 03 April 2018 | 03 April 2019 to 02 April 2024 | 1.020 | 2,10 | — | 700,000 | — | — | — | 700,000 |
| | | | | Subtotal: | 700,000 | 700,000 | — | — | — | 1,400,000 |
| Employees in aggregate | 21 June 2013 | 21 June 2014 to 20 June 2019 | 5.742 | 1,3 | 480,000 | — | — | — | — | 480,000 |
| | 28 June 2013 | 28 June 2014 to 27 June 2019 | 5.600 | 1,4 | 82,000 | — | — | — | — | 82,000 |
| | 20 November 2013 | 20 November 2014 to 19 November 2019 | 4.960 | 1,5 | 76,000 | — | — | — | — | 76,000 |
| | 24 February 2016 | 24 February 2017 to 23 February 2022 | 0.740 | 1,6 | 95,022,000 | — | 4,402,666 | — | 620,000 | 89,999,334 |
| | 23 May 2017 | 23 May 2018 to 22 May 2023 | 0.810 | 1,9 | 92,758,000 | — | 98,000 | — | 300,000 | 92,360,000 |
| | 03 April 2018 | 03 April 2019 to 02 April 2024 | 1.020 | 1,10 | — | 62,382,000 | — | — | — | 62,382,000 |
| | | | | Subtotal: | 188,418,000 | 62,382,000 | 4,500,666 | — | 920,000 | 245,379,334 |
| | | | | Total: | 204,972,000 | 70,000,000 | 4,500,666 | — | 920,000 | 269,551,334 |

Notes:

- The option period for the share options granted above commences on the date of grant and ends on the last day of seventy-two months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to one-third of their share options during the option period commencing from each of the first, second and third anniversary of the date of grant.
 - The option period for the share options granted above commences on the date of grant and ends on the last day of seventy-two months counting respectively from the said date. The grantees are vested with, and entitled to exercise up to 50% of their share options during the option period commencing from each of the first and second anniversary of the date of grant.
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$5.73.*
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$5.47.*
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$4.99.*
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.77.*
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.81.*
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$1.12.*
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.84.*
 - The closing price of the Company's shares listed on the Stock Exchange immediately before the date on which the options were granted was HK\$0.97.*
- * Source from Bloomberg

Other Information

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

As at 30 June 2018, so far was known to any Director or the chief executive, the substantial shareholders, other than the Directors or the chief executive of the Company, who had an interest or short position in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

| Name of substantial shareholder | Note | Capacity | Number of ordinary shares | Approximate percentage of shareholding |
|---------------------------------|------|------------------|---------------------------|--|
| Credit Suisse Trust Limited | 1 | Trustee | 605,580,740 | 22.73% |
| Seletar Limited | 1 | Trustee | 605,580,740 | 22.73% |
| Serangoon Limited | 1 | Trustee | 605,580,740 | 22.73% |
| Avalon Assets Limited | 1 | Trustee | 605,580,740 | 22.73% |
| Pro Development Holdings Corp. | 1 | Beneficial owner | 605,580,740 | 22.73% |

Note:

1. The 605,580,740 shares referred to the same batch of shares.

Save as disclosed above, as at 30 June 2018, so far was known to the Directors, no other persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' SECURITIES TRANSACTIONS

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

CHANGE IN INFORMATION REGARDING THE DIRECTORS AND CHIEF EXECUTIVES ACCORDING TO RULE 13.51B(1) OF THE LISTING RULES

There has been no change in the information regarding the Directors and chief executives of the company since the date of the Company's 2017 annual report.

Other Information

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the “CG Code”) under Appendix 14 to the Listing Rules during the six months ended 30 June 2018.

AUDIT COMMITTEE

Pursuant to the requirements of the CG Code and the Listing Rules, the Company has established an audit committee (the “Audit Committee”) comprising all three Independent Non-executive Directors, namely, Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Dato Wee Yiaw Hin. The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and confirms that the applicable accounting principals, standards and requirements have been complied with, and that adequate disclosures have been made.

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

Hong Kong, 27 August 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

**TO THE BOARD OF DIRECTORS OF
ANTON OILFIELD SERVICES GROUP**

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Anton Oilfield Services Group (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 76, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 August 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018
(Amounts expressed in thousands of Renminbi ("RMB"))

| | Notes | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---|-------|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 2,278,652 | 2,331,571 |
| Prepaid lease payments | 7 | 76,598 | 77,567 |
| Goodwill | | 242,004 | 242,004 |
| Intangible assets | 8 | 218,053 | 224,285 |
| Interest in a joint venture | | 2,581 | 2,691 |
| Prepayments and other receivables | 13 | 123,073 | 121,063 |
| Other non-current assets | | 369,952 | 304,844 |
| Deferred income tax assets | 9 | 57,016 | 63,743 |
| | | 3,367,929 | 3,367,768 |
| Current assets | | | |
| Inventories | 10 | 645,339 | 597,233 |
| Prepaid lease payments | 7 | 1,932 | 1,932 |
| Trade and notes receivables | 11 | 1,959,364 | 1,760,358 |
| Contract assets | 12 | 74,560 | — |
| Prepayments and other receivables | 13 | 511,496 | 467,029 |
| Current portion of other non-current assets | | 3,812 | 4,923 |
| Restricted bank deposits | 14 | 410,540 | 415,135 |
| Cash and cash equivalents | 14 | 451,366 | 1,133,097 |
| | | 4,058,409 | 4,379,707 |
| Total assets | | 7,426,338 | 7,747,475 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 15 | 246,636 | 246,271 |
| Reserves | | 2,343,335 | 2,311,768 |
| | | 2,589,971 | 2,558,039 |
| Non-controlling interests | | 418,085 | 388,953 |
| Total equity | | 3,008,056 | 2,946,992 |

Condensed Consolidated Statement of Financial Position

As at 30 June 2018
(Amounts expressed in thousands of Renminbi ("RMB"))

| | Notes | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---|-------|---|---|
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long-term bonds | 16 | 1,983,647 | 1,885,824 |
| Long-term borrowings | 17 | 97,000 | 36,217 |
| Deferred income tax liabilities | 9 | 10,550 | 10,661 |
| | | 2,091,197 | 1,932,702 |
| Current liabilities | | | |
| Short-term borrowings | 17 | 869,225 | 880,320 |
| Current portion of long-term bonds | 16 | — | 461,588 |
| Current portion of long-term borrowings | 17 | 71,016 | 141,105 |
| Trade and notes payables | 18 | 656,114 | 685,147 |
| Accruals and other payables | 19 | 635,891 | 658,224 |
| Contract liabilities | | 49,301 | — |
| Current income tax liabilities | | 45,538 | 41,397 |
| | | 2,327,085 | 2,867,781 |
| Total liabilities | | 4,418,282 | 4,800,483 |
| Total equity and liabilities | | 7,426,338 | 7,747,475 |

The condensed consolidated financial statements on pages 27 to 76 were approved and authorised for issue by the Board of Directors on 27 August 2018 and were signed on its behalf by:

