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 2015

FINANCIAL HIGHLIGHTS

Revenue of the Group decreased by 11.5% from RMB2,071.2 million in 2014 to RMB1,833.0 million in 2015. Loss attributable to equity holders of the Company decreased by 1.8% from RMB198.2 million in 2014 to RMB194.7 million in 2015.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2015.

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 2015 (hereafter referred to as the 'Year' or 'the reporting period') with comparative figures for 2014, as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts expressed in thousands of RMB)

		Year ended 31 December	
	Note	**2015**	2014
Revenue	*4*	**1,833,006**	2,071,205
Cost of sales	*5*	**(1,250,315)**	(1,425,762)
Gross profit		**582,691**	645,443
Other gains/(losses), net		**20,689**	(1,839)
Selling expenses	*5*	**(137,463)**	(190,857)
Administrative expenses	*5*	**(338,951)**	(361,217)
Research and development expenses	*5*	**(18,916)**	(37,592)
Sales tax and surcharges	*5*	**(15,576)**	(15,964)
Operating profit		**92,474**	37,974
Interest income	*6*	**4,409**	14,234
Finance expenses	*6*	**(259,179)**	(192,698)
Finance costs, net	*6*	**(254,770)**	(178,464)
Share of loss of joint ventures		**(1,042)**	(19,060)
Loss before income tax		**(163,338)**	(159,550)
Income tax expense	*7*	**(31,910)**	(31,255)
Loss for the year		**(195,248)**	(190,805)
Loss attributable to:			
Equity holders of the Company		**(194,731)**	(198,213)
Non-controlling interests		**(517)**	7,408
		(195,248)	(190,805)
Loss per share for loss attributable to the equity holders of the Company for the year (expressed in RMB per share)			
– Basic	*8*	**(0.0878)**	(0.0902)
– Diluted	*8*	**(0.0878)**	(0.0902)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts expressed in thousands of RMB)

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015

(Amounts expressed in thousands of RMB)

	Note	**As at 31 December** **2015**	2014
ASSETS			
Non-current assets			
Property, plant and equipment		**2,355,538**	2,293,382
Land use rights		**59,893**	61,049
Intangible assets		**379,538**	392,389
Investment in joint ventures		**4,000**	5,042
Prepayments and other receivables		**132,693**	37,194
Other non-current assets		**67,255**	88,555
Deferred income tax assets		**64,659**	57,341
		3,063,576	2,934,952
Current assets			
Inventories		**834,223**	709,707
Trade and notes receivables	*9*	**1,284,354**	1,588,170
Prepayments and other receivables		**373,603**	418,267
Restricted bank deposits		**158,246**	72,310
Term deposits with initial terms of over three months		**11,000**	8,010
Cash and cash equivalents		**458,158**	759,751
		3,119,584	3,556,215
Total assets		**6,183,160**	6,491,167

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2015
(Amounts expressed in thousands of RMB)

	Note	As at 31 December **2015**	2014
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**207,629**	206,879
Reserves		**1,686,397**	1,847,012
		1,894,026	2,053,891
Non-controlling interests		**65,586**	94,865
Total equity		**1,959,612**	2,148,756
LIABILITIES			
Non-current liabilities			
Long-term bonds		**1,584,635**	1,696,519
Deferred income tax liabilities		**4,375**	3,968
		1,589,010	1,700,487
Current liabilities			
Short-term borrowings		**675,000**	693,912
Current portion of long-term bonds		**199,514**	299,583
Trade and notes payables	*10*	**580,348**	694,753
Accruals and other payables		**1,154,958**	907,787
Current income tax liabilities		**24,718**	45,889
		2,634,538	2,641,924
Total liabilities		**4,223,548**	4,342,411
Total equity and liabilities		**6,183,160**	6,491,167

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(Amounts expressed in thousands of RMB)

