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ANTON 安東

安 東 油 田 服 務 集 團

Anton Oilfield Services Group

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3337)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

Revenue of the Group decreased by 18.2% from RMB2,533.5 million in 2013 to RMB2,071.2 million in 2014. Profit attributable to equity holders of the Company decreased by 151.8% from RMB382.6 million in 2013 to RMB-198.2 million in 2014.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2014.

RESULTS

The board of directors (the "Board") of Anton Oilfield Services Group (the "Company") wishes to inform the shareholders and potential investors of the Company of the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014 (hereafter referred to as "the Year" or "the reporting period") with comparative figures for 2013, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014
(Amounts expressed in thousands of RMB, except per share data)

		Year ended 31 December	
	Note	**2014**	2013
Revenue	4	**2,071,205**	2,533,536
Cost of sales	5	**(1,425,762)**	(1,410,992)
Gross Profit		**645,443**	1,122,544
Other gains, net		**(1,839)**	19,950
Selling expenses	5	**(190,857)**	(173,068)
Administrative expenses	5	**(361,217)**	(299,833)
Research and development expenses	5	**(37,592)**	(64,397)
Sales tax and surcharges	5	**(15,964)**	(32,840)
Operating profit		**37,974**	572,356
Interest income	6	**14,234**	1,348
Finance expenses	6	**(192,698)**	(74,026)
Finance costs, net	6	**(178,464)**	(72,678)
Share of loss of joint ventures		**(19,060)**	(9,701)
(Loss)/Profit before income tax		**(159,550)**	489,977
Income tax expense	7	**(31,255)**	(86,839)
(Loss)/Profit for the year		**(190,805)**	403,138
(Loss)/Profit attributable to:			
Equity holders of the Company		**(198,213)**	382,568
Non-controlling interests		**7,408**	20,570
		(190,805)	403,138
(Loss)/Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- Basic	8	**(0.0902)**	0.1779
- Diluted	8	**(0.0902)**	0.1733
Dividends	11	**—**	119,953

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts expressed in thousands of RMB)

	Year ended 31 December	
	2014	2013
(Loss)/Profit for the year	**(190,805)**	403,138
Other comprehensive (loss)/income, net of tax:		
Items that may be reclassified to profit or loss		
Currency translation differences	**202**	(14,469)
Other comprehensive (loss)/income for the year, net of tax	**202**	(14,469)
Total comprehensive (loss)/income for the year	**(190,603)**	388,669
Total comprehensive income attributable to:		
- Equity holders of the Company	**(198,011)**	368,099
- Non-controlling interests	**7,408**	20,570
	(190,603)	388,669

CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2014
(Amounts expressed in thousands of RMB)

	Note	**As at 31 December** **2014**	2013
ASSETS			
Non-current assets			
Property, plant and equipment		**2,293,382**	1,601,686
Land use rights		**61,049**	22,021
Intangible assets		**392,389**	375,440
Investment in joint ventures		**5,042**	16,776
Prepayments and other receivables		**37,194**	—
Other non-current assets		**88,555**	60,002
Deferred income tax assets		**57,341**	25,029
		2,934,952	2,100,954
Current assets			
Inventories		**709,707**	540,707
Trade and notes receivables	9	**1,588,170**	1,332,294
Prepayments and other receivables		**418,267**	191,328
Restricted bank deposits		**72,310**	32,414
Term deposits with initial terms of over three months		**8,010**	—
Cash and cash equivalents		**759,751**	1,770,155
		3,556,215	3,866,898
Total assets		**6,491,167**	5,967,852

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS AT 31 DECEMBER 2014
(Amounts expressed in thousands of RMB)

	Note	**As at 31 December** **2014**	2013
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**206,879**	202,983
Reserves			
- Proposed final dividend	11	**—**	119,953
- Others		**1,847,012**	1,959,739
		2,053,891	2,282,675
Non-controlling interests		**94,865**	92,622
Total equity		**2,148,756**	2,375,297
LIABILITIES			
Non-current liabilities			
Long-term bonds		**1,696,519**	1,982,596
Deferred income tax liabilities		**3,968**	1,709
		1,700,487	1,984,305
Current liabilities			
Short-term borrowings		**693,912**	395,875
Current portion of long-term bonds		**299,583**	—
Current portion of other long-term payable		**—**	3,414
Trade and notes payables	10	**694,753**	703,878
Accruals and other payables		**907,787**	449,118
Current income tax liabilities		**45,889**	55,965
		2,641,924	1,608,250
Total liabilities		**4,342,411**	3,592,555
Total equity and liabilities		**6,491,167**	5,967,852
Net current assets		**914,291**	2,258,648
Total assets less current liabilities		**3,849,243**	4,359,602

CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014
(Amounts expressed in thousands of RMB)

	Note	**Year ended 31 December** **2014**	2013
Cash flows from operating activities			
Net cash (outflows)/inflows from operations	12	**(390,567)**	490,093
Interest paid		**(172,168)**	(42,031)
Interest received		**14,234**	1,348
Income tax paid		**(71,384)**	(70,875)
Net cash (used in)/generated from operating activities		**(619,885)**	378,535
Cash flows from investing activities			
Purchase of property, plant and equipment		**(461,970)**	(816,680)
Proceeds from disposal of property, plant and equipment		**4,244**	4,095
Purchase of land use rights		**(10,748)**	—
Purchase of intangible assets		**(89,165)**	(23,069)
Proceeds from acquisition of subsidiaries		**(2,670)**	—
Investment of a joint venture		**(7,326)**	(22,477)
Payment of considerations of prior year acquisition		**—**	(6,360)
Disposal of a subsidiary, net		**—**	55,761
Increase of term deposits		**(8,010)**	—
Net cash used in investing activities		**(575,645)**	(808,730)
Cash flows from financing activities			
Proceeds from issuance of long-term bonds		**—**	1,682,953
Proceeds from short-term borrowings		**891,500**	511,379
Repayments of short-term borrowings		**(632,026)**	(387,241)
Repayments of sale and leaseback		**(5,558)**	(11,100)
Capital injection from non-controlling interests		**6,590**	—
Proceeds from share options exercised		**65,445**	29,351
Dividends distribution		**(127,468)**	(112,814)
Repurchase of own shares		**(5,428)**	(17,685)
Net cash generated from financing activities		**193,055**	1,694,843
Net increase in cash and cash equivalents		**(1,002,475)**	1,264,648
Cash and cash equivalents, at beginning of the year		**1,770,155**	523,378
Exchange loss on cash and cash equivalents		**(7,929)**	(17,871)
Cash and cash equivalents at end of the year		**759,751**	1,770,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(Amounts expressed in thousands of RMB unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) ***New and amended standards adopted by the Group***

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2014:

- Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

- Amendment to IAS 36, ’Impairment of assets’, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- IFRIC 21, ’Levies’ , sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS ’Provisions’. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

(b) ***New standards and interpretations not yet effective for the financial year beginning 1 January 2014 and relevant to the Group***

- Amendment to IFRS 11 on accounting of for acquisitions of interests in joint operation. The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a ‘business’ (as defined in IFRS 3, Business combinations. Specifically, an investor will need to:

  - measure identifiable assets and liabilities at fair value;

  - expense acquisition-related costs;

  - recognise deferred tax; and

  - recognise the residual as goodwill.

All other principles of business combination accounting apply unless they conflict with IFRS 11.

The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

The amendment is effective for annual periods beginning on or after 1 January 2016.

- Amendment to IAS 27 on the equity method in separate financial statements. The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016.

- IFRS 15, "Revenue from contracts with customers". IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) identify the contract(s) with customer; (2) identify separate performance obligations in a contract (3) determine the transaction price (4) allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

  IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

  IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition: IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services.

  IFRS 15 is effective for annual periods beginning on or after 1 July 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are not other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. SEGMENT INFORMATION

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

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

The chief operating decision makers assess performance of four reportable segments: drilling technology, well completion, down-hole operation and tubular services.

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

	Drilling technology	Well completion	Down-hole operation	Tubular services	Total
For the year ended 31 December 2014					
Revenue (Note)	532,936	456,565	859,756	221,948	2,071,205
EBITDA	85,368	139,109	325,043	99,095	648,615
Depreciation and amortisation	(41,311)	(14,561)	(114,014)	(38,089)	(207,975)
Interest income	8	17	27	173	225
Finance expenses, net	(3,528)	(2,888)	(56)	(2,196)	(8,668)
Share of loss of joint ventures	(19,060)	—	—	—	(19,060)
Income tax expense	11,399	(1,291)	(30,282)	(11,081)	(31,255)
For the year ended 31 December 2013					
Revenue (Note)	589,442	547,855	1,081,565	314,674	2,533,536
EBITDA	136,452	197,742	587,918	149,521	1,071,633
Depreciation and amortisation	(24,686)	(10,941)	(63,261)	(23,678)	(122,566)
Interest income	3	249	35	227	514
Finance expenses, net	(219)	(2,302)	(1,923)	—	(4,444)
Share of loss of joint ventures	3,551	—	—	—	3,551
Income tax expense	(6,567)	(12,569)	(48,019)	(19,684)	(86,839)