LUO Lin

Chairman

PI Zhifeng

Executive Director

The notes on pages 34 to 76 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB)

| | Notes | Six months ended 30 June 2018 (Unaudited) | 2017 (Unaudited) |
|---|-------|---|---------------------|
| Revenue | | | |
| Goods and services | 20 | 1,131,139 | 855,060 |
| Rental | 20 | 34,753 | 20,354 |
| Total revenue | 20 | 1,165,892 | 875,414 |
| Cost of sales | | (705,717) | (546,730) |
| Gross profit | | 460,175 | 328,684 |
| Other gains, net | 22 | 7,448 | 2,989 |
| Impairment losses, net of reversal | 21 | (22,038) | (3,072) |
| Selling expenses | | (60,373) | (57,576) |
| Administrative expenses | | (64,862) | (66,348) |
| Research and development expenses | | (7,929) | (9,021) |
| Sales tax and surcharges | | (4,929) | (3,491) |
| Operating profit | | 307,492 | 192,165 |
| Interest income | | 1,929 | 1,856 |
| Finance expenses | | (157,297) | (119,766) |
| Finance costs, net | 23 | (155,368) | (117,910) |
| Share of loss of a joint venture | | (110) | (708) |
| Profit before income tax | | 152,014 | 73,547 |
| Income tax expense | 24 | (38,663) | (28,559) |
| Profit for the period | | 113,351 | 44,988 |
| Profit attributable to: | | | |
| Owners of the Company | | 84,952 | 12,210 |
| Non-controlling interests | | 28,399 | 32,778 |
| | | 113,351 | 44,988 |
| Earnings per share for profit attributable to owners of the Company (expressed in RMB per share) | | | |
| – Basic | 25 | 0.0319 | 0.0046 |
| – Diluted | 25 | 0.0315 | 0.0046 |

The notes on pages 34 to 76 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB)

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Profit for the period | 113,351 | 44,988 |
| Other comprehensive (expense)/income, net of tax: | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Net investment hedge | (21,619) | 37,564 |
| Currency translation differences | 24,001 | (25,686) |
| Other comprehensive income for the period, net of tax | 2,382 | 11,878 |
| Total comprehensive income for the period | 115,733 | 56,866 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | 86,601 | 27,257 |
| Non-controlling interests | 29,132 | 29,609 |
| | 115,733 | 56,866 |

The notes on pages 34 to 76 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB)

| | Notes | Attributable to owners of the Company | | | | | | | Non-controlling interests | Total equity |
|---|-------|---------------------------------------|---------------|-----------------|-------------------|-------------------|----------------|-----------|---------------------------|--------------|
| | | Share capital | Share premium | Capital reserve | Statutory reserve | Retained earnings | Other reserves | Subtotal | | |
| Balance at 31 December 2017 (audited) | | 246,271 | 813,243 | 395,229 | 76,900 | 666,136 | 360,260 | 2,558,039 | 388,953 | 2,946,992 |
| Adjustments (note 3.3) | | — | — | — | — | (68,763) | — | (68,763) | — | (68,763) |
| Balance at 1 January 2018 (restated) | | 246,271 | 813,243 | 395,229 | 76,900 | 597,373 | 360,260 | 2,489,276 | 388,953 | 2,878,229 |
| Profit for the period | | — | — | — | — | 84,952 | — | 84,952 | 28,399 | 113,351 |
| Other comprehensive (expense)/income: | | | | | | | | | | |
| - Net investment hedge | | — | — | — | — | — | (15,388) | (15,388) | (6,231) | (21,619) |
| - Currency translation differences | | — | — | — | — | — | 17,037 | 17,037 | 6,964 | 24,001 |
| Total comprehensive income | | — | — | — | — | 84,952 | 1,649 | 86,601 | 29,132 | 115,733 |
| Total transactions with owners recognised directly in equity: | | | | | | | | | | |
| - Share option scheme | 15(b) | — | — | 11,386 | — | — | — | 11,386 | — | 11,386 |
| - Share option exercised | 15(a) | 365 | 2,343 | — | — | — | — | 2,708 | — | 2,708 |
| Total transactions with owners, recognised directly in equity: | | 365 | 2,343 | 11,386 | — | — | — | 14,094 | — | 14,094 |
| Balance at 30 June 2018 | | 246,636 | 815,586 | 406,615 | 76,900 | 682,325 | 361,909 | 2,589,971 | 418,085 | 3,008,056 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017
(Amounts expressed in thousands of RMB)

| | Notes | Attributable to owners of the Company | | | | | | Subtotal | Non-controlling interests | Total equity |
|---|-------|---------------------------------------|---------------|-----------------|-------------------|-------------------|----------------|-----------|---------------------------|--------------|
| | | Share capital | Share premium | Capital reserve | Statutory reserve | Retained earnings | Other reserves | | | |
| Balance at 1 January 2017 | | 226,578 | 634,616 | 378,739 | 76,900 | 611,641 | (383,589) | 1,544,885 | 432,012 | 1,976,897 |
| Profit for the period | | — | — | — | — | 12,210 | — | 12,210 | 32,778 | 44,988 |
| Other comprehensive income/(expense): | | | | | | | | | | |
| - Net investment hedge | | — | — | — | — | — | 31,031 | 31,031 | 6,533 | 37,564 |
| - Currency translation differences | | — | — | — | — | — | (15,984) | (15,984) | (9,702) | (25,686) |
| Total comprehensive income | | — | — | — | — | 12,210 | 15,047 | 27,257 | 29,609 | 56,866 |
| Total transactions with owners recognised directly in equity: | | | | | | | | | | |
| - Issue of ordinary shares | 15(a) | 19,625 | 178,194 | — | — | — | — | 197,819 | — | 197,819 |
| - Share option scheme | 15(b) | — | — | 7,761 | — | — | — | 7,761 | — | 7,761 |
| - Share option exercised | 15(a) | 56 | 360 | — | — | — | — | 416 | — | 416 |
| - Termination of put option | | — | — | — | — | — | 715,453 | 715,453 | — | 715,453 |
| - Acquisition of a subsidiary | | — | — | — | — | — | — | — | 29,338 | 29,338 |
| Total transactions with owners, recognised directly in equity: | | 19,681 | 178,554 | 7,761 | — | — | 715,453 | 921,449 | 29,338 | 950,787 |
| Balance at 30 June 2017 | | 246,259 | 813,170 | 386,500 | 76,900 | 623,851 | 346,911 | 2,493,591 | 490,959 | 2,984,550 |

The notes on pages 34 to 76 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB)

| | | Six months ended 30 June | |
|---|-------|---------------------------------|-------------|
| | Notes | 2018 | 2017 |
| | | (Unaudited) | (Unaudited) |
| Net cash from/(used in) operating activities | 27 | 45,500 | (206,567) |
| Net cash used in investing activities | 27 | (46,509) | (120,488) |
| Net cash (used in)/from financing activities | 27 | (691,507) | 151,032 |
| Net decrease in cash and cash equivalents | | (692,516) | (176,023) |
| Cash and cash equivalents, at beginning of the period | 14 | 1,133,097 | 507,263 |
| Exchange gain on cash and cash equivalents | | 10,785 | 5,207 |
| Cash and cash equivalents, at end of the period | 14 | 451,366 | 336,447 |

The notes on pages 34 to 76 form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 the 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 the 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.