	Note	**Year ended 31 December 2015**	2014
Cash flows from operating activities			
Net cash inflows/(outflows) from operations	*12*	**407,797**	(390,567)
Interest paid		**(194,812)**	(172,168)
Interest received		**4,409**	14,234
Income tax paid		**(59,992)**	(71,384)
Net cash generated from/(used in) operating activities		**157,402**	(619,885)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(174,448)**	(461,970)
Proceeds from disposal of property, plant and equipment		**79,498**	4,244
Purchase of land use rights		**(180)**	(10,748)
Purchase of intangible assets		**(35,208)**	(89,165)
Proceeds from acquisition of subsidiaries		**–**	(2,670)
Investment of a joint venture		**–**	(7,326)
Increase of term deposits		**(2,990)**	(8,010)
Net cash used in investing activities		**(133,328)**	(575,645)
Cash flows from financing activities			
Proceeds from short-term borrowings		**841,236**	891,500
Repayments of short-term borrowings		**(860,148)**	(632,026)
Repayments of long-term bonds		**(300,000)**	–
Repurchase of long-term bonds		**(8,521)**	–
Repayments of sale and leaseback liability		**–**	(5,558)
Capital injection from non-controlling interests		**–**	6,590
Proceeds from share options exercised		**9,370**	65,445
Dividends distribution		**(11,395)**	(127,468)
Repurchase of own shares		**–**	(5,428)
Net cash (used in)/generated from financing activities		**(329,458)**	193,055
Net decrease in cash and cash equivalents		**(305,384)**	(1,002,475)
Cash and cash equivalents, at beginning of the year		**759,751**	1,770,155
Exchange gain/(loss) on cash and cash equivalents		**3,791**	(7,929)
Cash and cash equivalents at end of the year		**458,158**	759,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are in the consolidated financial statements for the year ended 31 December 2015 as included in the Company's 2015 annual report. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1 Changes in accounting estimate

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

The effect of extension has been applied on a prospective basis. As a result of this change, amortisation for the year has been reduced by approximately RMB 7,976,000.

2.2 Changes in accounting policy and disclosure

(a) New and amended standards adopted by the Group

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

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

Amendments from annual improvements to IFRS-2011-2013 Cycle, on IFRS 13, 'Fair value measurement'.

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

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

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

(c) New standards and interpretations not yet adopted

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

Geographical Information

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

Client information

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

4. REVENUE

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

5. EXPENSE BY NATURE

Operating profit is arrived at after charging the following:

	Year ended 31 December	
	2015	2014
Materials and services purchased	**848,575**	1,019,866
Staff costs		
– Salaries and other staff expenses	**455,912**	405,896
– Share-based compensation	**14,571**	32,291
Depreciation	**180,519**	185,925
Amortisation	**20,212**	35,846
Sales tax and surcharges	**15,576**	15,964
Other operating expenses	**225,856**	335,604
In which:		
– impairment provision/(reversal of provision) for receivables	**9,721**	(4,918)
– impairment provision for inventories	**11,607**	208
– impairment provision for goodwill	**26,325**	–
Total operating cost	**1,761,221**	2,031,392

6. FINANCE COSTS, NET

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

7. INCOME TAX EXPENSE

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

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

PRC enterprise income tax ('EIT') is provided on the basis of the profits of the PRC established subsidiaries for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable enterprise income tax rate for the subsidiaries of the Group registered in the PRC was 25% in 2015 (2014: 25%), based on the relevant PRC tax laws and regulations, except for certain subsidiaries which are taxed at preferential tax rates. The enterprise income tax of the Iraq entities is levied at 7% over their service revenue. 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.

8. LOSS PER SHARE

(a) Basic

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

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

(b) Diluted

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

9. TRADE AND NOTES RECEIVABLES

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

Note:

(a) Ageing analysis of gross trade receivable is as follows:

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

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

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

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

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

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

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

(d) Notes receivables were all bank acceptance with maturity dates within six months. As at 31 December 2015, notes receivables with amount of RMB 10,000,000 (31 December 2014: nil) are pledged as security for short-term borrowings amounted to RMB 10,000,000 (31 December 2014: nil).