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

	Drilling technology	Well completion	Down-hole operation	Tubular services	Total
As at 31 December 2014					
Total assets	944,159	1,021,897	1,946,867	631,641	4,544,564
Total assets include:	—	—	—	—	—
Investments in joint ventures	1,042	—	—	4,000	5,042
Capital expenditures	468,967	71,310	352,800	219,243	1,112,320
As at 31 December 2013					
Total assets	641,864	1,151,504	1,609,498	510,064	3,912,930
Total assets include:					
Investments in joint ventures	12,776	—	—	4,000	16,776
Capital expenditures	142,794	112,165	375,661	163,825	794,445

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

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

	Year ended 31 December	
	2014	2013
EBITDA for reportable segments	**648,615**	1,071,633
Corporate overheads	**(572,687)**	(458,711)
Depreciation	**(172,653)**	(107,609)
Amortisation	**(35,322)**	(14,957)
Interest income	**225**	514
Finance expenses, net	**(8,668)**	(4,444)
Share of loss of joint ventures	**(19,060)**	3,551
Profit before income tax	**(159,550)**	489,977

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

	As at 31 December	
	2014	2013
Assets for reportable segments	**4,544,564**	3,912,930
Corporate assets for general management	**1,946,603**	2,054,922
Total Assets	**6,491,167**	5,967,852

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

Geographical Information

	Revenue		Non-current Assets	
	2014	2013	**2014**	2013
PRC	**1,378,599**	1,957,689	**2,616,340**	1,852,808
Iraq	**492,506**	416,480	**235,675**	205,214
Other countries	**200,100**	159,367	**82,937**	42,932
Total	**2,071,205**	2,533,536	**2,934,952**	2,100,954

Client Information

Revenues of approximately RMB544,439,000 (2013: RMB892,472,000) are derived from two external customers, which contributed 16.22% and 10.07% to the total revenue respectively. These revenues are mainly attributable to Drilling technology, Down-hole operation, and Well completion segments.

4. REVENUE

Revenue by category is analysed as following:

	Year ended 31 December	
	2014	2013
Sales of goods	**251,313**	258,548
Sales of services	**1,819,892**	2,274,988
	2,071,205	2,533,536

5. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Year ended 31 December	
	2014	**2013**
Materials and services purchased	1,019,866	966,696
Staff costs		
- Salaries and other staff expenses	405,896	342,523
- Share-based compensation	32,291	31,238
Depreciation	185,925	121,872
Amortisation	35,846	15,629
Sales tax and surcharges	15,964	32,840
Auditor's remuneration		
- PricewaterhouseCoopers	3,800	3,800
- Other auditors	590	545
Other operating expenses	331,214	465,987
- (reduction)/addition in impairment of receivables	(4,918)	31,920
- addition in impairment of inventories	208	—
Total operating cost	2,031,392	1,981,130

6. FINANCE COSTS, NET

	Year ended 31 December	
	2014	2013
Interest expenses		
- on bank borrowings	**(27,333)**	(18,102)
- on bonds	**(157,416)**	(46,271)
- on sale and leaseback liability	**—**	(1,606)
Exchange loss, net	**(7,515)**	(3,402)
Others	**(4,951)**	(4,645)
Finance costs	**(197,215)**	(74,026)
Less: amounts capitalized on qualifying assets	**(4,517)**	—
Total finance costs	**(192,698)**	(74,026)
Interest income	**14,234**	1,348
	(178,464)	(72,678)

7. INCOME TAX EXPENSE

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

PRC enterprise income tax ('EIT') is provided on the basis of the profits of the PRC established subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for the subsidiaries of the Group was 25% in 2014 (2013: 25%), based on the relevant PRC tax laws and regulations, except for certain subsidiaries which are taxed at preferential tax rates as detailed below. The statutory income tax is assessed on an individual entity basis, based on their results of operations. The commencement dates of tax holiday period of each entity are individually determined.

	Year ended 31 December	
	2014	2013
Current income tax		
- PRC income tax	**24,721**	61,665
- Others	**36,587**	29,920
Deferred income tax		
- Deferred tax relating to the origination and reversal of temporary differences	**(30,053)**	(4,746)
	31,255	86,839

8. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	**(198,213)**	382,568
Weighted average number of ordinary shares in issue (thousands of shares)	**2,198,369**	2,150,873
Basic earnings per share (expressed in RMB per share)	**(0.0902)**	0.1779

(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 that would decrease profit per share or increase loss per share.

As at 31 December 2013, 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 (determined as the average market share price of the Company's shares from 1 January 2013 to 31 December 2013) 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.

	Year ended 31 December 2013
Profit attributable to equity holders of the Company (RMB'000)	382,568
Weighted average number of ordinary shares in issue (thousands of shares)	2,150,873
Adjustments for assumed conversion of share options (thousands of shares)	57,038
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	2,207,911
Diluted earnings per share (expressed in RMB per share)	0.1733

As for the year ended 31 December 2014, the Company is bearing loss, the option is anti-dilutive at this level. The diluted earnings per share is calculated in the same way with basic earnings per share.

9. TRADE AND NOTES RECEIVABLES

	As at 31 December	
	2014	2013
Trade receivables, net (a)		
— From related parties	**43,364**	4,832
— Others	**1,411,602**	1,302,044
Notes receivable (d)	**133,204**	25,418
	1,588,170	1,332,294

Note:

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

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

	As at 31 December 2013		
	Gross amount	**Impairment**	**Net value**
1 - 6 months (i)	1,179,863	—	1,179,863
6 months - 1 year (i)	75,508	(3,141)	72,367
1 - 2 years (ii)	65,584	(10,938)	54,646
2 - 3 years (ii)	7,800	(7,800)	—
Over 3 years (ii)	13,985	(13,985)	—
	1,342,740	(35,864)	1,306,876

(i) As at 31 December 2014, trade receivables with amount of RMB1,222,221,000 (31 December 2013: RMB1,252,230,000) aged within one year, which were neither past due nor impaired according to the Group's credit policy.

(ii) The Group's past-due trade receivables were those receivables aged over one year. As at 31 December 2014, trade receivables amounting to RMB232,745,000 (31 December 2013: RMB 54,646,000) were past due but not impaired. For the past-due trade receivables without impairment, management considered such long ageing items were receivable from customers with good cooperation and no default history, therefore the risk of impairment was low.

(b) Most of the trade receivables are with credit terms of one year, except for retention money which would be collected one year after the completion of the sales. The maximum exposure to credit risk at the reporting date is the carrying value of the receivables. As at 31 December 2014, trade receivables with amount of RMB 346,640,000 (2013: RMB nil) are secured for short-term borrowings amounted to RMB 320,000,000 (2013: RMB nil).

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

	2014	2013
As at 1 January	**35,864**	16,685
Additions	**—**	31,920
Reversal	**(2,540)**	—
Write-off	**(11,333)**	(12,741)
As at 31 December	**21,991**	35,864

(d) Notes receivables were all bank acceptance with maturity dates within six months.

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

	As at 31 December	
	2014	2013
RMB	**1,192,448**	1,094,850
US$	**395,722**	237,444
	1,588,170	1,332,294

10. TRADE AND NOTES PAYABLES

	As at 31 December	
	2014	2013
Trade payables	**592,294**	537,736
Trade payables to related parties	**38,445**	40,688
Notes payables	**64,014**	125,454
	694,753	703,878

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

	As at 31 December	
	2014	2013
Less than 1 year	**574,972**	675,590
1 - 2 years	**107,630**	20,588
2 - 3 years	**4,500**	4,079
Over 3 years	**7,651**	3,621
	694,753	703,878

Trade and notes payable were denominated in the following currencies:

	As at 31 December	
	2014	2013
RMB	**631,277**	692,176
US$	**63,476**	11,702
	694,753	703,878

11. DIVIDENDS

On 29 May 2014, upon approval by the annual general meeting of the shareholders, the Company declared 2013 final dividend of RMB 0.0547 per ordinary share, totaling RMB122,468,000 and paid by cash at June 2014.

On 25 March 2015, upon the approval from the annual general meeting of the shareholders, the company declared no dividend for 2014.

12. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31 December	
	2014	2013
(Loss)/Profit for the year	**(190,805)**	403,138
Adjustments for:		
Property, plant and equipment		
- depreciation charge (Note 5)	**185,925**	121,872
- net loss on disposals	**8,340**	2,441
Amortisation of land use rights and intangible assets (Note 5)	**35,846**	15,629
(Reduction)/addition of impairment of receivables (Note 5)	**(4,918)**	31,920
Addition of impairment of inventories (Note 5)	**208**	—
Charge of share option scheme	**32,291**	31,238
Gain on disposal of subsidiaries	**—**	(13,251)
Share of loss of joint ventures	**19,060**	9,701
Net foreign exchange loss (Note 6)	**7,515**	3,402
Interest income (Note 6)	**(14,234)**	(1,348)
Interest expenses on bank borrowings and bonds (Note 6)	**180,232**	64,373
Interest expenses on sale and leaseback liability (Note 6)	**—**	1,606
Income tax expense	**31,255**	86,839
Changes in other non-current assets	**(14,553)**	(60,002)
Changes in working capital:	**—**	
Inventories	**(121,467)**	(100,933)
Trade and notes receivables	**(250,958)**	(472,214)
Prepayments and other receivables and value-added tax recoverable	**(252,603)**	(46,529)
Trade and notes payables	**(10,886)**	375,628
Accruals and other payables	**9,081**	53,368
Restricted bank deposits	**(39,896)**	(16,785)
Net cash inflows from operations	**(390,567)**	490,093

b. **Significant non-cash transactions**

The principal non-cash transactions for the year ended 31 December 2014 were short-term bank loans borrowed via trade finance agreement whereby the bank made payments to the Group's suppliers directly, which involved no cash receipts or payments by the Group. The aggregate amount of such short-term bank loans borrowed during the year ended 31 December 2014 approximated RMB39 million (2013: RMB80 million).