This unaudited condensed consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"), as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|----------------------|--|
| IFRS 9 | <i>Financial Instruments</i> |
| IFRS 15 | <i>Revenue from Contracts with Customers and the related Amendments</i> |
| IFRIC 22 | <i>Foreign Currency Transactions and Advance Consideration</i> |
| Amendments to IFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions</i> |
| Amendments to IFRS 4 | <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> |
| Amendments to IAS 28 | <i>As part of the Annual Improvements to IFRSs 2014-2016 Cycle</i> |
| Amendments to IAS 40 | <i>Transfers of Investment Property</i> |

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to IFRSs having been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers*

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

The Group recognises revenue from the following major sources:

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

The 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers (Continued)*

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers (Continued)*

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 *(Continued)*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, typically drilling technology service and well completion service (within oilfield technology services) in one contract, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions and other sales bonus for certain relevant staff) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**3.1 Impacts and changes in accounting policies of application on IFRS 15**
Revenue from Contracts with Customers (Continued)**3.1.2 Summary of effects arising from initial application of IFRS 15**

The following table summarises the impact of transition to IFRS 15 on retained earnings at 1 January 2018.

| | Note | Impact of adopting IFRS 15 at 1 January 2018 RMB'000 |
|-------------------------------|------|---|
| Retained earnings | | |
| Recognition of contract costs | (a) | 403 |
| Tax effects | (a) | (101) |
| Impact at 1 January 2018 | | 302 |

The following adjustments were made to the amounts recognised in the condensed 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 RMB'000 | Reclassification RMB'000 | Remeasurement RMB'000 | Carrying amounts under IFRS 15 at 1 January 2018* RMB'000 |
|---------------------------------|-------|---|-----------------------------|--------------------------|--|
| Current Assets | | | | | |
| Trade and notes receivables | (b) | 1,760,358 | (27,513) | — | 1,732,845 |
| Contract assets | (b) | — | 27,513 | — | 27,513 |
| Contract costs | (a) | — | — | 403 | 403 |
| Equity | | | | | |
| Reserves | (a) | 2,311,768 | — | 302 | 2,312,070 |
| Current Liabilities | | | | | |
| Contract liabilities | (c) | — | 20,146 | — | 20,146 |
| Accruals and other payables | (c) | 658,224 | (20,146) | — | 638,078 |
| Non-current Liabilities | | | | | |
| Deferred income tax liabilities | (a) | 10,661 | — | 101 | 10,762 |

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers (Continued)*

3.1.2 Summary of effects arising from initial application of IFRS 15 *(Continued)*

Notes:

- (a) The Group incurred incremental sales commissions and other sales bonus paid/payable to employees in connection with obtaining the services and sales of goods contracts with customers. These amounts were previously expensed as incurred. At the date of initial application of IFRS 15 on 1 January 2018, incremental costs of obtaining contracts with customers of RMB403,000 and the related deferred income tax liability of RMB101,000 should have been recognised. However, the Directors consider the above impacts of applying IFRS 15 on the Group's contract costs and the related deferred income tax liability as at 1 January 2018 are immaterial and hence, no corresponding adjustments to contract costs and the related deferred income tax liability were recognised against retained earnings at 1 January 2018.
- (b) 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.
- (c) 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 condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

| | As reported RMB'000 | Adjustments RMB'000 | Amounts without application of IFRS 15 RMB'000 |
|-----------------------------|------------------------|------------------------|--|
| Current Assets | | | |
| Trade and notes receivables | 1,959,364 | 74,560 | 2,033,924 |
| Contract assets | 74,560 | (74,560) | — |
| Current Liabilities | | | |
| Contract liabilities | 49,301 | (49,301) | — |
| Accruals and other payables | 635,891 | 49,301 | 685,192 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments

In the current period, 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.

In addition, the Group applied the hedge accounting prospectively.

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

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Directors reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all the financial assets continue to be measured on the same bases as were previously measured under IAS 39.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments and the related amendments (Continued)*

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(Continued)*

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and notes receivables, contract assets, other receivables, restricted bank deposits and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component. For trade receivables and contract assets from large multinational and state-owned oil companies, the ECL are assessed individually. For trade receivables and contract assets from private and relatively small customers, the ECL are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments and the related amendments (Continued)*

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(Continued)*

Impairment under ECL model *(continued)*

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments and the related amendments (Continued)*

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(Continued)*

Impairment under ECL model *(continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and other receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in note 3.2.2.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments and the related amendments (Continued)*

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 *(Continued)*

Hedge accounting

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments *(Continued)*

3.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) 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 | Deferred income tax assets and liabilities | Retained earnings |
|---|-------|-----------------------------------|--------------------|--------------------|---|----------------------|
| Closing balance at 31 December 2017 - IAS 39 | | 1,760,358 | 2,347,412 | — | 53,082 | 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) | (904) | — | — | 226 | (678) |
| Non-substantial modification of financial liabilities | (b) | — | 68,763 | — | — | (68,763) |
| Opening balance at 1 January 2018 | | 1,731,941 | 2,416,175 | 27,513 | 53,308 | 596,695 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments *(Continued)*

3.2.2 Summary of effects arising from initial application of IFRS 9 *(Continued)*

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. To measure the ECL, contract assets and trade receivables from large multinational and state-owned oil companies with significant balances have been assessed individually and trade receivables and contract assets from private and relatively small customers have been grouped based on shared credit risk characteristics. The contract assets relate to retention money receivables and have substantially the same risk characteristics as the trade receivables for the same types of customers. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of notes receivable, other receivables, restricted bank deposits and cash and cash equivalents, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB904,000 and the related deferred income tax asset of RMB226,000 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.

All loss allowances for financial assets including contract assets, trade receivables and other financial assets at amortised cost as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

| | Contract assets RMB'000 | Trade receivables RMB'000 | Other financial assets at amortised cost RMB'000 |
|---|---------------------------------------|---|--|
| At 31 December 2017 - IAS 39 | — | 63,664 | 4,126 |
| Amounts remeasured through opening retained earnings | — | 904 | — |
| At 1 January 2018 | — | 64,568 | 4,126 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments *(Continued)*

3.2.2 Summary of effects arising from initial application of IFRS 9 *(Continued)*

Notes: *(continued)*

(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 (Note 16) 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 upward by RMB68,763,000 to reflect the change in accounting policies as stated in note 3.2.1, 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 adoption 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 interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)***3.3 Impacts on opening condensed 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 condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

| | 31 December 2017 (Audited) RMB'000 | IFRS 15 RMB'000 | IFRS 9 RMB'000 | 1 January 2018 (Restated) RMB'000 |
|------------------------------------|---|--------------------|-------------------|--|
| 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 |

Note:

Except for line items listed above, the Directors consider the impacts of applying IFRS 15 and IFRS 9 on the Group's retained earnings, trade and notes receivables, contract assets, contract costs and deferred income tax assets and liabilities as at 1 January 2018 as detailed in note 3.1.2 and note 3.2.2 are immaterial collectively and hence, no further restatement is made accordingly.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

4. ESTIMATES

The preparation of these condensed consolidated financial statements requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group's consolidated financial statements for the year ended 31 December 2017 except for the impairment of trade receivables under ECL model after the initial application of IFRS 9 on 1 January 2018.