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

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

10. TRADE AND NOTES PAYABLES

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

Ageing analysis of trade and notes payables is as follows:

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

Trade and notes payable were denominated in the following currencies:

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

11. DIVIDENDS

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

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

12. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

BUSINESS REVIEW

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

Domestic market remained challenging and market-based reform progressed slowly

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

International oil price dipped further, but new market opportunities emerged

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

Business Performance

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

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

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

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

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

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

Geographical Market Analysis

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

Breakdown of Revenue and New Orders by Market

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

Breakdown of Revenue by Market

	2015	2014	Change	Share of Total Group Revenue 2015	2014
	(RMB million)	*(RMB million)*	*(%)*		
Domestic	**1072.1**	1,378.6	-22.2%	**58.5%**	66.6%
Overseas	**760.9**	692.6	9.9%	**41.5%**	33.4%
Total	**1,833.0**	2,071.2	-11.5%	**100%**	100%

Revenue Analysis of Domestic Market

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

Revenue Analysis of Overseas Market

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

Domestic Market

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

Major developments in the domestic market

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

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

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

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

Overseas Markets

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

Major developments in overseas markets

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

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

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

Business Cluster Analysis

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

The main changes of the business reclassification:

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

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

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

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

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

Business performance of each cluster in 2015

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

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

Revenue Breakdown by Cluster

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

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

Drilling Technology Cluster

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

The drilling technology cluster comprises the following business lines:

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

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

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

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

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

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

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

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

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

Major Development in the Drilling Technology Cluster

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

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

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

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

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

- Oil and gas production facilities inspection and evaluation service covered oil drilling tools inspection, oil casing and tubing inspection, and instrument and device inspection and recalibration. For its inspection and evaluation capabilities, the Group already gained the status as a leading independent third-party inspection service provider in China. In 2015, its profiting ability is powerful despite of the declined revenue.

- Drilling tool rental and technology service, influenced by the reduced cost from customers and the shrunk occupying rate of drilling tool, its workload encountered obvious decrease.

Well Completion Cluster

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

The well completion cluster comprises the following businesses:

1) Well completion integration. This business includes stimulation operation, well completion tools, integrated well completion and sand and water control technology. In 2015, this product line recorded RMB316.6 million in revenue, down 38.7% from RMB516.4 million in 2014;

2) Pressure pumping service. In 2015, this product line recorded RMB147.9 million in revenue, down 0.3% from RMB148.4 million in 2014;

3) Coiled tubing service. In 2015, this product line recorded RMB241.8 million in revenue, down 30.8% from RMB349.2 million in 2014;

4) Fracturing/acidizing technique and chemical materials. This product line recorded RMB9.7 million in revenue, down 49.2% from RMB19.1 million in 2014;

5) Proppant. In 2015, this product line recorded RMB31.1million in revenue, increased RMB30.0 million from RMB1.1million in 2014; and

6) Gravel Packing Service, this product line comes from Shandong Precede, a majority subsidiary acquired by the Group. In 2015, it recorded RMB31.3 million in revenue, down 59.1% from RMB76.5 million in 2014.

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

Major Development in the Well Completion Cluster

- Integrated well completion service. Domestically, the job volume of full-bore multi-stage fracturing and horizontal well stage frac project in Xinjiang was on a par with that of the same period of 2014. In the Southwest, the focus was on promoting the micro-seismic fissure monitoring and the proprietary well cementing sliding sleeve project. In the Northeast market, the micro-seismic fissure monitoring project made a breakthrough. In the overseas markets, the production well completion service was being performed steadily in Iraq.

- Well completion tools service saw market demand shrunk in 2015, customers cut service price making inexpensive processes and technologies look more attractive, the Group's proprietary tool producing capacity in Tianjin has been improved, it promoted automatic staged fracturing tool in the main market in China, which was well received by the markets.