BUSINESS REVIEW

Adjustment continued in the domestic oil and gas industry throughout 2014 while global oil prices plunged in the second half. The oil and gas industry globally was under serious pressure.

Domestic market remained challenging while oil companies expanded market-based reforms

In 2014, China's energy demand growth was moderated. According to the Ministry of Land and Resources, the apparent consumption of natural gas increased by 8.7% year on year, showing a slower growth momentum as compared with 2013. As a result of the combined impact from the adjustment of the domestic oil and gas industry and the continued tumble of global oil prices, some domestic projects were postponed. Customers cut their capital expenditure and market protectionism picked up. Competition in oilfield services became increasingly intense and market conditions remained tough. Yet, while market protection increased in some markets, others opened up themselves completely for tendering. In the meantime, regular services did not experience a landslide. Rather, customer demand for the deployment of new technology to service matured oilfields and conventional oil and gas resources actually increased. In addition, the operating expenditure of customers remained stable. In a 2014 meeting of the Central Leading Group on Financial and Economic Affairs, President Xi Jinping identified the four pillars of national energy reform, namely consumption revolution, supply revolution, energy technology revolution and energy system revolution and emphasized the need for strengthening all-round international cooperation in order to achieve energy security in open conditions. China's Energy Development Strategy Action Plan for 2014-2020 explicitly called for the the deepening of energy system reform to further maintain national energy security, and accelerate opening-up of incremental resources in the upstream targeting upstream E&P.

International oil prices dipped further while hotspots of growth kept their momentum

Overseas, international oil prices plummeted. The spot price of North Sea Brent fell from a mid-year high of over USD110 per barrel to approximately USD55 per barrel by year-end. As a consequence, oil companies postponed their projects and cut their capex plan to brace for a cold winter. Yet in some regional market hotspots, the demand for oilfield technical services remained strong. Notwithstanding the political incident, Iraq still saw a steady increase in its oil and gas production. Statistics from the Iraqi oil ministry suggest crude production rose from approximately 3.1 million barrels per day at the end of 2013 to approximately 3.9 million barrels per day at the end of 2014, thereby generating continued brisk demand for oilfield technical services.

Business Performance

In light of the changing market conditions, the Group continued to target domestic needs for natural gas development, seized the opportunities of market opening in some areas, participated fully in domestic tenders and promoted its products and services with offerings that cover the entire oil and gas production process as well as a comprehensive market coverage. With an emphasis on keeping market share, the Group continued to deliver products and services around the four major customer needs of stimulation, optimization, cost efficiency as well as safety and environmental protection to help prepare itself for recovery from adversity. Overseas, the Group maintained and developed businesses with existing customers. At the same time, it was already gradually moving beyond the “follow-up” strategy by pursuing meaningful cooperation with NOCs and IOCs and obtaining more new orders to gain new growth drivers for the Group.

For the year ended 31 December 2014, the Group recorded a total revenue of RMB2,071.2 million, a decline of RMB462.3 million, or 18.2%, from RMB2,533.5 million in the same period of 2013. This was mainly due to increased resources committed by the Group to the development of new business to address the market adjustment, and the corresponding increase in financing costs, labor costs and other fixed costs.

For the year ended 31 December 2014, the Group booked an operating profit of RMB38.0 million, a decrease of RMB534.4 million, or 93.4%, from RMB572.4 million for the same period in 2013. Net loss reached RMB190.8 million, from a profit of RMB403.1 million for the same period in 2013. Loss attributable to equity holders of the Company was RMB198.2 million, as compared to a profit of

RMB382.6 million for the same period in 2013. The margin of net profit attributable to equity holders of the Company was -9.6%, a decrease of 24.7 percentage points, from 15.1% in the same period of 2013. The lower numbers are due to the adjustment in the domestic market and a decrease in international oil price in the second half of the year which has led to the difficult condition in the domestic and international oil and gas industry, the delay or cancellation of certain projects, the more competitive oilfield services industry and the resulting increased downward pricing pressure.

In the year ended 31 December 2014, revenue from the domestic market dropped 29.6% from the same period of 2013, while revenue from the overseas market rose 20.3% year on year. In 2014, due to adjustments in the industry, reduced customer investment and project slowdown, domestic regions such as Northwest China, North China and Southwest China all suffered tremendously. Competition became fierce and the Group was squeezed both on price and profit margin. Regardless, in Northwest China, the Group actively explored new markets. Furthermore, it entered the local markets by focusing on workover service as part of customers' operating expenditure. In the Erdos Basin in North China, the Group seized the opportunities of market opening-up, fully participated in bidding and developed new customers. In the Sichuan Basin in Southwest China, the Group gradually rolled out its latest offering of oilfield waste management service to cater to customers' environmental protection needs.

In overseas markets, the Group moved beyond the "follow-up" strategy and actively acquired NOC and IOC customers. In Iraq, the Group averted the impact of local geopolitical tension. It captured the huge demand from increasing production in Iraq, gained steady business with existing customers, received a flurry of new orders and was awarded overseas land drilling service order for the first time. At the same time, the Group actively developed new customers locally and made meaningful progress on its productive cooperation with NOCs and IOCs. In the Americas, the Group further penetrated Canada with its signature sand and water control product service and expanded its footprint in South America.

In 2014, the Group completed its equipment investment preliminarily. A product portfolio covering the whole process of oil and gas field development took initial shape. Equipment services fully normalized. The 2015 order book for drilling rigs, workover rigs and pressure pumping equipment was already adequately filled. Manufacturing capability for proprietary well completion tools was mostly complete and operating on scale, bringing a stable income stream for the Group. While focusing on expanding and strengthening existing product lines and making them more competitive, the Group continued to develop light-asset product lines and encouraged the adoption of the integrated services model. As a result, it had stocked up multiple new product lines, which would likely contribute to the Group's revenue growth successively in the future. Recognizing customers' cuts in capital expenditure, the Group accelerated the development of production service and has gained some scale. By targeting customers' operating expenditure, this service would help generate a stable, long-term income stream for the Group, improve its income structure and increase revenue visibility. In 2014, the Group won a workover service contract in a new market in Northwest China. Other product lines followed into this new market as a result of the win. This marked major progress on the Group's production business. At the same time, in response to China's call for better waste management in oil and gas development, the Group quickened the pace of developing its newly started oilfield waste management service. In 2014, the Group officially started offering that service in Northwest and Southwest China. For the above-mentioned production service and oilfield waste management service, the Group already secured additional capacities, technologies and orders so as to pave the way for leap-frog growth in 2015. On reservoir capabilities, the Group gained new strengths for reservoir geological study, analysis and technical service, which would enable the Group to provide integrated services for marginal fields and to promote integrated production management by combining reservoir capabilities with engineering know-how.

In 2014, the Group reined in capital expenditure in strict accordance with its business development status and cash flow generation and continued to optimize and rightsize human resources. On equipment spending, the Group largely completed its regular service capacity building, followed the investment cap based on business and cash flow conditions, and continued to develop light-asset product lines with preference for production service and oilfield waste management service. On human resources, the Group strictly enforced the performance review system, optimized and rightsized human resources across all businesses and promoted internal redeployment of staff in order to make more productive use of its human resources and to boost overall effectiveness.

In 2014, the Group was slightly less efficient on working capital management due to the market downturn and operational strategy realignment on the part of its customers. The Group took positive steps to prevent the further deterioration of capital turnover days. Furthermore, by working with financial institutions within the system of its customers, the Group restructured its accounts receivable. As at 31 December 2014, the Group has completed accounts receivable financing of approximately RMB320 million. As at 31 December 2014, the Group had approximately RMB840.1 million cash on hand. Its average accounts receivable turnover days were 228 days, an increase of 78 days as compared with last year. The average inventory turnover days were 158 days, an increase of 27 days as compared with last year. Average accounts payable turnover days was 153 days, a decrease of 4 days as compared with last year.

Geographical Market Analysis

In the 12 months ended 31 December 2014, revenue from domestic market amounted to RMB1,378.6 million, representing a decrease of RMB579.0 million, or 29.6%, from RMB1,957.6 million in 2013, and accounting for 66.6% of the Group's total revenue. Revenue from overseas market reached RMB692.6 million, an increase of RMB116.7 million, or 20.3% from RMB575.9 million in 2013, and accounting for 33.4% of the Group's total revenue.