Impairment of trade receivables and contract assets under ECL model

The impairment of trade receivables and contract assets under ECL model is determined by the management based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The impairment amount is subject to the management's assessment at each reporting date which involves an expectation of changes in credit risk and the likelihood or risk of a default occurring since initial recognition. Uncertainties exist with respect to evaluating the evidence available by management, such as the credit risk characteristics of the respective trade receivables and contract assets, ageing analysis and cash collections subsequent to the year end. As at 30 June 2018, the total carrying amount of trade receivables and contract assets was RMB2,005,258,000 (31 December 2017: RMB1,687,760,000), already net of accumulated impairment loss of RMB85,275,000 (31 December 2017: RMB63,664,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

5. SEGMENT INFORMATION

The chief executive officer, executive vice presidents and the 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 the Group's consolidated financial statements for the year ended 31 December 2017. The CODM evaluate the performance of the operating segments based on profit or loss before income tax expense, certain depreciation and amortisation, interest income, finance expenses, share of loss of a joint venture, asset impairment provisions and corporate overheads ("EBITDA"). The corporate overheads and corporate assets are the general management expenses incurred and assets held by the headquarters of the Group.

| | Drilling technology | Well completion | Oil production services | Total |
|--|------------------------|--------------------|----------------------------|------------------|
| Six months ended 30 June 2018 (Unaudited) | | | | |
| Revenue (Note) | 615,933 | 285,992 | 263,967 | 1,165,892 |
| EBITDA | 284,323 | 130,406 | 126,455 | 541,184 |
| Depreciation and amortisation | (55,871) | (44,932) | (11,518) | (112,321) |
| Impairment provision of | | | | |
| – Trade receivables | (4,767) | (14,232) | (3,039) | (22,038) |
| – Inventories | (3,434) | (293) | (657) | (4,384) |
| Interest income | 54 | 60 | 191 | 305 |
| Finance expenses | (2,632) | (2,691) | (1,941) | (7,264) |
| Share of loss of a joint venture | (110) | — | — | (110) |
| Income tax expense | (14,484) | (9,573) | (14,606) | (38,663) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

| | Drilling technology | Well completion | Oil production services | Total |
|--|------------------------|--------------------|----------------------------|----------|
| Six months ended 30 June 2017 (Unaudited) | | | | |
| Revenue (Note) | 310,314 | 237,852 | 327,248 | 875,414 |
| EBITDA | 125,845 | 106,264 | 155,208 | 387,317 |
| Depreciation and amortisation | (46,124) | (40,537) | (7,997) | (94,658) |
| Impairment provision of trade receivables | — | (1,310) | (1,762) | (3,072) |
| Interest income | 29 | 92 | 141 | 262 |
| Finance expenses | (3,051) | (2,422) | (2,462) | (7,935) |
| Share of loss of a joint venture | (708) | — | — | (708) |
| Income tax expense | (5,436) | (7,202) | (15,921) | (28,559) |

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 condensed consolidated statement of profit or loss.

| | Drilling technology | Well completion | Oil production services | Total |
|---------------------------------------|------------------------|--------------------|----------------------------|------------------|
| As at 30 June 2018 (Unaudited) | | | | |
| Total assets | 2,261,791 | 2,756,656 | 542,557 | 5,561,004 |
| Total assets include: | | | | |
| Capital expenditures | 40,887 | 22,368 | 10,882 | 74,137 |
| As at 31 December 2017 (Audited) | | | | |
| 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 total profit before income tax is provided as follows:

| | Six months ended 30 June | |
|----------------------------------|--------------------------|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) |
| EBITDA for reportable segments | 541,184 | 387,317 |
| Corporate overheads | (243,358) | (207,659) |
| Depreciation | (95,137) | (89,586) |
| Amortisation | (17,184) | (5,072) |
| Asset impairment provision | (26,422) | (3,072) |
| Interest income | 305 | 262 |
| Finance expenses | (7,264) | (7,935) |
| Share of loss of a joint venture | (110) | (708) |
| Profit before income tax | 152,014 | 73,547 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

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

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---|---|---|
| Assets for reportable segments | 5,561,004 | 5,429,512 |
| Corporate assets for general management | 1,865,334 | 2,317,963 |
| Total assets | 7,426,338 | 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 | |
|---------------------------|--|---------------------|---|--|
| | Six months ended 30 June 2018 (Unaudited) | 2017 (Unaudited) | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
| PRC | 413,808 | 324,723 | 2,275,174 | 2,290,221 |
| Republic of Iraq ("Iraq") | 420,594 | 385,859 | 666,117 | 661,359 |
| Other countries | 331,490 | 164,832 | 369,622 | 338,445 |
| Total | 1,165,892 | 875,414 | 3,310,913 | 3,290,025 |

Client Information

During the period, revenues of approximately RMB391,171,000 (six months ended 30 June 2017: RMB332,769,000) were derived from two (six months ended 30 June 2017: two) external customers, which contributed 18.14% and 15.41% to the total revenue, respectively (six months ended 30 June 2017: 19.28% and 18.73%). These revenues were mainly attributable to drilling technology and oil production services segments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

| | Six months ended 30 June | |
|----------------------------------|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Opening carrying amount | 2,331,571 | 2,272,223 |
| Additions | 60,607 | 92,132 |
| Depreciation | (125,116) | (110,274) |
| Disposals | (8) | (6,176) |
| Acquisition of a subsidiary | — | 220,247 |
| Disposal of a subsidiary | — | (90,684) |
| Currency translation differences | 11,598 | (16,391) |
| Closing carrying amount | 2,278,652 | 2,361,077 |

As at 30 June 2018, certain bank borrowings were secured over certain buildings and plant, machinery and equipment with carrying amount of RMB293,605,000 (31 December 2017: RMB465,723,000) (Note 17(a), (b)).

7. PREPAID LEASE PAYMENTS

| | Six months ended 30 June | |
|------------------------------------|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Opening carrying amount | 79,499 | 47,994 |
| Acquisition of a subsidiary | — | 33,249 |
| Amortisation | (969) | (1,427) |
| Closing carrying amount | 78,530 | 79,816 |
| Analysed for reporting purpose as: | | |
| Current portion | 1,932 | 1,932 |
| Non-current portion | 76,598 | 77,884 |

Prepaid lease payments represent the Group's prepayments for the leasehold land located in the PRC.

As at 30 June 2018, prepaid lease payments with carrying amount of RMB5,937,000 (31 December 2017: RMB18,739,000) were pledged as counter guarantee for certain long-term borrowings (Note 17(a)).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

8. INTANGIBLE ASSETS

| | Six months ended 30 June | |
|--------------------------|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Opening carrying amount | 224,285 | 173,151 |
| Additions | 13,530 | 5,899 |
| Amortisation | (19,762) | (6,876) |
| Disposal of a subsidiary | — | (984) |
| Closing carrying amount | 218,053 | 171,190 |

9. DEFERRED INCOME TAX ASSETS AND LIABILITIES

| | Deferred income tax assets | Deferred income tax liabilities |
|---|---|--|
| Unaudited | | |
| At 1 January 2018 | 63,743 | (10,661) |
| (Charged)/credited to the statement of profit or loss | (6,727) | 111 |
| Acquisitions | — | — |
| At 30 June 2018 | 57,016 | (10,550) |
| Unaudited | | |
| At 1 January 2017 | 52,334 | (4,318) |
| Credited to the statement of profit or loss | 2,377 | 651 |
| Acquisitions | — | (7,109) |
| At 30 June 2017 | 54,711 | (10,776) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

10. INVENTORIES

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|-----------------------------------|---|---|
| Raw materials | 72,473 | 58,489 |
| Work-in-progress | — | 773 |
| Finished goods | 67,471 | 57,369 |
| Project materials and spare parts | 325,708 | 302,778 |
| Project-in-progress | 303,228 | 296,981 |
| Total cost | 768,880 | 716,390 |
| Less: provision for obsolescence | (123,541) | (119,157) |
| | 645,339 | 597,233 |