- Pressure pumping service saw a job volume drop in the first half due to customer's delays, the Group actively engaged in the opportunity in shale gas, tight oil and gas and coal bed methane markets in domestic market, which had mitigated the impact of market downturns.

- Coiled tubing service saw a decline in revenue caused by the downturn of service price.

- Proppant. This product line officially commenced production in June 2014 and has since enjoyed a smooth run, however, due to contraction of market needs, the sales volumes didn't meet its expectation.

Oil Production Services Cluster

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

The oil production services cluster includes:

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

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

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

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

Major Development in the Oil Production Services Cluster

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

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

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

Alignment of Strategic Resources

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

Alignment of Investment

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

Major Investment in Equipment and Facility

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

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

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

Major Investment in Merger and Acquisition

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

Alignment of Research and Development Resource

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

Key Research and Development Pipelines

– Research and deployment of oil-based drilling fluid technology
– Research on proprietary directional drilling tools
– Research on cement-filled multi-stage fracturing of horizontal well
– Research on the application of proprietary optical fiber testing technology
– Rotary liner hanger

Alignment of Human Resources

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

Major Development on Human Resources

– Optimized and contained the workforce across business lines, emphasized elimination through performance review. As a result, total headcount decreased nearly 40% compared with that in the beginning of 2015;
– Improved organizational structure across the board, consolidated and condensed non-productive functions and jobs, streamlined management process and improved managerial efficiency;
– Continued to attract highly qualified graduates based on needs to reserve talent for the future and continue to bring in seasoned leading industry professionals;
– Adjusted the compensation scheme, increased the correlation between pay and performance and encouraged employees to weather the difficult times in one heart as the Group.

Major Development on Cost Discipline

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

– Cost of raw materials and technical services: increased the use of tools and accessories manufactured in-house and domestically; lowered costs through mass procurement; increased operational efficiency and minimized material and service waste through refined engineering.
– Human resource overhead: please refer to 'Major Development on Human Resources'.
– Cost of day-to-day operation: strengthened tendering and settlement audits and significantly downsized logistic and support functions.
– Financial expenses: 'diversified revenues and minimized expenses' and intensified accounts receivable collection. In 2015, the Group paid down its mid-term notes with cash on its balance sheet, intensified capital management, adopted revenue-based budgeting for cash flow security and conducted multi-channel financing.

Outlook

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

Revenue

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

Costs of Sales

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

Other Gains

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

Selling Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Sales Tax and Surcharges

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

Operating Profit

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

Finance Costs (Net)

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

Share of Loss of Joint Ventures

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

Income Tax Expense

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

Loss for the Year

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

Loss Attributable to Equity Holders of the Company

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

Trade and Notes Receivables

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

Inventories

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

EXCHANGE RISK

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

CASH FLOW FROM OPERATING ACTIVITIES

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

CAPITAL EXPENDITURE AND INVESTMENT

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

CONTRACTUAL LIABILITY

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

OFF-BALANCE SHEET ARRANGEMENTS

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

FINAL DIVIDENDS

At the Board meeting held on 28 March 2016, the Board did not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: No dividend).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the 'AGM') will be held on, 26 May 2016 (Thursday), while the notice convening the AGM will be published and dispatched to the Company's shareholders in the form required in the Rules Governing the Listing of Securities (the 'Listing Rules') on the Stock Exchange of Hong Kong Limited (the 'Stock Exchange') in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2016 (Tuesday) to 26 May 2016 (Thursday), both days inclusive, during which period no share transfers will be registered. In order to be eligible for attending and voting at the 2016 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 23 May 2016 (Monday).

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code (the 'Code') under Appendix 14 to the Listing Rules during the year ended 31 December 2015, 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 ('Mr. LUO') served as both the Chairman and the Chief Executive Officer of the Company during the reporting period.

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

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

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

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 2015.

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

Hong Kong, 28 March 2016

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.