Revenue Breakdown of Domestic and Overseas Markets

				Revenue from the respective market as a percentage of revenue	
	2014 *(RMB million)*	**2013** *(RMB million)*	**Change** *(%)*	**2014**	**2013**
Domestic	1,378.6	1,957.6	-29.6%	66.6%	77.3%
Overseas	692.6	575.9	20.3%	33.4%	22.7%
Total	2,071.2	2,533.5	-18.2%	100.0%	100.0%

Revenue Analysis of Domestic Market

	2014	2013	Change	Revenue from the respective market as a percentage of domestic revenue 2014	2013
	(RMB million)	*(RMB million)*	*(%)*		
Northwest China	597.7	798.3	-25.1%	43.4%	40.8%
North China	552.8	765.7	-27.8%	40.1%	39.1%
Southwest China	89.4	242.9	-63.2%	6.5%	12.4%
Others*	138.7	150.7	-8.0%	10.0%	7.7%
Total	1,378.6	1,957.6	-29.6%	100.0%	100.0%

* Including Northeast China and other domestic markets

Revenue Analysis of Overseas Market

	2014	2013	Change	Revenue from the respective market as a percentage of overseas revenue 2014	2013
	(RMB million)	*(RMB million)*	*(%)*		
Middle East	498.5	416.7	19.6%	72.0%	72.4%
Central Asia	84.3	76.4	10.3%	12.2%	13.3%
Americas	90.0	73.2	23.0%	12.9%	12.6%
Africa	19.8	9.6	106.3%	2.9%	1.7%
Total	692.6	575.9	20.3%	100.0%	100.0%

Domestic Market

In 2014, the Group faced challenges from the readjustment in the domestic O&G industry. International oil prices fell off a cliff in the second half. The combined effect was declining investment from domestic customers, more intense competition in the oilfield service industry and greater downward pressure on service price. Meanwhile, market protectionism of SOEs picked up in some markets, affecting the order book of independent oilfield service providers. On the other hand, market fully opened up in some other areas, presenting more opportunities for leading independent oilfield services firms. In 2014, the Group was affected in both domestic market revenue and profitability and under greater pressure to collect payments. Facing the tough market conditions, the Group held onto demand from domestic natural gas development and seized the opportunities of market opening up in some areas. With a complete range of product lines and extensive market network, it promoted products and services with a priority on maintaining market share. It was fully involved in bidding and delivered products and services around the four customer needs of stimulation, optimization, cost efficiency as well as safety and environmental protection. In 2014, the combined revenue from Northwest China, North China and Southwest China, where the three oil basins are located respectively, amounted to RMB1,239.9 million, representing a decline of 31.4% as compared with RMB1,806.9 million in 2013.

Major Business Developments in the Domestic Market

- As a result of the precipitating oil prices and industry readjustment in 2014, increasing of production stalled and customers scaled back capital expenditure in the Tarim Basin in Northwest China. This led to insufficient local utilization of oilfield service equipment such as rigs and in turn dragged down the Group's revenue from this market in 2014. Despite the difficulties, the Group actively explored new markets in the region and promoted the integrated services model and new technologies and products to tackle market challenges. As the Group was quick at grasping opportunities from the market-based reform of SOEs, its production service entered a new market in Northwest China in 2014, catering to the operating expenditure of customers. The order involving the management of 16 units of workover equipment supplied by the customer would commence fulfillment in 2015 and led the Group's other product lines into the new market. The Group also gained entry qualifications to the Tarim market for four units of self-owned workover equipment and would commence operation in 2015. To meet the environmental needs of local oilfields, the Group also launched its newly developed oilfield waste management service into the local market for the first time with the activation of a project of fracturing flowback fluid recycling and treatment.

- In 2014, the market in the Erdos Basin in North China became more transparent and witnessed the first across-the-board public tender by customers. The Group was able to gain direct access for the first time. However, projects stalled due to more stringent and complex land expropriation procedures. Commencing of operations delayed on awarded projects. At the same time, open-hole multistage fracturing market saw competition rise, customer spending fall and price dive, which led to a significant decline of the Group's business in the market. Regardless, the Group seized opportunities of the market opening-up and won an annual contract for land drilling service and pressure pumping equipment, forming stable and localized service capibilities. At the same time, the Group actively developed new customers and used the opportunity of market opening-up to sign contracts directly with local oil companies.

- Investment in conventional oil and gas development activities in the Sichuan Basin in Southwest China dropped significantly. Notwithstanding a moderate pickup in shale gas investment, it was difficult for independent oilfield services companies to gain access because of the domestic market remaining grim leading to regular services for early-stage shale gas development being mainly provided by SOE service companies. Therefore, the Group saw a marked decline in its conventional oil and gas services. Few progress was made on general contracting projects for rig or pressure pumping service for shale gas projects where services were offered only separately. Shale gas service received limited revenue. As a result, the Group suffered declining revenue and profit in the southwest market. Regardless, the Group gained entry qualification to the Fuling area for pressure pumping equipment and provided a variety of targeted premium services such as coiled tubing bridge plug milling and coiled tubing through-tube wireline logging around the need for shale gas development. With one run, it was able to perform 18 to 20 bridge plug milling jobs. This paved the way for general contracting service contracts for large-scale shale gas development in the future. Meanwhile, the Group gradually rolled out its newly conceived oilfield waste management service in the area to provide services including oil-based mud drill cutting treatment service.

- In other markets, the Group developed non-NOC customers in the Bohai Bay Rim area and won general contracting project for drilling. At the same time, it made a breakthrough on tight oil and shale gas development in other areas. By leveraging the opportunity to provide reservoir production management general contracting service and entering the non-conventional oil and gas market with the reservoir production management model, the Group provided general contracting projects for the tight oil project in the Subei Basin and the shale gas project in Hubei province. This laid a good foundation for the Group to fully flesh out its reservoir production management service model.

Overseas Market

In 2014, despite falling oil prices and slowing investment, the Group became more competitive on localized and proprietary products and services. In the overseas markets covered by the Group, development remained benign and services further penetrated. The Group continued to expand service coverage on the overseas projects of Chinese investors to meet the urgent need for production increasing in the Middle East, Central Asia and South America. At the same time, it already moved beyond the "follow-up" strategy in some existing markets. By drawing upon the brand reputation gained through high-quality services on overseas projects over the years, the Group continued to engage local NOC and IOC customers. As such, the Group's overseas business defied the downturn in 2014 and turned positive growth. In the 12 months ended 31 December 2014, the Group generated RMB498.5 million in revenue from the Middle East, up 19.6% from RMB416.7 million in 2013, making the Middle East again its biggest overseas market. The Americas contributed RMB90.0 million in revenue, an increase of 23.0% as compared with RMB73.2 million in 2013.

Major Business Developments in the Overseas Market

- A temporary political incident occurred in northern Iraq due to political tension in the first half of 2014, but given that the Group's business largely concentrated in the south of the country, it was not affected by the situation. O&G production in Iraq increased from approximately 3.1 million barrels per day at the end of 2013 to approximately 3.9 million barrels per day at the end of 2014. The continued production gains called for a big appetite for oilfield technical services. The Group further cemented its cooperation with existing customers. Two rigs were shipped to the overseas market for the first time and due to start work in Iraq in the first half of 2015. Its production service product line renewed a Central Processing Facility (CPF) project and won the bid for another CPF project and a CPF power plant operation contract. The tubular cluster added one casing and tubing inspection and repair workshop project. In addition, the Group moved beyond the "follow-up" strategy by engaging local NOC and IOC customers in the central and southern parts of Iraq. It also made meaningful progress on cooperation with IOCs. On coiled tubing acidizing service, the Group made a breakthrough with a new IOC customer and was able to continue offering the service without disruption.

- The Americas kept its moment of robust growth. In North America, through its signature sand and water control service, the Group further expanded its footprint in Canada. In Colombia, South America, the Group won a 3-year directional drilling technical service contract. In Ecuador, the Group made an entry into the market and generated revenue on sand and water control service.

Business Cluster Analysis

In the 12 months ended 31 December 2014, the Group's drilling technology cluster posted RMB532.9 million in revenue, a decrease of 9.6% as compared with 2013. The well completion cluster recorded revenue of RMB456.6 million, a year-on-year decline of 16.7%. The down-hole operation cluster saw revenue drop 20.5% from RMB1,081.5 million in 2013 to RMB859.8 million. The tubular services cluster recorded RMB221.9 million in revenue, a decrease of 29.5% from 2013. In terms of the share in the Group's revenue, the down-hole operation cluster was the top contributor with a share of 41.5%, down 1.2 percentage points compared with last year. In the second place was the drilling technology cluster, accounting for 25.7% of the Group's revenue, up 2.4 percentage points as compared with 2013. The well completion cluster contributed 22.1% of Group revenue in 2014, up 0.5 percentage points as compared with 2013. The tubular services cluster accounted for 10.7% of the Group's revenue, down 1.7 percentage points from last year.

Owing to market changes, the Group saw revenue shrink across all clusters in varying degrees. Given a tough market environment, the Group shifted the focus of product development onto expanding and strengthening existing service offers, having completed most of its equipment investment. At the same time, it continued to grow asset-light product lines and improve product line competitiveness and offered products and services around the four key customer needs of stimulation, optimization, cost efficiency as well as safety and environmental protection. Recognizing customers' capital spending cuts, the Group accelerated the deployment of its production service to target customers' operating expenditure. This enabled the Group to generate long-term and stable income sources, improve income structure and increase revenue visibility. At the same time, in response to China's higher environmental requirements in oil and gas projects, the Group directed more resources to its recently developed oilfield waste management service. In 2014, the Group secured capacities, technologies and orders for the abovementioned production business and oilfield waste management services, which paved the way for a possible leap in 2015. As of now, the Group is already well-equipped for undertaking medium and large integrated projects. Coupled with the development of light-asset product lines, an asset-light and integrated service model will further materialize.