11. TRADE AND NOTES RECEIVABLES

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|-------------------------------------|---|---|
| Trade receivables, net (a) | | |
| – from related parties (Note 30(c)) | 13,012 | 12,102 |
| – others | 1,917,686 | 1,675,658 |
| Notes receivable (c) | 1,930,698 | 1,687,760 |
| | 28,666 | 72,598 |
| | 1,959,364 | 1,760,358 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

11. TRADE AND NOTES RECEIVABLES (Continued)

Notes:

(a) Ageing analysis:

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---------------------------------------|---|---|
| 1 - 6 months | 980,245 | 1,055,640 |
| 6 months - 1 year | 615,444 | 468,012 |
| 1 - 2 years | 267,532 | 110,927 |
| 2 - 3 years | 81,520 | 52,656 |
| Over 3 years | 71,232 | 64,189 |
| | 2,015,973 | 1,751,424 |
| Less: Impairment of trade receivables | (85,275) | (63,664) |
| Trade receivables, net | 1,930,698 | 1,687,760 |

- (b) Most of the trade receivables are with credit terms of one year or less, except for retention money which would be collected one year after the completion of the services. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables.
- (c) As at 30 June 2018 and 31 December 2017, notes receivable are all bank acceptance bills with maturity dates within six months.
- (d) As at 30 June 2018, trade receivables of RMB381,917,000 (31 December 2017: RMB203,369,000) were pledged as security for short-term borrowings of RMB298,380,000 (31 December 2017: RMB181,320,000) (Note 17(b)).
- (e) As part of the Group's credit risk management, the Group uses debtors' ageing to assess the impairment for part of its customers in relation to its oilfield technology services, oilfield related operation and maintenance services and sales of oilfield-related goods operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables from private and relatively small customers which are assessed collectively based on provision matrix as at 30 June 2018.

| | Average loss rate | Gross carrying amount RMB'000 | Impairment loss allowance RMB'000 |
|------------------------------|------------------------------|--|--|
| Within 1 year (not past due) | 0.00% | 347,625 | — |
| 1-2 years past due | 5.67% | 139,440 | 7,906 |
| 2-3 years past due | 16.01% | 41,551 | 6,652 |
| Over 3 years past due | 100.00% | 70,717 | 70,717 |
| | | 599,333 | 85,275 |

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group provided RMB22,038,000 impairment allowance based on the provision matrix. In addition, debtors with significant balances from large multinational and state-owned oil companies amounting to RMB1,416,640,000 as at 30 June 2018 were assessed individually and no impairment allowance was made on these debtors for the current interim period because of no significant increase in credit risk since initial recognition.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

11. TRADE AND NOTES RECEIVABLES *(Continued)*

Notes: *(Continued)*

(f) Allowance for impairment

The movement in the allowance for impairment in respect of trade receivables during the interim period was as follows:

| | RMB'000 |
|-------------------------------------|----------------|
| Balance at 1 January 2018* | 63,664 |
| Amounts written off | (427) |
| Net remeasurement of loss allowance | 22,038 |
| Balance at 30 June 2018 | 85,275 |

* The Group has initially applied IFRS 9 at 1 January 2018. The Directors consider the impacts of applying IFRS 9 on the Group's loss allowance in respect of trade receivables as at 1 January 2018 as detailed in note 3.2.2 are immaterial and hence, no corresponding adjustments to loss allowance at 1 January 2018 were recognised.

12. CONTRACT ASSETS

| | As at 30 June 2018 (Unaudited) |
|---|---|
| Retention money receivables relating to revenue from services | 74,560 |
| Less: Impairment of contract assets | — |
| | 74,560 |

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's achieving specified milestones as stipulated in the contracts at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically bills the retention money receivables in one year after the completion of relevant services when trade receivables will be recognised.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

13. PREPAYMENTS AND OTHER RECEIVABLES

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---|---|---|
| Current | | |
| Advances to suppliers | 153,378 | 87,251 |
| Other receivables | 303,053 | 278,980 |
| Amounts due from related parties (Note 30(c)) | 8,094 | 4,489 |
| Value-added tax recoverable | 46,971 | 96,309 |
| | 511,496 | 467,029 |
| Non-current | | |
| Value-added tax recoverable | 76,672 | 44,033 |
| Advances to engineering equipment suppliers | 46,401 | 63,030 |
| Other receivables | — | 14,000 |
| | 123,073 | 121,063 |

14. CASH AND BANK DEPOSITS

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|------------------------------|---|---|
| Restricted bank deposits (a) | 410,540 | 415,135 |
| Cash and cash equivalents | | |
| – Cash on hand | 10,939 | 9,547 |
| – Deposits in bank | 440,427 | 1,123,550 |
| | 861,906 | 1,548,232 |

(a) As at 30 June 2018, bank deposits amounting to RMB410,540,000 (31 December 2017: RMB415,135,000) were held as securities for letter of guarantee, issuance of notes payable and secured short-term bank borrowings (Note 17(b)).

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

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|-------------------------------|---|---|
| RMB | 231,847 | 411,330 |
| United States dollar ("US\$") | 479,429 | 1,053,924 |
| Hong Kong dollar ("HK\$") | 8,463 | 14,178 |
| Others | 142,167 | 68,800 |
| | 861,906 | 1,548,232 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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

15. SHARE CAPITAL AND SHARE OPTIONS**(a) Share capital**

| | Number of ordinary shares issued and fully paid of HK\$0.1 each (thousands) | Share capital HK\$'000 | RMB'000 |
|----------------------------|--|---------------------------|----------------|
| (Unaudited) | | | |
| As at 1 January 2018 | 2,660,234 | 266,023 | 246,271 |
| Exercise of share options | 4,500 | 450 | 365 |
| As at 30 June 2018 | 2,664,734 | 266,473 | 246,636 |
| (Unaudited) | | | |
| As at 1 January 2017 | 2,437,816 | 243,781 | 226,578 |
| Issue of new shares (Note) | 221,620 | 22,162 | 19,625 |
| Exercise of share options | 634 | 63 | 56 |
| As at 30 June 2017 | 2,660,070 | 266,006 | 246,259 |

Note: On 25 January 2017, an independent third party subscribed 221,620,000 new shares of the Company at HK\$1.008 per share.

(b) Share options

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

| | Average exercise price in HK\$ per share | Number of share options (thousands) |
|--------------------------------|---|---|
| As at 1 January 2018 | | 204,972 |
| Granted (on 03 April 2018) | 1.020 | 70,000 |
| Forfeited | 0.760 | (920) |
| Exercised | 0.750 | (4,500) |
| As at 30 June 2018 (Unaudited) | | 269,552 |
| As at 1 January 2017 | | 132,643 |
| Granted (on 23 May 2017) | 0.810 | 100,000 |
| Forfeited | 0.740 | (3,778) |
| Exercised | 0.740 | (634) |
| Expired | 3.878 | (17,023) |
| As at 30 June 2017 (Unaudited) | | 211,208 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

15. SHARE CAPITAL AND SHARE OPTIONS *(Continued)***(b) Share options** *(Continued)*

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

| Expiry date | Exercise price (HK\$ per share) | Number of share options (thousands) |
|------------------|------------------------------------|---|
| 20 June 2019 | 5.742 | 1,276 |
| 27 June 2019 | 5.600 | 82 |
| 19 November 2019 | 4.960 | 76 |
| 23 February 2022 | 0.740 | 90,000 |
| 31 March 2022 | 0.800 | 6,300 |
| 1 December 2022 | 1.100 | 2,216 |
| 22 May 2023 | 0.810 | 99,602 |
| 2 April 2024 | 1.020 | 70,000 |
| | | 269,552 |