Revenue Breakdown by Cluster

	2014 (million RMB)	2013 (million RMB)	Change (%)	As a percentage of total revenue 2014	2013
Down-hole operation cluster	859.8	1,081.5	-20.5%	41.5%	42.7%
Drilling technology cluster	532.9	589.4	-9.6%	25.7%	23.3%
Well completion cluster	456.6	547.9	-16.7%	22.1%	21.6%
Tubular services cluster	221.9	314.7	-29.5%	10.7%	12.4%
Total	2,071.2	2,533.5	-18.2%	100.0%	100.0%

Down-hole Operation Cluster

In the 12 months ended 31 December 2014, the down-hole operation cluster posted RMB859.8 million in revenue, a decline of 20.5% from RMB1,081.5 million in 2013. The revenue decline in this cluster was due to market readjustments domestically and changes to customers' business plans. In particular, stimulation service suffered a slide in revenue due to dampened customer investment and price compression from more fierce competition. Equipment service turned in more revenue, but equipment utilization missed expectation due to project delays and other factors. On the other hand, thanks to the capture of opportunities from market-based reforms implemented by oil companies, the Group made significant headway on production service linked to customers' operating expenditure.

The down-hole operation cluster comprises the down-hole module and oil production module businesses, more specifically:

Down-hole Module

1) Stimulation. In 2014, this product line recorded RMB132.2 million in revenue, down 67.5% from RMB406.9 million in 2013.

2) Pressure pumping service. In 2014, this product line recorded RMB148.4 million in revenue, up 94.8% from RMB76.2 million in 2013.

3) Coiled tubing service. In 2014, this product line recorded RMB349.2 million in revenue, down 3.4% from RMB361.4 million in 2013.

4) Oilfield chemicals. This product line offers the research and development ("R&D"), production, marketing and technical service related to oilfield chemicals for acidizing, fracturing, oil production (inflow control and profile control). It is equipped for the R&D and performance testing of a full range of chemicals for down-hole operation. This business line, launched in 2014, recorded RMB19.1 million in revenue in 2014.

5) Proppant. This product line offers a critical material used to hold reservoir fractures open in a fracturing process. The high-end ceramic proppant produced independently by the Group has higher strength and lower intensity, which helps keep the integrity of the oil and gas production channel after a fracturing operation, thus stimulating production. This product line officially commenced production in June 2014 and recorded RMB1.1 million in revenue in 2014.

6) Helium testing service. In 2014, this product line recorded RMB66.1 million in revenue, down 45.1% from RMB120.4 million in 2013.

Oil Production Module

1) Production operation service. In 2014, this product line recorded RMB124.6 million in revenue, up 6.9% from RMB116.6 million in 2013.

2) Workover service. This product line, launched in the first half of 2014, offers conventional and major workover for oil and gas wells, sidetrack, fishing, oil testing and well completion integrated operation and routine maintenance operation services. In 2014, this product line recorded RMB19.1 million in revenue.

EBITDA for the down-hole operation cluster decreased by 44.7% from RMB587.9 million in 2013 to RMB325.0 million in 2014. The EBITDA margin of the cluster was 37.8% in 2014, a drop of 16.6 percentage points from 54.4% in 2013. The drop of EBITDA margin was mainly due to precipitating revenue and lower profit margin from the increased competition of the multistage fracturing business with high margin.

Major Development in the Down-hole Operation Cluster

- Stimulation business saw its workload shrink substantially in 2014 due to customers' realignment of business plan and intensified competition, most notably in the Erdos region. Meanwhile, price also fell. The result was significantly lower revenue in 2014 compared with 2013. However, the Group made its service more competitive by deploying proprietary tools. So far, the Group has almost completed the shift to proprietary open-hole multistage fracturing tools and started deploying them in major markets across China. On top of that, the Group also developed design capabilities on integrated stimulation solutions.

- Pressure pumping service mainly targeted the Erdos region. In 2014, customers in the region started public tenders, which invited further competition and exerted downward pressure on price. At the same time, customers delayed operation schedules and project starts. In Southwest China, the Group successfully introduced the integrated service model on pressure pumping, but progress of market opening-up on shale gas market fell short of expectation. In the Sichuan Basin, pressure pumping equipment was under-utilized. As the Group finalized capacity building for pressure pumping, it added 25,000 HHP of additional pressure pumping. As at 31 December 2014, its entire 100,200 HHP capacity had been fully operational. In the Erdos region, it secured a solid year-round order. Service capacity building was close to expectation, bringing much higher topline growth in 2014 as compared with 2013.

- Coiled tubing business welcomed the arrival of 2 sets of coiled tubing equipment in 2014. As at 31 December 2014, the Group owned 9 units of coiled tubing equipment. In the Erdos region, this product line received fewer orders and faced tougher competition. Utilization fell and both unit price and workload took a hit. This led to significantly lower revenue in the local market. Domestically, the Group responded to customers' needs for natural gas development by introducing new technologies and processes to address enhancement and stimulation needs. In overseas markets, the Group solidly advanced services such as coiled tubing acidizing and gas lift in Iraq to continuously gain new orders from existing and new markets. As a result, the product line prospered in Iraq and business picked up steadily.

- Oilfield chemicals product line and pressure pumping service generated positive synergies. The development of oilfield chemicals would help the Group improve its comprehensive value chain for fracturing. On 11 January 2015, the Group announced the acquisition of KMS Oilfield Technology Limited and its affiliated companies. KMS, which has technological and R&D strengths on the application of oilfield chemicals in reservoir reengineering, oilfield sand control and reservoir protection, will become part of this product line to boost its competency in terms of product range and R&D and to form synergies with the Group's other product lines within the down-hole cluster.

- The ceramic proppant production line ran continuously and reliably. The production line built by the Group for ceramic proppant, a critical material used in fracturing, officially commenced production in June 2014 and has since enjoyed a smooth run. This made the Group the first Chinese ceramic supplier capable of meeting world-leading KPIs including strength and density. It enabled the Group to further integrate along the value chain of fracturing. Due to issues related to entry qualification and market situation, sales under this product line was relatively sluggish.

- Production operation service continued its business development efforts abroad. Building on its existing business, it received a new CPF project in 2014 on which production already commenced. The revenue generated exceeded that of last year. In addition, a CPF power plant operation contract was won. The Group sees strong upside for this product line going forward.

- Workover service officially went online in 2014. Although only one workover rig was in operation for only one quarter in 2014, the product line managed to penetrate new markets in Northwest China by seizing the opportunities of market-based reform of oil companies where the Group would start managing 16 workover rigs supplied by the customer in 2015. At the same time, four of the Group's self-owned workover rigs also gained entry qualification to the Tarim region. This paved the way for this product line to become one of the major growth drivers for the Group in 2015. This product line helps the Group target clients' operating expenditure, strengthen its service capacity in the production stage of oilfield development, generate a stable, long-term revenue stream and improve the revenue structure of the Group, hence increasing its resilience against risks.

Drilling Technology Cluster

In the 12 months ended 31 December 2014, the drilling technology cluster posted RMB532.9 million in revenue, a decline of 9.6% from RMB589.4 million in 2013. The declining revenue of this cluster was mainly due to a significant drop in revenue on drilling fluid as the challenging market environment led to higher competition and the under-utilization of rigs and other equipment. On the other hand, customers placed more emphasis on cost reduction and efficiency gains and further pursued cooperation on reservoir production management and general contracting of integrated services.

The drilling technology cluster comprises the integrated module and drilling module, more specifically:

Integration module:

1) Reservoir production management. In 2014, this product line recorded RMB61.1 million in revenue.

2) Integrated project management service. Under this product line, the Group provides integrated project management (IPM) service through "Tongzhou Integrated Oilfield Technology Co., Ltd." ("Tongzhou IPM"), a joint venture with Schlumberger. Under current market conditions, as customers became more cost conscious and efficiency-driven, there is buoyant demand for affordable integrated services.

Drilling module:

1) Integrated drilling service. In 2014, this product line booked RMB131.1 million in revenue, an increase of 4.7% from RMB125.2 million in 2013.

2) Directional drilling. In 2014, this product line booked RMB193.6 million in revenue, a decrease of 20.3% from RMB242.9 million in 2013.

3) Drilling fluid service. In 2014, this product line recorded RMB70.6 million in revenue, a decline of 62.5% from RMB188.4 million in 2013.

4) Land drilling service. In 2014, this product line booked RMB74.9 million in revenue, an increase of 127.7% from RMB32.9 million in 2013.

5) Oilfield waste management service. This product line provides waste and pollutants management service throughout oil and gas exploration and development such as oil-based drilling fluid and drill cutting treatment and fracture flowback fluid treatment. It was launched in the first half of 2014 and recorded RMB1.6 million in revenue in 2014.

EBITDA of the drilling technology cluster decreased 37.4% from RMB136.5 million in 2013 to RMB85.4 million in 2014. EBITDA margin for 2014 was 16.0%, down 7.2 percentage points from 23.2% in 2013, mainly caused by lower profit margin from intensified competition of integrated drilling service.

Major Development in the Drilling Technology Cluster

- Reservoir production management service completed general contracting projects of unconventional oil and gas development such as shale gas and tight oil projects in other regions across China. It drove growth for and created strong synergies with the Group's other product lines including land drilling service. Meanwhile, the Group set up specialist teams for reservoir evaluation, economic assessment and development plan design and amassed the capabilities for integrated reservoir production management service. This laid a solid foundation for the full-fledged development of the reservoir production management service model in the future.

- Integrated drilling service mainly focuses on providing integrated turnkey solutions for customers in the drilling stage. In 2014, gross margin of this product line dropped but the Group engaged customers in Northwest China for integrated multilateral well project and non-NOC customers in the Bohai Rim. Meanwhile, as the industry shifted and oil companies became more efficiency-driven, the Group saw a significant pickup in demand for cost-officient drilling optimization services.

- Directional drilling service saw compressions of its billing rate and profit margin due to rising competition in major domestic markets. Losses occurred on a few projects. On the other hand, this business line continued to grow rapidly in overseas markets. In terms of service capacity, in the fourth quarter of 2014, the Group moved away from the model of leasing tools from third parties for service and instead ordered three sets of rotary steerable system, which would likely deliver a strong boost to the Group's ability to offer premium directional drilling services and to profit. At the same time, the Group's Tianjin repair facility for directional drilling tools was in operation, which could equip the Group with in-house capabilities for equipment repair and assembly and significantly reduce the costs of production and operation.

- Land drilling service had a lower-than-expected equipment utilization rate for the first half due to project delays in the Erdos region, but in the second half, all 7 rigs owned by the Group were deployed and received stable orders. In the meantime, the Group gradually garnered international recognition for its land drilling service, winning the bid for two rigs in Iraq in July 2014, the first overseas order for the Group's land drilling service. This will help the Group increase profitability and drive the expansion of its other overseas business activities. The above-mentioned 2 rigs already arrived in Iraq in early 2015 to perform jobs pending instructions from the customer. At the same time, the Group's own rigs won a bid in the Erdos region and were on standby for operation pending customer instructions.

- Drilling fluid service saw a significant drop in revenue on oil-based mud due to a challenging external environment and reduced investment in the Tarim region. At the same time, the Group made progress on water-based mud service, winning multiple well jobs.

- Oilfield waste management service, officially launched in the first half of 2014, targets the state's increasingly stringent environmental requirements on oil and gas development. This business line was developed primarily for providing waste management service throughout oil and gas exploration and development such as oil-based drilling fluid and drill cutting treatment and fracture flowback fluid treatment. It already commenced engineering operation in Northwest China and Southwest China in 2014 and moved in full swing into the shale gas segment in Fuling, Weiyuan and Changning.

Well Completion Cluster

In the 12 months ended 31 December 2014, the well completion cluster recorded RMB456.6 million in revenue, down 16.7% compared with RMB547.9 million in 2013. In 2014, due to declining investment from old oilfields and customers' switch from the original gravel packing technology, gravel packing service took a blow. However, through its competitive proprietary well completion tools and sand and water control products and services, the Group secured growth on well completion integration service.

The well completion cluster comprises the following businesses:

1) Well completion integration. This business includes integrated well completion service, well completion tools, sand and water control products and technical services, and wellhead and artificial lift-related products and technical services. In 2014, this business line recorded RMB380.1 million in revenue, up 0.5% from RMB378.1 million in 2013.

2) Gravel packing service. This business line operates through Shandong Precede, a majority-owned subsidiary acquired by the Group in 2008, which offers gravel packing well completion products and services. In 2014, this business line recorded RMB76.5 million in revenue, a decrease of 54.9% from RMB169.8 million in 2013.

EBITDA of the well completion cluster decreased by 29.6% from RMB197.7 million in 2013 to RMB139.1 million in 2014. EBITDA margin for 2014 was 30.5%, down by 5.6 percentage points from 36.1% in 2013, which was mainly attributable to lower margin from Precede, the majority-owned subsidiary of the Group, due to customers' switch from original completion technology.

Major Development in the Well Completion Cluster

- In 2014, the Group derived less revenue from well completion integration service due to investment contraction in the Tarim market. In terms of reservoir evaluation capabilities, the Group brought in specialists on reservoir profiling and dynamic evaluation and deployed professional reservoir evaluation software for additional support. With a robust set of reservoir geological evaluation and analytical capabilities, the Group advised multiple domestic markets on well completion operations and gained encouraging results.

- In 2014, the well completion tools product line received fewer jobs and faced tougher competition on price due to a challenging domestic market environment and declining customer spending. As a result, its profit was compressed. Against this backdrop, the Group completed its well completion tools base in Tianjin, thus enabling full in-house production of proprietary well completion tools. The Group expects a cost reduction of 15% to 20% will materialize after switching from procurement to self-production of proprietary tools. With technological sophistication and a cost advantage, the Group already enjoys a competitive edge on its well completion tools. Overseas, as customers changed well completion technologies in Iraq, order book shrank marginally. In North America, in partnership with international oilfield service firms, the Group continued to make inroads into the Canadian market with its sand and water control solution. In South America, the Group gradually launched its well cementing and well completion tools business on the back of its sand and water control business. Overseas, this product line achieved overall growth.

- Sand and water control business stumbled in the domestic market as market protectionism worsened in a downtown amid investment declines and cost constraints, but in overseas markets, it made a breakthrough in the Americas thanks to a perfect fit for heavy oil recovery needs. In Colombia, the Group diversified its offering from sand screen products to tailored sand control field engineering service for customers. This brought growth to this product line and helped check the decline on the well completion cluster in a challenging market environment.

- Gravel packing revenue fell significantly as compared with 2013 as a result of declining investment by old oilfields and changes in well completion technologies.

Tubular Services Cluster

In the 12 months ended 31 December 2014, the tubular services cluster posted RMB221.9 million in revenue, a decrease of 29.5% from RMB314.7 million in 2013. The lower revenue number was the result of dampened customer investment, intensified market competition and project delays. At the same time, recognizing customers' rising safety consciousness, the Group focused on inspection and evaluation service and further cemented this product line for large-scale development through mergers and acquisitions.

EBITDA of the tubular services cluster decreased by 33.7% from RMB149.5 million in 2013 to RMB99.1 million in 2014. EBITDA margin for 2014 reached 44.7%, down 2.8 percentage points from 47.5% in 2013.

Major Development in the Tubular Services Cluster

- Revenue on inspection and evaluation service declined due to sluggish customer spending and dampened demand for drilling tools inspection. In 2014, through investing in Sichuan Chengliang Inspection Services Co., Ltd, the Group acquired multiple qualifications on inspection and calibration. The investment laid a solid foundation for the large-scale development of the product line and for the Group to become a leading independent third-party inspection service provider. In addition, the Group also launched in-service pipeline evaluation service in Northwest China.

- Drilling tools leasing business comprises drilling tools leasing, repair, anti-corrosion treatment and product sales. Declining investment in the Tarim and Erdos regions dented the demand for and eroded the revenue on drilling tools leasing, repair and anti-corrosion treatment. In 2014, the Group focused on drilling tool integration service and mud rotor rental service and started offering integrated drilling tool leasing solutions to customers.

- Oil tubing and casing and anti-corrosion technology business saw both orders and revenue on oil tubing and casing repair and anti-corrosion treatment service decline as customers cut investment. At the same time, the Group developed accessory processing service.

Alignment of Strategic Resources

In 2014, the Group proactively deployed and aligned strategic resources for investment, R&D and human resources. The market situation remains challenging while the Group has reached its preliminary target in building regular services capacity, and a portfolio of product lines and technical services covering the entire process of oil and gas field development has been completed. Against this backdrop, the Group reined in capital expenditure in strict alignment with its business conditions and cash flow situation. Its focus shifted from creating new product lines to cementing and growing existing product lines. In the meantime, it continued to develop light-asset product lines while focusing on technological innovation and continued optimization and streamlining of its human resources. In 2014, the Group made RMB567.6 million in capital expenditure, a decrease of 34.3% compared with RMB864.5 million in 2013.

Alignment of Investment

In 2014, the Group has moderated its pace of equipment investment from big strides to steady steps. It continued to execute the investment plans from 2013 for regular services capacity such as drilling rigs and pressure pumping equipment, and managed to control its total capital expenditure. On the other hand, it commenced structural adjustments to its incremental capital expenditure by favoring production service, which targeted customers' operating costs, and oilfield waste management service. The Group also strengthened the development of reservoir technical service capabilities and increased service capabilities on light-asset product lines such as inspection service and oilfield chemicals through investment and acquisition.

Major Investment in Equipment and Facility

- On pressure pumping, the Group invested in 25,000 HHP additional pressure pumping capacity in 2014. As at 31 December 2014, it was equipped with a pressure pumping service capacity of 100,200 HHP. Meanwhile, the production line built by the Group for ceramic proppant, a critical material used in fracturing, officially commenced production in June 2014 and passed a smooth trial run. Its technical specifications continued to improve to cater to the needs of shale gas projects. This means the Group had further integrated along the value chain of fracturing and formed integrated pressure pumping service capabilities together with the Group's fracturing technology, process, tools and equipment. On coiled tubing, the Group added 2 coiled tubing operation teams in 2014. As at 31 December 2014, the Group had 9 coiled tubing operation teams active on the ground. On land drilling service, the Group received 3 new drilling rigs in 2014. As at the date of this Announcement, the Group owned 7 rigs, 2 of which were awarded a land drilling project in Iraq in the second half of 2014. On directional drilling, the Group purchased 3 sets of rotary steerable system in the fourth quarter of 2014, which would likely boost the Group's capacity for premium services under the directional drilling product line.