The fair value of the options granted during the six months ended 30 June 2018 was determined using the Binomial Option Pricing Model. The major assumptions used in the pricing model for options granted on 03 April 2018 were the exercise price shown above and the other parameters are shown below:

| Parameters | Options granted during the six months ended 30 June | |
|---|--|-----------|
| | 2018 | 2017 |
| Share price as of the valuation date (HK\$) | 1.02 | 0.81 |
| Expected dividend yield | — | — |
| Forfeiture rate | 0.50% | 0.34% |
| Exercise multiples | 3.39-3.54 | 3.39-3.54 |
| Maturity years | 6.0 | 6.0 |
| Risk free rate | 1.83% | 1.14% |
| Annualised volatility | 58.95% | 56.91% |

The total expense recognised in the condensed consolidated statement of profit or loss for the six months ended 30 June 2018 for share options amounted to RMB11,386,000 (for the six months ended 30 June 2017: RMB7,761,000), with a corresponding amount credited in capital reserve.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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

16. LONG-TERM BONDS

| Issued date: | Par value | Coupon rate | As at 30 June 2018 | As at 31 December 2017 | Effective interest rate |
|-----------------------|-------------------|--------------------|-----------------------------------|---------------------------------------|------------------------------------|
| 31 October 2013 (a) | US\$71 million | 7.50% | — | 461,588 | 8.31% |
| 5 December 2017 (b) | US\$176.4 million | 9.75% | 1,184,419 | 1,108,990 | 8.31% |
| 5 December 2017 (b) | US\$123.6 million | 9.75% | 799,228 | 776,834 | 11.62% |
| Subtotal | | | 1,983,647 | 2,347,412 | |
| Less: Current portion | | | — | (461,588) | |
| | | | 1,983,647 | 1,885,824 | |

Notes:

- (a) The Company issued US\$250 million 7.50% senior notes at par value on 31 October 2013, in which US\$1 million and US\$3.75 million were repurchased during the year ended 31 December 2016 and 2017, respectively. In addition to which, US\$172.2 million of these senior notes were settled by exchanging with part of the senior notes as described in note (b) below. The notes mature in 5 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. The Company has fully repaid the rest of the senior notes during the period ended 30 June 2018. As at 30 June 2018, no interest payable for the senior notes (31 December 2017: RMB5.3 million).
- (b) The Company issued US\$300 million 9.75% senior notes at discount of par value on 5 December 2017 with direct transaction costs amounting to RMB39,989,000, in which US\$176.4 million were arranged to exchange the senior notes issued on 31 October 2013 in the amount of US\$172.2 million during the year ended 31 December 2017. The notes mature in 3 years from the issue date at their nominal value. Interest is payable on a semi-annually basis. As at 30 June 2018, interest payable amounted to approximately RMB14.0 million (31 December 2017: RMB13.8 million).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

17. BORROWINGS

| | As at 30 June 2018 (Unaudited) | | As at 31 December 2017 (Audited) | |
|-----------------------------|-----------------------------------|--------------------|-------------------------------------|---------------|
| | Amount | Interest rate | Amount | Interest rate |
| Long-term borrowing | | | | |
| - Secured | | | | |
| - RMB denominated (a) | 168,016 | 5.94%-8.41% | 177,322 | 5.94%-10.73% |
| Less: Current portion | (71,016) | | (141,105) | |
| | 97,000 | | 36,217 | |
| Short-term bank borrowings | | | | |
| - Unsecured | | | | |
| - RMB denominated | 360,000 | 5.66%-6.53% | 359,000 | 5.22%-6.53% |
| - Secured | | | | |
| - RMB denominated (b) | 478,380 | 4.35%-6.79% | 441,320 | 5.22%-6.89% |
| - US\$ denominated (b) | 30,845 | 4.70% | — | |
| Other short-term borrowings | | | | |
| - Unsecured | | | | |
| - RMB denominated (c) | — | | 80,000 | 5.66% |
| | 869,225 | | 880,320 | |

Notes:

- (a) As at 30 June 2018, secured long-term borrowings of RMB71,016,000 (31 December 2017: RMB104,322,000) represented borrowings from Minsheng Financial Leasing Co., Ltd., a third party, which will mature in 1 year (31 December 2017: 2 years), and secured by the Group's equipment with a carrying value of RMB171,013,000 (31 December 2017: RMB182,573,000) (Note 6). Secured long-term borrowings of RMB97,000,000 (31 December 2017: RMB73,000,000), represented borrowings from banks and secured by the Group's buildings with a carrying value of RMB95,187,000 (31 December 2017: RMB126,865,000) (Note 6) and prepaid lease payments with a carrying value of RMB5,937,000 (31 December 2017: RMB18,739,000) respectively (Note 7).
- (b) As at 30 June 2018, secured short-term bank borrowings of RMB180,000,000 (31 December 2017: RMB80,000,000) were guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd. (北京中關村科技融資擔保有限公司), a third party, and secured by the Group's buildings with a carrying value of RMB27,405,000 (31 December 2017: RMB28,006,000) as counter-guarantee (Note 6). Secured short-term bank borrowings of RMB298,380,000 (31 December 2017: RMB181,320,000) were secured by the Group's trade receivables amounting to RMB381,917,000 (31 December 2017: RMB203,369,000) (Note 11(d)). Secured US\$ denominated short-term bank borrowings of RMB30,845,000 (31 December 2017: RMB Nil) were guaranteed by Mr. Luo Lin, the Company's ultimate controlling shareholder (Note 30(d)).
- As at 31 December 2017, secured short-term bank borrowings of RMB150,000,000 were secured by the Group's buildings with a carrying value of RMB128,279,000 (Note 6), and secured short-term bank borrowings of RMB30,000,000 were secured by the restricted bank deposits amounting to RMB30,000,000 (Note 14).
- (c) As at 31 December 2017, other unsecured short-term borrowings represented a loan borrowed by Anton Oilfield Services (Group) Co., Ltd. ("Anton Oil") from Beijing Zhongguancun Sci-tech Guaranty Co., Ltd. (北京中關村科技融資擔保有限公司), a third party.
- (d) As at 30 June 2018, the undrawn bank borrowing facilities of the Group of approximately RMB737 million (31 December 2017: RMB261 million), with maturity dates up to 22 June 2019 (31 December 2017: 25 July 2018), were unsecured (31 December 2017: unsecured).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

18. TRADE AND NOTES PAYABLES

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|--------------------------------|---|---|
| Trade payables | | |
| - related parties (Note 30(c)) | 65,961 | 87,796 |
| - others | 449,793 | 453,367 |
| Notes payable | 140,360 | 143,984 |
| | 656,114 | 685,147 |

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

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|------------------|---|---|
| Less than 1 year | 485,425 | 559,887 |
| 1 - 2 years | 84,686 | 83,845 |
| 2 - 3 years | 59,988 | 27,582 |
| Over 3 years | 26,015 | 13,833 |
| | 656,114 | 685,147 |

19. ACCRUALS AND OTHER PAYABLES

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---------------------------------------|---|---|
| Advance from customers | — | 20,146 |
| Payroll and welfare payables | 3,737 | 27,750 |
| Taxes other than income taxes payable | 54,015 | 64,247 |
| Payables to equipment vendors | 213,323 | 192,601 |
| Dividend payable | 191,753 | 191,753 |
| Interest payable | 18,958 | 23,506 |
| Others | 154,105 | 138,221 |
| | 635,891 | 658,224 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