- In terms of building proprietary manufacturing capacity and facilities, as at the date of this Announcement, the manufacturing workshop of the well completion tools base in the Tianjin Binhai New Area was mostly completion, with the final completion expected sometime in 2015. This would fully prepare the Group for its proprietary well completion tools.

Major Investment in Merger and Acquisition

- In March 2014, the Group made a RMB2.9 million investment in Sichuan Chengliang Inspection Services Co., Ltd, thereby gaining access to multiple qualifications on inspection and calibration. The investment laid a solid foundation for the Group to develop light-asset inspection and evaluation services at a large scale to cater to customers' security needs and to become an independent third-party inspection service provider in China.

- In January 2015, the Group announced the acquisition of Beijing KMS Oilfield Chemicals and Technology Limited and its affiliated companies for RMB101 million. KMS, which has technological and R&D strengths on the application of oilfield chemicals in reservoir reformation, oilfield sand control and reservoir protection, will become part of this product line to boost its competency in terms of product portfolios and R&D, and to form synergies with the Group's other product lines within the down-hole cluster.

Alignment of R&D Resource

In 2014, the Group prioritized its R&D efforts on the development of proprietary well completion tools, especially for the more cost-sensitive markets. This could enable the Group to lower costs and boost efficiency for its customers. In 2014, the Group invested RMB126.8 million in R&D, a rise of 44.9% compared with RMB87.5 million in 2013 due to increased R&D efforts of the Group.

Key R&D Projects

- Horizontal well multi-stage fracturing with cement infusion
- Rotary liner hanger
- Coiled tubing and casing interior multi-stage reengineering
- New cement paste system for well cementing

Alignment of Human Resources

Human resources is crucial to building a world-leading oilfield technical service company. The Group has always prioritized talent cultivation as part of its strategic resource alignment program. In 2014, against challenging market conditions, on one hand, the Group strictly enforced the performance review system and optimized and streamlined human resources across all businesses and promoted internal redeployment of staff in order to make more productive use of its human resources and to boost overall efficiency. On the other hand, the Group continued to introduce experienced industry leaders and improve its talent management and nurturing program to provide robust strategic talent reserves for the Group.

Major Development on Human Resources

- Enforced a staff size cap and optimized and rightsized human resources across all businesses. In response to the challenging market situation, the Group strengthened performance review and elimination of disqualified employees.

- Commenced structural adjustment to human resources and accelerated internal redeployment. In 2014, in light of the development under each product line, the Group completed altogether over 400 person times of internal transfer. Employees of departments with lighter workload were reassigned to emerging product lines secured by order backlogs and in need of tremendous manpower such as production service and oilfield waste management service, making more productive use of the Group's manpower.

- In terms of campus recruitment, the Group articulated the three programs of "leap forward program", "world-class talent reserve program" and "best career program" and continued to bring in the brightest university graduates. The Group also improved its internal talent nurturing program by honing its training system, creating skill matrices for each position, defining training objectives and developing courses for professional skills enhancement.

- In 2014, the Group granted a total of 24,212,000 ordinary share options to more than 280 best performing employees and core staff members, 21,700,000 shares of which were exercisable at HKD5.200 per share and 2,512,000 shares of which were exercisable at HKD3.120 per share.

Major Development on Cost Discipline

Recognizing the tough market environment, the Group developed cost discipline objectives in 2014. As at 31 December 2014, the Group made cost reductions primarily in the following areas:

- Cost of raw materials and technical services. The cost reduction was achieved by promoting proprietary tools and accessories, making standardized processes and strengthening procurement management.

- Cost of human resources. Please refer to "Major Development on Human Resources".

- Cost of day-to-day operation. The cost reduction was achieved by promoting tendering and settlement audit and increasing the efficiency of logistic support items.

- Financial costs. The cost reduction was achieved mainly by improving offshore capital management, creating new financing channels, promoting the collection of account receivables and replenishing cash on balance sheet.

Outlook

Looking into 2015, the market will remain formidable due to industry readjustment and deflated oil prices. It is not expected to recover any time soon. There is growing uncertainty, rising competition and excess capacity in oilfield service. All this will continue to impact on the Group's revenue, profit and payment collection. The Group also expects, as environmental requirements tighten for domestic oil and gas development, more project delays may unfold in some parts of the domestic market due to land expropriation challenges related to environmental concerns. On the overseas front, falling international oil prices have forced multinational oil companies to pare down their capital spending budgets for 2015. This will deliver a particularly painful blow to resources development where the cost of recovery is relatively higher. Therefore, the situation still looks difficult. The Group is likely to feel the impact on its overseas business including the Americas. E&P of lower-cost resources in the Middle East will take a mild hit, but in markets such as Iraq, the Group still expects to come under greater cost pressure from its customers.

However, despite declining customer spending at home in the short run, operating costs remain stable. Oil production service which targets operating cost is likely to fare reasonably well. To maintain production levels, after slashing capital expenditure, customer demand for oilfield technical services is expected to rebound. Furthermore, as the domestic market for oilfield technical services further opens up and as oil companies pursue more advanced internal reforms, the domestic market for oilfield services will gradually recover. With the advantages associated with its established brand and integrated services model, the Group has a better chance of winning orders. In the meantime, as customers search for lower costs and higher efficiency, the opportunities on unconventional oil and gas resources such as tight gas, tight oil and shale gas will start to flourish, generating more market possibilities for the Group given its attractive integrated services model. In the long run, oilfield services will open up gradually as the country moves forward on energy reform. Domestic demand for natural gas will increase further. The positive trend of growing domestic demand for oilfield technical services remains unchanged. The Group will leverage its advantages on product lines and comprehensive market coverage, focus on key regions, fully participate in project competition and maintain its market share.

Overseas markets such as Iraq still present good prospects thanks to relatively low costs. Iraq is investing more to increase production against falling oil prices. Notwithstanding the destabilizing factors, the continued efforts to boost production will in turn generate undiminished demand for oilfield technical services. NOCs and IOCs in the Americas are actively reaching out to the Group for partnership when price comes under pressure. This shows the competitive offering and comparative cost advantage of the Group. In overseas markets, the Group will leverage its broad market network, capture the opportunities in hotspot regions, engage oil companies looking to cut costs and increase efficiency and stabilize its foothold in other markets.

On products, oil companies now attach greater importance to maximizing returns in the current market climate. The Group is now in the process of optimizing and reconfiguring its product lines around such customer needs as stimulation, optimization, cost efficiency as well as safety and environment protection. It is expanding and strengthening existing product lines and concentrating resources to promote new technologies and processes that maximize output and cut costs. It is also improving its own capabilities for reservoir geological study and promoting its advantages of product lines covering the entire process of oil and gas production and its integrated service model. In the meantime, as the country introduces more stringent safety and environmental protection requirements, oil companies have a growing appetite for oilfield waste management and safety inspection services. Recognizing such rising safety and environmental protection requirements of its customers, the Group will continue to promote oilfield waste management service in major markets. In addition, facing declining investment from customers, the Group is accelerating the development of oil production service which targets customers' operating expenditure. This will likely generate more stable, long-term income for the Group and improve its income structure.

On human resources, the Group will intensify efforts to optimize and rightsizing its workforce. After dismissing some employees in 2014 for failing the performance review, the Group plans to enforce more rigorous performance review and optimize and streamline its workforce in 2015. In addition, the Group is transferring employees in departments with relatively lower workload to product lines with full order backlogs and an imperative need for manpower such as oilfield waste management service and oil production service, so as to make more productive use of its human resources and control overall labor costs. At the same time, the Group will continue to nurture talent from within and build a team of professional managers with good ethics.

On capital management, the Group will exercise strict cash flow control by matching payment of accounts payable with collection of accounts receivable, and strictly control capital expenditure in line with its expected cash flow and business situation. On financial costs, on the one hand, the Group will rigorously watch and manage KPIs such as leverage ratio. It is also actively looking for new ways of financing to lower costs. On the other hand, by establishing special workgroups and unfolding specific incentive measures, the Group intensifies payment collection to provide sufficient short-term funds. On short term debt, in May 2015, one batch of medium-term notes worth RMB 3 million will mature. The Group has reached an initial intent with a bank regarding the refinancing of such MTNs and has clearly defined together a project implementation plan and timetable. In January and February 2015, the Group has achieved positive cash flow. The Group has taken effective measures to promote accounts receivable collection. During the period between 1 January 2015 to 28 February 2015, the Group has collected approximately RMB401 million (unaudited) of accounts receivable in total, thus improving AR turnover days and relieving the working capital pressure on the Group.

On technological research, the Group will prioritize the development of proprietary well completion tools to build advantages on technology and brand. On QHSE management, the Group will focus on risk management, comprehensively raise quality control level, build the QHSE brand and increase the brand competitiveness of the Group.

In 2015, the oil and gas industry will continue to operate amid market adjustments. The environment remains daunting, but the ability of the Group to make swift changes by fully strengthening project operation, technology deployment and quality control, will likely boost the Group's business performance. As oil companies show increasing demand for cost control and efficiency gains, independent oilfield service companies are more likely to receive greater development opportunities. In the long run, domestic energy reform is leading to further opening up and empowering oilfield technical service providers to realize healthy and stable growth.

FINANCIAL REVIEW

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

Revenue

The Group's revenue in 2014 amounted to RMB2,071.2 million, representing a decrease of RMB462.3 million or 18.2% as compared to RMB2,533.5 million in 2013. The decrease in the Group's revenue was mainly attributable to the adjustment in the domestic market and decrease in international oil price since the second half of 2014 which has led to the difficult condition for the domestic and international oil and gas industry, the delay or cancellation of certain projects, the competitive oilfield services industry and the resulting increased downward pricing pressure.

Costs of Sales

The costs of sales in 2014 increased to RMB1,425.8 million, representing an increase of 1.0%, from RMB1,411.0 million in 2013. The increase was mainly attributable to higher raw material cost as well as the rising of fixed costs, including depreciation and labor costs.

Other Gains

Other gains in 2014 decreased to RMB-1.8 million from RMB20.0 million in 2013. The decrease was mainly attributable to an absence of substantial disposal of subsidiaries and less subsidy revenue granted by the PRC government in 2014.

Selling Expenses

Selling expenses in 2014 amounted to RMB190.9 million, representing an increase of RMB17.8 million or 10.3% as compared to RMB173.1 million in 2013. This was mainly attributable to higher cost for maintaining market share in the harsh market environment.

Administrative Expenses

Administrative expenses in 2014 amounted to RMB361.2 million, representing an increase of RMB61.4 million or 20.5% as compared to RMB299.8 million in 2013. This was mainly attributable to higher labor costs in administrative departments. The Group will continue to enforce rightsizing and adjustment of human resources.

R&D Expenses

R&D expenses in 2014 amounted to RMB37.6 million, representing a decrease of RMB26.8 million or 41.6% as compared to RMB64.4 million in 2013. This was mainly attributable to higher R&D success rate.

Sales Tax and Surcharges

The sales tax and surcharge in 2014 amounted to RMB16.0 million, representing a decrease of RMB16.8 million or 51.2% as compared to RMB32.8 million in 2013. The decrease was mainly due to the reform of national tax system whereby taxes borne by certain businesses were changed from sales tax last year to value-added tax, which were not included in sales tax and surcharges.

Operating Profit

As a result of the foregoing, the operating profit of the Group in 2014 amounted to RMB38.0 million, representing a decrease of RMB534.4 million or 93.4% as compared to RMB572.4 million in 2013. The operating profit margin for 2014 was 1.8%, representing a decrease of 20.8 percentage points from 22.6% in 2013.

Finance Costs (Net)

Net finance costs in 2014 was RMB178.5 million, an increase of approximately RMB105.8 million or 145.5% as compared to 2013. The increase was mainly due to the USD senior note issued at the end of 2013 by the Group.

Share of Loss of a Joint Venture

The share of loss of a joint venture in 2014 amounted to RMB19.1 million, mainly because of losses recorded in the joint venture "Tongzhou IPM".

Income Tax Expense

Income tax expense in 2014 amounted to RMB31.3 million, representing a decrease of RMB55.5 million or 63.9% from 2013, mainly due to prominent tax planning in entities of the Group which recorded net profit in the second half of 2014 leading to no further income tax expense, and the deferred income tax of entities which recorded net loss in the second half deducting income tax expense occurred in the first half.

Profit for the Year

As a result of the foregoing, the Group's loss for 2014 was RMB190.8 million, representing a decrease of RMB593.9 million, or 147.3%, from 2013.

Profit Attributable to Equity Holders of the Company

The Group's loss attributable to equity holders of the Company in 2014 amounted to RMB198.2 million, as compared to a profit a RMB382.6 million in 2013.

Trade and Notes Receivables

As at 31 December 2014, the Group's net trade and notes receivables were RMB1,558.2 million, representing an increase of RMB255.9 million as compared to 31 December of 2013. The average trade receivables turnover days (excluding quality guarantee deposits and other deposits) in 2014 were 228 days, representing an increase of 78 days as compared to 2013. This was mainly attributable to difficult market conditions and customers adjusting their operating strategy.

Inventory

As at 31 December 2014, the Group's inventory was RMB709.7 million, representing an increase of RMB169.0 million as compared to 31 December 2013, mainly due to delays of certain projects of the Group.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2014, the Group's cash and bank deposits amounted to approximately RMB840.1 million (including: restricted bank deposits, term deposits with initial terms of over three months, cash and cash equivalents), representing a decrease of RMB962.5 million as compared to 31 December 2013.

As at 31 December 2014, the Group's outstanding short-term bank loans amounted to RMB693.9 million. Credit facilities granted to the Group by domestic banks in China amounted to RMB1,070.0 million, of which approximately RMB446.3 million were not used. Credit facilities granted to the Group by foreign banks in China amounted to RMB80.0 million remains unused. The aggregate principal amount of Medium-term Notes of the Group registered at the National Association of Financial Market Institutional Investors totals RMB500.0 million.

As at 31 December 2014, the gearing ratio of the Group was 66.9%, representing an increase of 6.7 percentage points from the gearing ratio of 60.2% as at 31 December 2013. This was mainly due to an increase in working capital loans.

The equity attributable to equity holders of the Company decreased from RMB2,282.7 million as at 31 December 2013 to RMB2,053.9 million as at 31 December 2014.

EXCHANGE RISK

The Group mainly conducts its business in RMB. Some imported and exported goods require to be settled in foreign currencies. The Group believes that the exchange risk involved in the settlement amounts being denominated in foreign currencies is insignificant. The exchange risk of the Group mainly arises from its foreign currency deposits and trade receivables denominated in foreign currencies. Any fluctuations in RMB exchange rate against the US dollar may have a negative impact on the Group's operating results and financial position.

CASH FLOW FROM OPERATING ACTIVITIES

For the year ended 31 December 2014, net cash outflow from operating activities of the Group amounted to RMB619.9 million, representing an increase of RMB998.4 million compared to 2013. This was mainly because of the difficult market conditions leading to lower profit margin for the Group, and the adjustment of operating strategy of oil company customers which led to longer payment terms.

CAPITAL EXPENDITURE AND INVESTMENT

The Group's capital expenditure for 2014 was RMB567.6 million, of which, investments in fixed assets were RMB457.8 million, investments in intangible assets (including land use rights) were RMB99.9 million, the payment for the equity investments was RMB9.9 million. The Group's net capital expenditure was RMB575.6 million, which included an 8.0 million term deposit with initial terms of over three months.

The Group has budgeted approximately RMB400.0 million for capital expenditure in 2015, which will be used in fulfilling equipment procurement contracts signed in 2014.

CONTRACTUAL LIABILITY

The Group's contractual commitments mainly consist of payment obligations under the Group's operating lease arrangements and capital commitments. The Group leases offices and certain equipment and machinery through operating leases. As at 31 December 2014, the Group's operating lease commitments amounted to approximately RMB56.8 million. As at the balance sheet date (31 December 2014), the Group had capital commitments of approximately RMB187.3 million, which was not provided for in the balance sheet.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities or guarantees.

OFF-BALANCE SHEET ARRANGEMENTS

As at 31 December 2014, the Group did not have any off-balance sheet arrangement.

FINAL DIVIDENDS

At the Board meeting held on 25 March 2015, the Board did not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: RMB0.0547 per share, totaling approximately RMB120.0 million).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2015 (Thursday) to 26 May 2015 (Tuesday), both days inclusive, during which period no share transfers will be registered. In order to be eligible for attending and voting at the 2015 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 20 May 2015 (Wednesday).

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") under Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2014, except for the following deviation:

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not separate the roles of the Chairman and Chief Executive Officer. Mr. Luo Lin served as both the Chairman and the Chief Executive Officer of the Company during the reporting period. Mr. Luo was the main founder of the Group. He was responsible for the operational management of the Group since our establishment and was instrumental to the development of the Group. Mr. Luo possesses rich petroleum industry experience and excellent operational management ability. The Board is of the view that continuing to engage Mr. Luo Lin to serve as both the Chairman and the Chief Executive Officer of the Company will safeguard the continuity of our operational management and can protect shareholders' interest.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

For the year ended 31 December 2014, the Company repurchased a total of 4,184,000 shares (2013: 4,452,000 shares) on the Stock Exchange at an aggregate consideration of approximately HK$6,834,419 (before expenses) (2013: HK$22,225,080). All the repurchased shares were subsequently cancelled by the Company during the year. Particulars of the repurchases were as follows:

Month of the repurchases	**Number of ordinary shares repurchased**	**Purchase price per share** Highest *HK$*	Lowest *HK$*	**Aggregate consideration paid (before expenses)** *HK$*
March 2014	202,000	5.00	4.86	997,981
November 2014	3,982,000	1.50	1.40	5,836,438
Total:	4,184,000			6,834,419

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2014.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") comprising all three Independent Non-executive Directors, namely Mr. Zhu Xiaoping (Chairman of the Audit Committee), Mr. Zhang Yongyi and Mr. Wang Mingcai. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2014.

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

Hong Kong, 25 March 2015

As at the date of this announcement, Mr. LUO Lin, Mr. WU Di and Mr. PI Zhifeng are the executive Directors; and Mr. ZHANG Yongyi, Mr. ZHU Xiaoping and Mr. WANG Mingcai are the independent non-executive Directors.