20. REVENUE

| | Six months ended 30 June 2018 (Unaudited) | 2017 (Unaudited) |
|-----------------------|--|---------------------|
| Sales of goods | 148,729 | 97,121 |
| Provision of services | 982,410 | 757,939 |
| Rental | 34,753 | 20,354 |
| | 1,165,892 | 875,414 |

Disaggregation of revenue

| Segments | For the six months ended 30 June 2018 | | |
|--------------------------------------|---------------------------------------|-------------------------------|--|
| | Drilling technology RMB'000 | Well completion RMB'000 | Oil production services RMB'000 |
| Types of goods or service | | | |
| Sales of goods | 60,353 | 76,662 | 11,714 |
| Provision of services | 521,857 | 208,300 | 252,253 |
| Total | 582,210 | 284,962 | 263,967 |
| Geographical markets | | | |
| PRC | 208,702 | 125,441 | 44,912 |
| Iraq | 126,687 | 90,744 | 203,163 |
| Other countries | 246,821 | 68,777 | 15,892 |
| Total | 582,210 | 284,962 | 263,967 |
| Timing of revenue recognition | | | |
| A point in time | 582,210 | 284,962 | 113,545 |
| Over time | — | — | 150,422 |
| Total | 582,210 | 284,962 | 263,967 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

20. REVENUE (Continued)

Disaggregation of revenue (Continued)

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

| | For the six months ended 30 June 2018 | | |
|---|---------------------------------------|-------------------------------|--|
| | Drilling technology RMB'000 | Well completion RMB'000 | Oil production services RMB'000 |
| Revenue disclosed in segment information | | | |
| External customers | 615,933 | 285,992 | 263,967 |
| Inter-segment | 565,856 | 329,855 | 107,317 |
| Inter-segment eliminations | (565,856) | (329,855) | (107,317) |
| Rental income | (33,723) | (1,030) | — |
| Revenue from contracts with customers | 582,210 | 284,962 | 263,967 |

21. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) |
| Materials and services purchased | 359,362 | 288,387 |
| Staff costs | 234,601 | 175,918 |
| In which: | | |
| – Salaries and other staff expenses | 223,215 | 168,157 |
| – Share-based compensation | 11,386 | 7,761 |
| Depreciation | 107,907 | 91,161 |
| Amortisation of prepaid lease payments and intangible assets | 20,731 | 8,303 |
| Less: Capitalised in inventories | 3,108 | 3,218 |
| | 17,623 | 5,085 |
| In which: | | |
| – Cost of sales | 16,247 | 3,990 |
| – Administrative expenses | 600 | 638 |
| – Selling expenses | 8 | 16 |
| – Research and development expenses | 768 | 441 |
| Other operating expenses | 141,426 | 122,196 |
| In which: | | |
| – Increase in impairment of receivables | 22,038 | 3,072 |
| – Increase in impairment of inventories | 4,384 | — |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

22. OTHER GAINS, NET

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Government grants and subsidies (Note) | 1,580 | 616 |
| Others | 5,868 | 2,373 |
| | 7,448 | 2,989 |

Note:

Government grants and subsidies of RMB1,580,000 (2017: RMB616,000) were received in the current period towards awarding of research and development expenditures already incurred by the Group. The amounts have been included in other gains for the period.

23. FINANCE COSTS, NET

| | Six months ended 30 June | |
|--------------------|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Interest expenses | | |
| – on borrowings | (32,364) | (26,895) |
| – on bonds | (108,321) | (68,445) |
| | (140,685) | (95,340) |
| Exchange loss, net | (6,025) | (12,132) |
| Others | (10,587) | (12,294) |
| Finance expenses | (157,297) | (119,766) |
| Interest income | 1,929 | 1,856 |
| | (155,368) | (117,910) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

24. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|------------------------------|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Current income tax | | |
| - PRC enterprise income tax | 1,076 | 3,211 |
| - Iraq corporate income tax | 29,588 | 27,055 |
| - Others | 1,383 | 1,321 |
| Deferred income tax (Note 9) | 6,616 | (3,028) |
| | 38,663 | 28,559 |

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

For the Company's PRC subsidiaries, enterprise income tax is provided on estimated taxation profits at applicable tax rate of 25% (2017: 25%), except that certain subsidiaries which have applied preferential tax rates of 15%.

The corporate income tax of Iraq entities is levied at the higher of 7% on the total turnover, or 35% on the net taxable profit. Entities registered in United Arab Emirates are exempted from income tax.

25. EARNINGS PER SHARE

(a) Basic

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

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to owners of the Company (RMB'000) | 84,952 | 12,210 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 2,662,362 | 2,629,181 |
| Basic earnings per share (expressed in RMB per share) | 0.0319 | 0.0046 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

25. EARNINGS PER SHARE *(Continued)*

(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 six months ended 30 June 2018 and 2017, the only dilutive factor of the Company was the outstanding share options. For the purpose of calculating diluted earnings per share, the Company assumed the outstanding share options had been exercised upon the grant dates of the options. Meanwhile, a calculation is made in order to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options, which are deducted from the total number of outstanding share options to determine the number of diluted shares deemed to be issued at no consideration.

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to owners of the Company (RMB'000) | 84,952 | 12,210 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 2,662,362 | 2,629,181 |
| Adjustments for assumed conversion of share options (thousands of shares) | 32,186 | 11,264 |
| Weighted average number of ordinary shares for computation of diluted earnings per share (thousands of shares) | 2,694,548 | 2,640,445 |
| Diluted earnings per share (expressed in RMB per share) | 0.0315 | 0.0046 |

26. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the six months ended 30 June 2018, nor has any dividend been proposed since the end of the reporting period (six months ended 30 June 2017: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

27. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Operating activities: | | |
| Profit before income tax | 152,014 | 73,547 |
| Adjustments for: | | |
| Property, plant and equipment | | |
| - Depreciation charge | 107,907 | 91,161 |
| - Net loss/(gain) on disposals | 8 | (801) |
| Amortisation of prepaid lease payments of land and intangible assets | 17,623 | 5,085 |
| Amortisation of long-term lease prepayments of buildings | 2,269 | 4,500 |
| Addition of impairment of receivables | 22,038 | 3,072 |
| Addition of impairment of inventories | 4,384 | — |
| Charge of share option scheme | 11,386 | 7,761 |
| Share of loss of a joint venture | 110 | 708 |
| Gains on acquisition of a subsidiary | — | (121) |
| Net foreign exchange loss | 6,025 | 12,132 |
| Interest income | (1,929) | (1,856) |
| Interest expenses | 140,685 | 95,340 |
| Changes in working capital: | | |
| Inventories | (32,173) | 68,561 |
| Trade and notes receivables | (221,044) | (165,016) |
| Contract assets | (74,560) | — |
| Prepayments and other receivables and value-added tax recoverable | (75,945) | (198,885) |
| Trade and notes payables | (27,949) | 19,213 |
| Accruals and other payables | 16,732 | (106,093) |
| Contract liabilities | 49,301 | — |
| Restricted bank deposits | (25,405) | (101,881) |
| Net cash inflows/(outflows) from operations | 71,477 | (193,573) |
| Interest received | 1,929 | 1,856 |
| Income tax paid | (27,906) | (14,850) |
| Net cash from/(used in) operating activities | 45,500 | (206,567) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

27. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2018 | 2017 |
| | (Unaudited) | (Unaudited) |
| Investing activities: | | |
| Purchases of property, plant and equipment | (31,895) | (94,544) |
| Purchases of intangible assets | (14,614) | (5,899) |
| Disposal of a subsidiary | — | (1,863) |
| Net cash paid for acquisition of a subsidiary | — | (31,170) |
| Proceeds from disposal of property, plant and equipment | — | 6,977 |
| Decrease in term deposits with initial term of over three months | — | 6,011 |
| Net cash used in investing activities | (46,509) | (120,488) |
| Financing activities: | | |
| Proceeds from short-term borrowings | 830,223 | 537,000 |
| Repayments of short-term borrowings | (842,796) | (454,620) |
| Proceeds from long-term borrowings | 97,000 | — |
| Repayments of long-term borrowings | (106,785) | (32,852) |
| Repayments of long-term bonds | (463,935) | — |
| Proceeds from share options exercised | 2,708 | 416 |
| Issue of ordinary shares | — | 197,819 |
| Interest paid | (130,991) | (96,731) |
| Cash paid to non-controlling interests for acquisition of additional interest in a subsidiary (Note 31) | (60,331) | — |
| Withdrawal of restricted bank deposits | 30,000 | — |
| Cash paid relating to other financing activities | (46,600) | — |
| Net cash (used in)/from financing activities | (691,507) | 151,032 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

28. COMMITMENTS

(a) Capital commitments

Capital commitments related to investments in property, plant and equipment at the reporting date but not yet provided for in the condensed consolidated statement of financial position were as follows:

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---------------------------------|---|---|
| Contracted but not provided for | 22,365 | 23,496 |

(b) Operating lease commitments

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

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

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|----------------------|---|---|
| No later than 1 year | 6,367 | 6,174 |
| 1 to 5 years | 21,848 | 25,219 |
| | 28,215 | 31,393 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

29. FINANCIAL RISK MANAGEMENT

29.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the Group's annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

There have been no changes in the risk management policies since the year end of 2017.

29.2 Liquidity risk

The Group manages its liquidity risk by regularly monitoring its liquidity requirements and its compliance with debt covenants to ensure that it maintains sufficient cash and cash equivalents, adequate term deposits and unused borrowing facilities to meet its liquidity requirements.

29.3 Credit risk

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

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

29.4 Fair value relevant estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted bank deposits, trade and notes receivables, contract assets, other receivables and financial liabilities including trade and notes payables, contract liabilities, other payables, short-term borrowings, the current portion of long-term borrowings and long-term bonds approximate their fair values due to their short maturities.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

30. RELATED PARTY TRANSACTIONS

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

- (a) The following person and companies are related parties of the Group during the six months period ended 30 June 2018 and 2017:

| Names of related parties | Nature of relationship |
|---|---|
| Mr. Luo Lin | The ultimate controlling shareholder of the Company |
| China Oil HBP Science & Technology Co., Ltd. ("China Oil HBP") | Non-controlling shareholders of Anton Oilfield Services DMCC ("DMCC") |
| Beijing HBP Energy Technology Co., Ltd. ("HBP Beijing") | Non-controlling shareholders of DMCC |
| Xinjiang PengAn Energy Technology Co., Ltd. ("Xinjiang PengAn") | Joint venture invested by Anton Oil |
| China Nanhai Magcobar Mud Co., Ltd. ("Nanhai Magcobar") | Controlled by the same ultimate parent company of Schlumberger NV ("SLB NV") (Note) |
| Schlumberger Oilfield China ("SLB China") | Controlled by the same ultimate parent company of SLB NV |
| Smith Drilling Equipment (Changzhou) Ltd. ("Smith Drilling") | Controlled by the same ultimate parent company of SLB NV |
| Schlumberger Technologies (Beijing) Ltd. ("SLB Beijing") | Controlled by the same ultimate parent company of SLB NV |
| Schlumberger Reservoir Products FZE ("SLB FZE") | Controlled by the same ultimate parent company of SLB NV |
| SCP Oilfield Company ("SCP") | Controlled by the same ultimate parent company of SLB NV |
| Schlumberger Technologies (Shandong) Ltd. ("SLB Shandong") | Controlled by the same ultimate parent company of SLB NV |
| Schlumberger Technologies (Chengdu) Ltd. ("SLB Chengdu") | Controlled by the same ultimate parent company of SLB NV |
| SCHLUMBERGER LOGELCO INC ("SMITH KZ") | Controlled by the same ultimate parent company of SLB NV |
| Schlumberger Technology Corporation ("SLB Tech") | Controlled by the same ultimate parent company of SLB NV |

Note: SLB NV is the second largest shareholder of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (Continued)**(c) Balances with related parties**

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---|---|---|
| Trade and notes receivables (Note 11) | | |
| SLB China | 834 | 834 |
| SLB Chengdu | 14 | 9 |
| Xinjiang PengAn | 2,642 | 2,619 |
| SCP | 9,522 | 8,640 |
| | 13,012 | 12,102 |
| Prepayments and other receivables (Note 13) | | |
| SLB Tech | 1,890 | 1,867 |
| SCP | 2,622 | 2,622 |
| SMITH KZ | 3,582 | — |
| | 8,094 | 4,489 |
| Other non-current assets | | |
| China Oil HBP | 362,112 | 299,229 |
| Trade and notes payables (Note 18) | | |
| Nanhai Magcobar | 19,359 | 14,008 |
| SLB China | 25,233 | 38,628 |
| SLB Beijing | 262 | 262 |
| Smith Drilling | 49 | 58 |
| SLB Chengdu | 5,342 | 68 |
| HBP Beijing | 13,094 | 13,094 |
| SMITH KZ | 2,329 | 21,494 |
| Xinjiang PengAn | 184 | 184 |
| SLB Shandong | 109 | — |
| | 65,961 | 87,796 |
| Accruals and other payables | | |
| SLB FZE | 1,173 | 1,762 |
| Smith Drilling | — | 2,300 |
| China Oil HBP | 195,796 | 195,200 |
| | 196,969 | 199,262 |

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018
(Amounts expressed in thousands of RMB, unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (Continued)

(d) Short-term bank borrowings guaranteed by related parties

| | As at 30 June 2018 (Unaudited) | As at 31 December 2017 (Audited) |
|---|---|---|
| Short-term borrowings Mr. Luo Lin (Note 17(b)) | 30,845 | — |

(e) Key management compensation

| | Six months ended 30 June 2018 (Unaudited) | 2017 (Unaudited) |
|---|---|---------------------|
| Salaries and other short-term employee benefits | 9,522 | 8,608 |
| Pension scheme | 184 | 192 |
| Share-based compensation | 1,560 | 1,075 |
| | 11,266 | 9,875 |

31. EVENT AFTER THE REPORTING PERIOD

Acquisition of non-controlling interests

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

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

Anton International paid the first instalment of the acquisition consideration of RMB300,000,000 to Huihua in accordance with the terms of the agreement on 15 December 2017, and paid parts of the second instalment of the consideration of RMB60,331,000 in January, April and June 2018. Acquisition-related costs amounting to RMB4,691,000 have been included in prepayments and other receivables at 30 June 2018. The acquisition was completed on 20 July 2018 after having been approved by the Stock Exchange and the shareholders at the extraordinary shareholders' meeting. Details of the acquisition are set out in the Group's circular dated 29 June 2018.